



## ASX and Media Release

### QANTAS HALF YEAR 2015 FINANCIAL RESULTS<sup>1</sup>

#### Key points:

- Underlying Profit Before Tax: \$367 million
- Statutory Profit After Tax: \$206 million
- Transformation benefits: \$374 million
- Comparable unit cost reduction: 4.8 per cent<sup>2</sup>
- Cash generated from operations: \$1 billion
- Positive net free cash flow: \$194 million
- Liquidity: \$3.6 billion, including \$2.9 billion cash
- Earnings per share: 9.2 cents
- No interim dividend

**SYDNEY, 26 February 2015:** Qantas today reported an Underlying Profit Before Tax of \$367 million and a Statutory Profit After Tax of \$206 million for the six months ended 31 December 2014.

This Underlying Profit Before Tax is Qantas' best first-half performance since 2010 and an improvement of \$619 million compared with the same period last year.

The main factors in the underlying improvement were:

- \$374 million - Qantas Transformation program benefits;
- \$208 million - reduced depreciation;
- \$162 million - increased revenue per available seat kilometre;
- \$59 million - removal of the carbon tax; and
- \$33 million - lower fuel prices.

The Group achieved a 4.8 per cent reduction in comparable unit cost and a 2.1 per cent increase in revenue to \$8.1 billion, driven by rapid progress with Qantas Transformation and recovering yields and loads in a stabilising environment.

The Group is now targeting \$675 million of transformation benefits in financial year 2015, up from the previous target of \$600 million. Combined with the \$204 million in benefits realised in financial year 2014, this will result in total benefits of at least \$875 million by 30 June 2015.

<sup>1</sup> Refer to the Review of Operations for definition and explanation of non-statutory measures, including Underlying PBT, Underlying EBIT, yield, passenger loads, net free cash flow, capital investment, average fleet age, comparable unit cost, controllable unit cost and billings. Unless otherwise stated, amounts are reported on an underlying basis. Refer to the investor presentation.

<sup>2</sup> Including benefit from carbon tax repeal. Excluding benefit from carbon tax repeal, comparable unit cost reduction was 3.4 per cent.

For personal use only

All operating segments of the Qantas Group were profitable in the half, at an Underlying Earnings Before Interest and Tax level.

Qantas International was profitable for the first time since the Global Financial Crisis, with Underlying EBIT of \$59 million representing a turnaround of \$321 million on the prior corresponding period. The business is expected to achieve its target – announced in 2011 – of a return to profit in financial year 2015.

In the domestic market, Qantas and Jetstar reported combined Underlying EBIT of close to \$300 million.

Qantas CEO Alan Joyce said the result showed that the Group was executing the right plan with discipline and speed.

“The decisive factor in our best half-year result for four years was our complete focus on the Qantas Transformation program,” Mr Joyce said.

“It’s clear that without the impact of transformation, we would not be announcing a profit today.

“Our people have worked hard and made a huge contribution to bring about the change we need. They deserve great credit for this result.

“What sets this transformation apart is that we are reducing costs permanently while at the same time delivering Qantas’ best ever fleet, product and service.

“We are meeting or exceeding all our targets as we build a sustainable future for Qantas with an emphasis on growing long-term shareholder value.

“Our financial position is significantly stronger because of the actions we’ve taken, and we are giving Qantas a solid foundation for growth in earnings.”

### **Financial Position**

Qantas is de-leveraging its balance sheet and increasing its return on invested capital.

The Group’s cash flow improved rapidly compared with the same period last year, with cash generated from operations up 44.8 per cent to \$1 billion. Positive net free cash flow was \$194 million.

Liquidity remains strong at \$3.6 billion, comprising \$2.9 billion in cash and \$720 million in undrawn facilities. Approximately one third of the Group’s fleet of aircraft is debt-free and, after a period of extensive fleet renewal, the Group’s average scheduled passenger aircraft age is 7.2 years – the youngest in more than two decades.

Planned capital expenditure is unchanged at \$900 million for both financial year 2015 and financial year 2016.

## **Brand and Customer Satisfaction**

Customer satisfaction remains at high levels in all parts of the Group and has continued to set new records in some areas.

When the Qantas Transformation program was launched, the Group made a commitment to disciplined investment in aircraft, lounges, technology and service, in order to maintain a clear brand premium over the competition.

Recent initiatives for customers include the opening of new premium lounges in Los Angeles, the launch of Qantas' new A330 product (with lie-flat beds in business), a revitalised food and beverage service for economy passengers, the staged introduction of automatic SMS check-in for domestic passengers, and expanded inflight entertainment.

Qantas has been recognised in the Roy Morgan Customer Satisfaction Awards (Domestic Airline of the Year, Domestic Business Airline of the Year), TripAdvisor Traveller's Choice Awards (Best Airline in Australia), Skytrax World Airline Awards (Best Airline Australia / Pacific) and the Airline Ratings awards (Safest Airline, Best Lounges, Best Domestic Airline, Best Catering), among others.

Jetstar's brand remains among the strongest in the LCC sector, having been named best low-cost carrier in Australia and Singapore and a top five low-cost carrier globally in the World Airline Awards.

## **Group Performance**

### **Qantas Domestic**

Qantas Domestic reported Underlying EBIT of \$227 million, an improvement of \$170 million compared with the same period in financial year 2014.

The business realised transformation benefits of \$127 million in the first half and achieved a 2.5 per cent improvement in revenue per available seat kilometre, with a stabilising operating environment supporting yield and load recovery.

Comparable unit costs were reduced by 4.1 per cent<sup>3</sup> on capacity reduction of 2.4 per cent. Increased fleet utilisation will remain a focus in the second half.

Customer satisfaction was at record levels in the December quarter, reflecting ongoing investment in aircraft, lounges, product and training, including the introduction of the new A330 product for core east-west and east coast routes.

Qantas Domestic retained an 80 per cent revenue share of large accounts in the Australian corporate travel market, including 113 account renewals, 42 new accounts, 16 accounts won back from the competition, and four accounts lost.

<sup>3</sup> Including benefit from carbon tax repeal. Excluding benefit from carbon tax repeal, comparable unit cost reduction was 1.6 per cent.

Resources sector and government travel demand continues to be subdued in the domestic market, but demand is stronger in other business sectors, such as financial services.

### **Qantas International**

Qantas International reported Underlying EBIT of \$59 million, a turnaround of \$321 million compared with the same period last year.

Of the turnaround, \$159 million was attributable to cost and revenue initiatives under Qantas Transformation. A further \$100 million was attributable to reduced depreciation following the non-cash writedown of the Qantas International fleet in August 2014.

Comparable unit costs were reduced by 3.8 per cent and revenue was increased by 4.8 per cent.

A significant increase in fleet utilisation enabled Qantas International to add seasonal or permanent capacity to destinations including Los Angeles, Dallas/Fort Worth, Vancouver, Santiago, Honolulu and Auckland.

The business continued to form new airline partnerships and expand existing partnerships in North America, South East Asia and Greater China, giving customers more destinations and increasing the Group's reach in key markets.

Customer satisfaction has risen by 30 per cent since financial year 2012 and remains at near-record levels. This period has seen upgrades to the B747 and A380 fleets, network improvements, the Emirates partnership, and new lounges in Singapore, Hong Kong and Los Angeles.

Competitor capacity growth in the international market has slowed significantly from the compound annual growth rate of 7 per cent seen in the five years to financial year 2014, with two per cent growth in the first half and a small contraction forecast in the second half.

### **Jetstar Group**

The Jetstar Group reported Underlying EBIT of \$81 million, an improvement of \$97 million compared with the same period last year.

Domestically, Jetstar achieved EBIT of \$63 million, driven by improved yields and loads and a continued focus on management of costs and capacity.

Jetstar International achieved strong earnings of \$51 million, benefitting from network changes and the introduction of the Boeing 787 Dreamliner

Dreamliners will operate all Jetstar's long-haul flights from September 2015, delivering an improved customer experience and lower unit costs.

For personal use only

The Jetstar brand continues to grow in Asia, where Qantas' investments will generate long-term returns from the world's most important emerging aviation markets. Jetstar-branded airlines now fly to 66 destinations across 16 countries in the Asia Pacific region.

The Jetstar-branded airlines in Asia improved their performance in the first half relative to the prior corresponding period, with a \$13 million reduction in Qantas' share of losses.

Singapore-based Jetstar Asia was profitable in the second quarter, following significant capacity restructuring in the market.

### **Qantas Loyalty**

Qantas Loyalty reported record half-year Underlying EBIT of \$160 million, up 10 per cent on the prior corresponding period.

The Qantas Frequent Flyer program added more than 400,000 new members in the half to reach a total membership of 10.5 million.

Billings were up 6 per cent as Qantas Loyalty continued to diversify its customer base and revenue streams through growth ventures.

Activations of the Qantas Cash travel money and membership card were up 27 per cent from the second half of financial year 2014, with approximately \$800 million loaded on the cards. The Aquire loyalty program for SMEs is also growing strongly. Over 55,000 businesses have joined Aquire and the program now has 21 partners.

Overall, gross profit from adjacent ventures – including Qantas Cash, Accumulate and Qantas Golf – was up 70 per cent in the half.

### **Qantas Freight**

Qantas Freight reported Underlying EBIT of \$54 million, an improvement of \$43 million and its best first-half result since 2006.

International cargo markets continued to recover, accounting for \$44 million of Underlying EBIT, with the China-US and US-Australia markets performing well. The domestic market was more challenging, in line with the mixed economic environment.

### **Outlook**

The outlook for the Group's operating environment in the second half of financial year 2015 has improved:

- Overall demand is stable, while demand is mixed in the Australian domestic market;
- Domestic and international market capacity is moderating; and
- Yield and load factors have stabilised and are in the early stages of recovery.

Subject to external factors, the Group's operating expectations are as follows:

- Qantas Group capacity will increase by 1.5 to 2 per cent in the second half of financial year 2015 compared with the second half of financial year 2014;
- The Group's full-year underlying fuel costs are expected to be no more than \$4 billion at current prices;
- The Group's full-year depreciation and amortisation expense is expected to be \$1.1 billion; and
- All operating segments are expected to be profitable in financial year 2015.

No Group profit guidance can be provided at this time, due to the high degree of volatility and uncertainty in global economic conditions, fuel prices and foreign exchange rates.

**Issued by Qantas Corporate Communication**

**Media contacts: M: 0418 210 005 E: [qantasmedia@qantas.com.au](mailto:qantasmedia@qantas.com.au)**

For personal use only

## REVIEW OF OPERATIONS

The Qantas Group reported an Underlying Profit Before Tax<sup>1</sup> of \$367 million for the six months ended 31 December 2014. The Qantas Group's Statutory Profit After Tax of \$206 million included \$42 million of redundancies, restructuring and other costs associated with the Qantas Transformation program which were not included in Underlying PBT<sup>1</sup>.

The Underlying PBT<sup>1</sup> result reflects a marked turnaround compared to the prior corresponding period as the Group delivers in line with its strategy to drive a recovery in earnings, strengthen the balance sheet, and build long-term shareholder value. Major drivers of the improved result included:

- Benefits from the Qantas Transformation program being realised ahead of targets, with a total \$374 million benefits delivered in the first-half 2014/15
- Improved yields and passenger loads in domestic and international businesses
- The positive impact of reduced depreciation expense, the removal of the carbon tax, and lower Australian dollar fuel prices

This has resulted in all operating segments reporting an Underlying Earnings Before Net Finance Costs and Tax<sup>1</sup> profit, including a \$321 million turnaround of Qantas International.

The \$374 million of Qantas Transformation benefits realised during the first-half of 2014/15 was ahead of initial guidance of at least \$300 million, with all milestones in the program being met or exceeded in the half. The accelerated business transformation program has strong momentum into the second-half of 2014/15, with the target for benefits to be realised over the full year increased to \$675 million from the initial target of at least \$600 million.

The Group retained a robust total liquidity position<sup>2</sup> of \$3.6 billion. A rapid improvement in the cash generating capacity of the business (as represented by Underlying EBITDA<sup>1</sup>) and modest capital expenditure resulted in positive net free cash flow<sup>3</sup> of \$194 million, which in turn helped further deleverage the balance sheet. Debt reduction was achieved at the same time as investment in fleet and product enhancements that are central to the Group's focus on the customer and revenue opportunities. Net free cash flow<sup>3</sup> of \$194 million was after the Group incurred \$186 million in cash costs for redundancies and related expenses associated with the Transformation program.

Performance highlights in the first-half 2014/15 include:

- Qantas International Underlying EBIT<sup>1</sup> of \$59 million, reflecting a \$321 million turnaround from the prior corresponding period driven by Qantas Transformation benefits
  - Another record<sup>4</sup> Underlying EBIT<sup>1</sup> for Qantas Loyalty with a very strong half for member acquisition in the Qantas Frequent Flyer program
  - Group Domestic Underlying EBIT<sup>1</sup> of \$290 million with strong dual-brand co-ordination and improved yields and loads in Qantas Domestic and Jetstar's domestic Australia operations
  - Qantas Freight delivered its best half-year Underlying EBIT<sup>1</sup> since 2006/07, with improved international markets driving the strong performance
  - All Jetstar Group Airlines in Asia<sup>5</sup> reported improved Underlying EBIT<sup>1</sup>, with a \$13 million reduction in losses to a combined Underlying EBIT loss of \$33 million for the first-half 2014/15
- Customer satisfaction levels were held stable at close to record levels over the half due to the Group's focus on customer and brand metrics through the Transformation program

<sup>1</sup> Underlying Profit Before Tax (Underlying PBT) is the primary reporting measure used by the Qantas Group's 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 Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying Earnings Before Net Finance Costs and Tax (Underlying EBIT) as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT. Refer to Note 2 for a reconciliation of Underlying PBT to Statutory Profit/(Loss) Before Tax. Underlying EBITDA is Underlying EBIT before depreciation and amortisation.

<sup>2</sup> Includes cash and cash equivalents and \$720 million undrawn facilities.

<sup>3</sup> Net free cash flow – Operating cash flows less investing cash flows. Net free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.

<sup>4</sup> Qantas Loyalty record Underlying EBIT result compared to prior periods normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.

<sup>5</sup> Includes Jetstar Asia, Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific.

## REVIEW OF OPERATIONS (continued)

The Group continued to demonstrate strong financial discipline in the first-half 2014/2015, with highlights including:

- \$2.9 billion cash held at half year end
- Total liquidity<sup>2</sup> of \$3.6 billion including a new unsecured \$90 million undrawn revolving credit facility
- Net debt<sup>6</sup> reduced by \$306 million on a constant currency basis in the first-half 2014/15, incremental to \$79 million of net debt reduction achieved in 2013/2014
- Five new B737-800 aircraft deliveries cash funded, adding to the pool of young unencumbered aircraft
- Modest capital investment<sup>7</sup> of \$500 million, prioritising replacement aircraft including the B787-8 that unlocks fleet-generated savings in the Qantas Transformation program

### Underlying PBT<sup>1</sup>

The Qantas Group's first-half 2014/15 Underlying PBT<sup>1</sup> increased to \$367 million, compared to an Underlying Loss Before Tax<sup>1</sup> of \$252 million in the first-half 2013/14. The improvement in earnings was driven by the delivery of a reduction in operating expenses, fuel efficiency<sup>8</sup>, and revenue benefits from the Qantas Transformation program. Operating expenses (excluding fuel) were reduced by three per cent. Net passenger revenue increased by three per cent reflecting strong yields and loads after network optimisation and capacity moderation in the domestic and international markets. Fuel cost savings of \$91 million reflected a \$33 million benefit from lower Australian dollar fuel prices with the remainder of the savings from fuel efficiency measures in the Qantas Transformation program. Depreciation and amortisation expenses were \$208 million lower after the non-cash impairment to the Qantas International fleet taken in the 2013/14 full year results and the half-year impact of other aircraft retirements and write-downs in the second-half of 2013/14.

The first-half included a \$46 million unfavourable impact as a result of bond rate fluctuations on employee benefit provisions compared to a \$19 million favourable impact in the prior corresponding period and a \$37 million increase in net financing costs largely due to an increase in the average cost of new debt and the significant extension of the Group's debt maturity profile.

Group Underlying Income Statement Summary	December 2014 \$M	December 2013 \$M	Change \$M	Change %
Net passenger revenue	6,960	6,786	174	3
Net freight revenue	485	500	(15)	(3)
Other revenue	626	617	9	1
<b>Revenue</b>	<b>8,071</b>	<b>7,903</b>	<b>168</b>	<b>2</b>
Operating expenses (excluding fuel)	4,608	4,771	(163)	(3)
Share of net loss of investments accounted for under the equity method	20	26	(6)	(23)
Fuel	2,164	2,255	(91)	(4)
Depreciation and amortisation	538	746	(208)	(28)
Non-cancellable aircraft operating lease rentals	241	261	(20)	(8)
<b>Expenses</b>	<b>7,571</b>	<b>8,059</b>	<b>(488)</b>	<b>(6)</b>
<b>Underlying EBIT<sup>1</sup></b>	<b>500</b>	<b>(156)</b>	<b>656</b>	<b>&gt;100</b>
Net finance costs	(133)	(96)	(37)	(39)
<b>Underlying PBT<sup>1</sup></b>	<b>367</b>	<b>(252)</b>	<b>619</b>	<b>&gt;100</b>

<sup>6</sup> Net Debt includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent as applied using Standard and Poor's methodology.

<sup>7</sup> Capital investment is net cash paid for investing activities, net of changes in operating lease liability and including non-cash investing activities. Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent as applied in Standard and Poor's methodology.

<sup>8</sup> Fuel efficiency is measured as litres per Available Seat Kilometres (ASK) adjusted for movements in average sector length.



## REVIEW OF OPERATIONS (continued)

Operating Statistics		December 2014	December 2013	Change	Change %
Available Seat Kilometres (ASK) <sup>9</sup>	M	71,936	71,844	92	-
Revenue Passenger Kilometres (RPK) <sup>10</sup>	M	57,575	56,393	1,182	2
Passengers Carried	'000	25,421	25,094	327	1
Revenue Seat Factor <sup>11</sup>	%	80.0	78.5	1.5	2
Yield (excluding FX) <sup>12</sup>	c/RPK	10.33	10.21	0.12	1
Comparable unit cost <sup>13</sup>	c/ASK	4.77	5.01	0.24	4.8

Revenue increased by two per cent, with a three per cent rise in net passenger revenue partially offset by reduced freight revenue. Net freight revenue declined by three per cent reflecting the exit of one B747-400 freighter aircraft, leading to improved yield and load from remaining B747-400 freighter operations.

Group capacity (ASKs)<sup>9</sup> was flat during the first-half 2014/15 while demand (RPKs)<sup>10</sup> increased by two per cent from the prior corresponding period. Yield (excluding FX)<sup>12</sup> increased by one per cent, assisted by network optimisation initiatives and capacity moderation in the domestic and international markets.

Segment Performance Summary	December 2014 \$M	December 2013 \$M	Change \$M	Change %
Qantas Domestic	227	57	170	>100
Qantas International	59	(262)	321	>100
Qantas Loyalty	160	146	14	10
Qantas Freight	54	11	43	>100
Qantas Brands	500	(48)	548	>100
Jetstar Group	81	(16)	97	>100
Corporate/Unallocated	(81)	(92)	11	12
<b>Underlying EBIT<sup>1</sup></b>	<b>500</b>	<b>(156)</b>	<b>656</b>	<b>&gt;100</b>
Net finance costs	(133)	(96)	(37)	(39)
<b>Underlying PBT<sup>1</sup></b>	<b>367</b>	<b>(252)</b>	<b>619</b>	<b>&gt;100</b>

Qantas Domestic reported first-half 2014/2015 Underlying EBIT<sup>1</sup> of \$227 million, a \$170 million improvement from the prior corresponding period. The largest driver of improved earnings performance was the contribution from Qantas Transformation initiatives, with \$127 million of benefits realised in the half.

Qantas International reported Underlying EBIT<sup>1</sup> of \$59 million, a \$321 million turnaround and a major milestone in the segment's recovery after several years of significant restructuring. The result included \$159 million of Transformation benefits and five per cent revenue growth on reduced capacity.

Jetstar Group recognised an Underlying EBIT<sup>1</sup> of \$81 million for the first-half 2014/15, being a \$97 million improvement compared to prior corresponding period. Revenue increased by seven per cent on capacity growth of four per cent, with improved yields and loads driven by capacity moderation in Domestic Australia and South East Asia.

<sup>9</sup> ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.

<sup>10</sup> RPK – total number of passengers carried, multiplied by the number of kilometres flown.

<sup>11</sup> Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.

<sup>12</sup> Yield (excluding FX) – Passenger revenue excluding foreign exchange, divided by RPKs.

<sup>13</sup> Comparable unit cost is the primary measure of unit cost used by the Qantas Group to aid comparability between reporting periods. Comparable unit cost is calculated as Underlying PBT less passenger revenue and fuel, adjusted for the impact of the Qantas International fleet write-down, impact of fleet restructuring announced February 2014, changes in bond rates, changes in foreign exchange rates, share of net loss of investments accounted for under the equity method and movements in average sector length per ASK. If adjusted for the impact of the carbon tax repeal, comparable unit cost for the Group improved by 3.4%.

## REVIEW OF OPERATIONS (continued)

Qantas Loyalty achieved another record<sup>4</sup> half-year result, with Underlying EBIT<sup>1</sup> of \$160 million. Continued growth of Qantas Frequent Flyer members and partners was the main driver of the result, with total billings<sup>14</sup> up six per cent.

Qantas Freight Underlying EBIT<sup>1</sup> of \$54 million was a \$43 million improvement from the prior corresponding period, and the best half-year results since the 2006/07 financial year.

### A Strong Foundation for Sustainable Growth

As the Qantas Group delivers against its outlined strategy to drive a recovery in earnings and strengthen the balance sheet, we are building a foundation for sustainable growth into the future. The pillars that support the Group's competitive position and strategic advantages are being further strengthened through the Transformation process. Those pillars are:

- Ingrained safety culture from 94 years of operational experience
- Investing in our customers and our people to remain first choice in every market we serve
- Unrivalled dual-brand strength and market position in domestic Australia
- Innovative Loyalty business with consistent earnings growth
- Reshaped Qantas International leveraging growth opportunities
- Targeted investment in Asia's growth
- Increasing Return On Invested Capital and strengthening balance sheet through Transformation

This strategy is centered around an integrated Group portfolio where each business strengthens the other, generating sustainable returns through the cycle. In order to continue implementing that strategy, the Group will deliver accelerated benefits from the Qantas Transformation program through to financial year 2016/17.

### Qantas Transformation – strong momentum towards \$2 billion<sup>15</sup> target

In December 2013, in response to unprecedented challenges, the Qantas Group announced the largest business transformation program in its history with overarching targets to deliver \$2 billion<sup>15</sup> in benefits by the end of 2016/17 and reduce net debt by \$1 billion by the end of 2014/2015. After delivering \$204 million of benefits in its first six months up to 30 June 2014, the accelerated Qantas Transformation program realised \$374 million of incremental benefits during the first-half 2014/15.

Qantas Transformation milestones achieved by 31 December 2014 include:

- \$578 million Underlying PBT<sup>1</sup> benefits realised in total
- Net debt<sup>6</sup> reduced by \$306 million on a constant currency basis in the first-half 2014/15, incremental to \$79 million of net debt reduction achieved in 2013/2014
- Initial Domestic and International network restructure complete
- Accelerated fleet retirements completed for B737-400s, B767-300s and on-going for non-reconfigured B747-400s
- Engineering, Catering and Airport productivity improvements
- Seven per cent improvement in Qantas International's fleet utilisation<sup>16</sup> for A380-800 and A330-300 aircraft
- Youngest average fleet age<sup>17</sup> of 7.2 years
- Group fleet order restructured
- A disciplined approach to capital investment delivering sustainable net free cash flow<sup>3</sup> generation
- Consolidation of head office activities
- Substantial headcount reduction across the Group, with 3,800 of a targeted 5,000 Full-Time Equivalent (FTE) reduction actioned to date
- Improved terms with suppliers
- Consistently high Net Promoter Score (NPS) levels maintained across the Group after targeted investment in the customer and staff service training
- New revenue opportunities being leveraged following network restructure

<sup>14</sup> Billings represent point sales to partners.

<sup>15</sup> Excluding the impact of inflation.

<sup>16</sup> Based on average block hours per average aircraft number per day versus the half-year ended 31 December 2013.

<sup>17</sup> Average fleet age of the Group's scheduled passenger fleet based on manufacturing date as at 31 December 2014. Youngest average fleet age since privatisation.

## REVIEW OF OPERATIONS (continued)

With all initial targets in the program being met or exceeded to date, the Group now expects to realise Qantas Transformation benefits of \$675 million in 2014/15 – an increase from the initial target of more than \$600 million.

In December 2013 management announced an 18-month wage freeze. The wage freeze has been in place for executives since July 2012, and an 18-month freeze has been negotiated with multiple employee groups to date. The wage freeze is part of separate inflation mitigation measures that seek to minimise annual cost inflation whilst the Transformation program continues to deliver benefits.

### Material business risks

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or an epidemic.

Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects:

- **Competitive intensity:** Market capacity growth ahead of underlying demand impacts industry profitability.
  - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness in recent years has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas has also embarked on reducing its cost base through the Qantas Transformation program. Qantas continues to leverage its considerable fleet flexibility and established relationships with manufacturers to adjust capital expenditure in line with financial performance and right-size its fleet and network. During the first-half 2014/15, the operating environment has stabilised with improving passenger loads and recovering yields in the international business.
  - The Australian domestic aviation market has attracted increased competition in recent years. The resulting intensity of competition as a result of capacity growth ahead of underlying demand over a sustained period is being mitigated by maintaining the Qantas Group's market leading domestic position and executing the Qantas Group's dual-brand strategy. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price sensitive customers. Qantas Domestic is focused on removing the cost base disadvantage to its competitor through Transformation initiatives and fleet renewal, while Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs. During the first-half 2014/15, the operating environment has stabilised with market capacity moderation supporting stronger passenger loads and early yield recovery in the domestic business.
- **Fuel and foreign exchange volatility:** The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations as an airline. The Qantas Group manages these risks through a comprehensive hedging program.
- **Industrial relations:** The associated risks of transformation including industrial action relating to Qantas' collective agreements with its employees. The risk is being mitigated through continuous employee engagement initiatives and ongoing, constructive dialogue with all union groups and other relevant stakeholders. The Group has successfully closed a number of Enterprise Bargaining Agreements (EBAs) subsequent to the commencement of the Qantas Transformation program.
- **Continuity of critical systems:** The Group's operations depend on the continuity of a number of information technology and communication services. The Group has an extensive control and Group Risk Management Framework<sup>18</sup> to reduce the likelihood of outages, ensure early detection and to mitigate the impact.

<sup>18</sup> An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on [qantas.com.au](http://qantas.com.au).

## REVIEW OF OPERATIONS (continued)

- **Credit rating:** Qantas' credit rating is Ba2 negative outlook by Moody's and BB+ stable by Standard and Poor's. Compared to an investment grade credit rating, the price of new debt funding may increase and/or the Group's access to some sources of unsecured credit could reduce over time. To mitigate the risk Qantas maintains strong liquidity, has a flexible fleet plan to enable it to reduce capital expenditure and is targeting debt reduction and improved earnings through the achievement of milestones under the Qantas Transformation program.
- **Key business partners:** The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework<sup>18</sup>.

### Rapidly Improved Cash Generating Capacity

	December 2014 \$M	December 2013 \$M	Change \$M	Change %
<b>Cash Flow Summary</b>				
Underlying EBITDA <sup>1</sup>	1,038	590	448	76
Non-cash items and working capital movements	(36)	102	(138)	(>100)
Cash generated from operations	1,002	692	310	45
Redundancy payments and related costs	(186)	(44)	(142)	(>100)
Other operating cash flows	(113)	(67)	(46)	(69)
<b>Operating cash flows</b>	<b>703</b>	<b>581</b>	<b>122</b>	<b>21</b>
Investing cash flows	(509)	(939)	430	46
<b>Net free cash flow<sup>3</sup></b>	<b>194</b>	<b>(358)</b>	<b>552</b>	<b>&gt;100</b>
Financing cash flows	(320)	(82)	238	>100
Cash at beginning of period	3,001	2,829	172	6
Effect of foreign exchange on cash	17	6	11	>100
<b>Cash at end of the period</b>	<b>2,892</b>	<b>2,395</b>	<b>497</b>	<b>21</b>
<b>Debt and Gearing Analysis</b>				
		December 2014	June 2014	Change %
Net on balance sheet debt <sup>19</sup>	\$M	3,406	3,455	(49) (1)
Net Debt including operating lease liabilities <sup>6</sup>	\$M	4,657	4,751	(94) (2)
Adjusted Equity <sup>20</sup>	\$M	3,014	2,938	76 3
Gearing Ratio <sup>21</sup>		61:39	62:38	

Cash generated from operations of \$1 billion, an improvement of 45 per cent on the prior corresponding period, reflected yield and load improvement across the Group as well as the benefits realised through Qantas Transformation. Operating cash flows of \$703 million, an improvement of 21 per cent on the prior corresponding period, is net of \$186 million of redundancy payments associated with the Qantas Transformation program.

Investing cash flows of \$509 million include investment in replacement fleet and product enhancements being offset by net receipts for aircraft assigned to equity accounted investees of \$268 million and proceeds from the disposal of assets and controlled entities of \$117 million. The significant improvement in net free cash flow<sup>3</sup> to \$194 million compared to a negative net free cash flow of \$358 million in the prior corresponding period has enabled the Group to prioritise debt reduction.

<sup>19</sup> Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt less cash, cash equivalents and aircraft security deposits.

<sup>20</sup> Adjusted equity includes equity adjusted to exclude hedge reserves.

<sup>21</sup> Gearing Ratio is net debt including operating lease liability to net debt including operating lease liability and adjusted equity (excluding hedge reserve). The gearing ratio is used by management to represent the Qantas Group's debt obligation including obligations under operating leases.

## REVIEW OF OPERATIONS (continued)

Net debt<sup>6</sup> reduced by \$306 million on a constant currency basis in the first-half 2014/15, incremental to \$79 million of net debt<sup>6</sup> reduction achieved in 2013/2014.

The Group's liquidity position remains strong, with \$2.9 billion in cash and \$720 million in undrawn facilities available. The Group continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to any change in market conditions.

### Fleet

The Qantas Group remains committed to a fleet strategy that provides for long-term flexibility, renewal, and that prioritises Group fleet simplification. The fleet strategy is designed to support the strategic objectives of the Group's two flying brands and the overarching targets of the Qantas Transformation program.

At all times, the Group retains significant flexibility to respond to any changes in market conditions and the competitive environment.

At 31 December 2014, the Qantas Group fleet<sup>22</sup> totalled 297 aircraft. During the first-half of financial year 2014/15, the Group purchased nine aircraft and leased one aircraft:

- Qantas – five B737-800s, one Bombardier Q400
- Jetstar (including Jetstar Asia) – three B787-800s and one A320-200

The Group removed 21 aircraft from service during the first-half 2014/15 including three lease returns. These included 13 B767-300s, three A330-200s, one B747-400, three EMB120s and one Q300.

The Qantas Group's average fleet age<sup>17</sup> is now 7.2 years, below the long-term targeted range of between eight and 10 years.

### Qantas Domestic

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	3,007	3,086	(79)	(3)
Revenue Seat Factor	%	76.0	74.9	1 pts	1
Underlying EBIT	\$M	227	57	170	>100

Qantas Domestic reported Underlying EBIT<sup>1</sup> of \$227 million, an improvement of \$170 million on the prior corresponding period. Transformation benefits of \$127 million partially offset by a decrease of \$79 million or three per cent in total revenue, which was primarily due to the sale of Qantas Defence Services in February 2014. Passenger revenue increased on a two per cent reduction in capacity, equivalent to a three per cent improvement in Revenue per ASK. A stabilised domestic operating environment, with market capacity moderation, supported stronger passenger loads and early yield recovery over the half. Comparable unit cost<sup>13</sup> for the first-half 2014/15 decreased by 4.1 per cent<sup>23</sup>.

As part of the Qantas Transformation program, Qantas Domestic has accelerated fleet simplification with the retirement of all B767-300 aircraft by late December 2014. The network and utilisation focus will continue into the second-half 2014/15, with a simplified mainline Qantas Domestic fleet of B737-800 narrowbody aircraft and A330-200 widebody aircraft providing significant efficiency gains and reduced operating costs.

<sup>22</sup> Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific.

<sup>23</sup> If adjusted for the impact of the carbon tax repeal, comparable unit cost improved by 1.6%.

## REVIEW OF OPERATIONS (continued)

Qantas Domestic has continued to invest in key customer experience projects that help build on its brand and yield premium in the Australian market. This investment, alongside staff service training, resulted in Qantas Domestic recording a record December quarter for customer advocacy (NPS). Maintaining its long-term on-time performance leadership, and coupled with ongoing network and schedule optimisation, Qantas Domestic held its strong position with corporate customers retaining 80 per cent of corporate account market-share<sup>24</sup>.

### Qantas International

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	2,748	2,621	127	5
Revenue Seat Factor <sup>11</sup>	%	82.4	80.8	2 pts	2
Underlying EBIT	\$M	59	(262)	321	>100

Qantas International reported Underlying EBIT<sup>1</sup> of \$59 million, a turnaround of \$321 million on the prior corresponding period. The turnaround reflected the continued success in removing costs – with \$159 million of Transformation benefits realised. This resulted in a further four per cent reduction in comparable unit cost<sup>13</sup>. Revenue increased by five per cent on reduced capacity, with improved passenger loads and recovering yields on most international markets.

Qantas International reported nine consecutive months of yield improvements up to the end of the first-half 2014/15.

The Qantas International result included \$100 million reduction in depreciation expense related to the \$2.6 billion non-cash fleet impairment recognised in 2013/14.

The airline continued to capitalise on new revenue opportunities in the half, with enhanced operational efficiency freeing up aircraft to add flying to Los Angeles, Hong Kong, Santiago, Vancouver and Honolulu. Qantas International has continued to invest in its customers and people throughout the transformation process, with milestones in the first-half including the commencement of the A330-300 reconfiguration program, the opening of the new First Lounge in Los Angeles, and an enhanced Economy dining offering. Customer advocacy, measured by NPS, has improved by 30 per cent since financial year 2011/12.

At the same time, network connectivity has been increased with new or expanded partnerships with American Airlines, WestJet, Bangkok Airways, China Eastern and China Airlines. Total destinations sold under the Qantas code increased to 204 at 31 December 2014.

### Jetstar Group

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	1,786	1,671	115	7
Revenue Seat Factor <sup>11</sup>	%	80.3	78.5	2 pts	3
Underlying EBIT	\$M	81	(16)	97	>100

Jetstar Group reported Underlying EBIT<sup>1</sup> of \$81 million, an improvement of \$97 million on the prior corresponding period. The improved performance reflected a seven per cent improvement in revenue off four per cent capacity growth. Cost reduction initiatives and the removal of the carbon tax offset cost inflation to deliver a one per cent reduction in controllable unit cost<sup>25</sup> for the first-half 2014/15.

<sup>24</sup> Qantas modelled share of total corporate account revenue.

<sup>25</sup> Controllable unit cost is measured as total underlying expenses, excluding fuel, Jetstar Group costs and share of net loss of investments accounted for under the equity method, adjusted for changes in foreign exchange rates and movements in average sector length per ASK. If adjusted for the impact of the carbon tax repeal, controllable unit cost was flat.

## REVIEW OF OPERATIONS (continued)

Market capacity moderation in Australia and South East Asia led to improved yields and a two percentage point improvement in passenger loads. In the Australian domestic market, Underlying EBIT<sup>1</sup> of \$63 million reflected early signs of an improvement in price sensitive leisure demand. Jetstar International reported strong Underlying EBIT<sup>1</sup> of \$51 million, with the continued rollout of the B787 aircraft delivering lower operating costs.

All Jetstar Group Airlines in Asia<sup>5</sup> reported improved Underlying EBIT<sup>1</sup> results compared to the prior corresponding period, with a \$13 million reduction in losses to an Underlying EBIT<sup>1</sup> loss of \$33 million in the first-half 2014/15. Jetstar Group Airlines continue to add new destinations and expand interline agreements, increasing connectivity and growing scale as a pan-Asian brand.

Jetstar Asia in Singapore was profitable in the second quarter of 2014/15, with strengthening yield improvement after significant capacity moderation. Jetstar Asia has continued to enhance the customer experience with innovations including 'straight to gate', now at eight overseas airports, and being the first low cost carrier in Singapore to introduce mobile boarding pass and automated bag drops.

Jetstar Japan reported an improved Underlying EBIT<sup>1</sup> result on the prior corresponding period despite the weaker Japanese yen and aggressive competitor pricing. Revenue per ASK increased by eight per cent, and ancillary revenue rose by 14 per cent, with continued strong customer advocacy. Jetstar Japan's market position continues to strengthen with the launch of a second domestic base (Osaka), and a planned international launch to Hong Kong in February 2015.

Jetstar Pacific in Vietnam delivered a strong performance led by a nine per cent reduction in controllable unit costs<sup>25</sup>. Domestic yields in Vietnam were under pressure in the half with market capacity growth of 15 per cent. Jetstar Pacific expanded its all A320 fleet to eight in the half to retain its competitive position and capitalise on the long-term opportunity in one of Asia's fastest growing aviation markets.

### Qantas Loyalty

		December 2014	December 2013	Change	Change %
Members	M	10.5	9.7	1	8
Billings <sup>14</sup>	\$M	700	662	38	6
Underlying EBIT	\$M	160	146	14	10

Qantas Loyalty reported another record<sup>4</sup> half year Underlying EBIT<sup>1</sup> of \$160 million, up 10 per cent on the prior corresponding period. Continued growth of membership and partners in Qantas Frequent Flyer program have driven billings<sup>14</sup> up six per cent to \$700 million as well as growth from adjacent businesses.

Qantas Frequent Flyer membership reached 10.5 million after a strong half-year for member acquisition. Over 400,000 new members were added in the first-half of 2014/15, with 60 per cent aged 36 or younger as the program targets greater penetration in the youth market. Over three million rewards were redeemed and 6.5 million visits made to the Qantas Points website.

Qantas Loyalty growth initiatives continue to diversify the segment's customer base and revenue streams. Gross profit from adjacent businesses increased by 70 per cent in the period, with revenue from these growth businesses accounting for six per cent of total revenue in the half. Milestones at adjacent businesses reached in the half included:

- Launch of Red Planet in September 2014, a media and marketing services business that leverages Loyalty's deep understanding of consumer behaviour and data expertise
- Qantas Golf Club launched in December with over 30,000<sup>26</sup> member registrations
- Qantas Cash card activation rose 27 per cent in the first-half 2014/15 with \$800 million loaded
- Over 55,000<sup>26</sup> small and medium enterprises (SME) joined the Acquire program, with 21 program partners added since launch in March 2014

<sup>26</sup> As at 26 February 2015.

## REVIEW OF OPERATIONS (continued)

### Qantas Freight

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	550	568	(18)	(3)
Revenue Load Factor <sup>27</sup>	%	57.7	53.9	4 pts	7
Underlying EBIT	\$M	54	11	43	>100

Qantas Freight reported Underlying EBIT<sup>1</sup> of \$54 million, an improvement of \$43 million on the prior corresponding period and the segment's best half-year result since 2006/07. The strong performance was led by the recovery in international markets, with a \$44 million Underlying EBIT<sup>1</sup> contribution from the international freight operations. The Qantas Transformation program delivered benefits of \$16 million.

Strong loads on the China-US and US-Australia markets helped offset a soft domestic freight performance resulting from the mixed economic environment. Qantas Freight introduced new self-service kiosks in domestic terminals and warehouse technology enabling real-time tracking improving customer satisfaction and generating cost savings.

#### Reconciliation of Underlying PBT<sup>1</sup> to Statutory PBT

The Statutory Profit Before Tax of \$289 million for the half-year ended 31 December 2014 is \$594 million higher than the prior corresponding period.

#### Underlying PBT<sup>1</sup>

Underlying PBT<sup>1</sup> is the primary reporting measure used by the Qantas Group's 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 Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying EBIT<sup>1</sup>. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT<sup>1</sup> as net finance costs are managed centrally.

Underlying PBT<sup>1</sup> is derived by adjusting Statutory Profit/(Loss) Before Tax for the impacts of ineffectiveness and non-designated derivatives relating to other reporting periods and certain other items which are not included in Underlying PBT<sup>1</sup>.

	December 2014 \$M	December 2013 \$M
<b>Reconciliation of Underlying PBT<sup>1</sup> to Statutory Profit/(Loss) Before Tax</b>		
<b>Underlying PBT<sup>1</sup></b>	<b>367</b>	<b>(252)</b>
<b>Ineffectiveness and non-designated derivatives relating to other reporting periods</b>	<b>(31)</b>	<b>54</b>
<b>Other items not included in Underlying PBT<sup>1</sup></b>		
- Redundancies, restructuring and other transformation costs	(42)	(59)
- Fleet restructuring costs	-	(23)
- Net profit on disposal of investments	12	-
- Other	(17)	(25)
<b>Total items not included in Underlying PBT<sup>1</sup></b>	<b>(78)</b>	<b>(53)</b>
<b>Statutory Profit/(Loss) Before Tax</b>	<b>289</b>	<b>(305)</b>

<sup>27</sup> Revenue Load Factor – Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK).



## REVIEW OF OPERATIONS (continued)

### Ineffectiveness and non-designated derivatives relating to other reporting periods

In prior reporting periods, Underlying PBT<sup>1</sup> was adjusted for the impacts of AASB 139: Financial Instruments: *Recognition and Measurement* (AASB 139) which relate to other reporting periods. The AASB 139 adjustments to Statutory Profit/(Loss) Before Tax ensured derivative mark-to-market movements that relate to underlying exposures in other reporting periods were recognised in Underlying PBT<sup>1</sup> for those reporting periods.

In the current reporting period, as a result of the early adoption of AASB 9 (2013), there is now better alignment between Underlying PBT<sup>1</sup> and Statutory Profit/(Loss) Before Tax. However, there will continue to be a difference between Statutory Profit/(Loss) Before Tax and Underlying PBT<sup>1</sup> resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

### ***Other items not included in Underlying PBT<sup>1</sup>***

Items which are identified by Management and reported to the chief operating decision-making bodies, as not representing the underlying performance of the business are not included in Underlying PBT<sup>1</sup>. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period.

For personal use