

# Qantas Airways Limited FY19 Results

22 August 2019

ASX:QAN  
US OTC:QABSY

# FY19 Highlights

## Revenue strength offset fuel cost increases

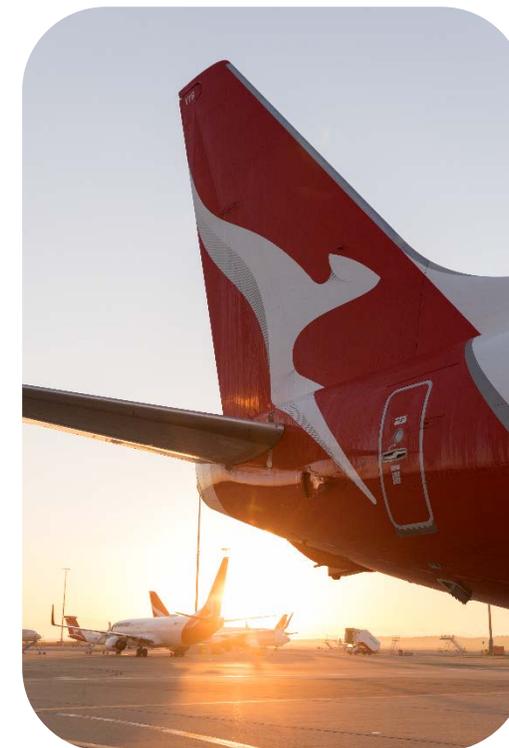
- FY19 Underlying Profit Before Tax (PBT)<sup>1</sup> \$1,302m, Statutory PBT \$1,265m
- Statutory EPS 55 cps, Underlying EPS<sup>2</sup> 56 cps
- Continued strong Group Return on Invested Capital (ROIC) of 18.4%<sup>3</sup>, all segments delivering ROIC > WACC<sup>4</sup>
- Record<sup>5</sup> Qantas Loyalty earnings, strong 2H19 performance from airlines in high fuel and low AUD environment
- Delivered \$452m in gross transformation benefits in FY19, >\$400m target

## Investing for our customers, people and community

- Rewarding over 25,000 of our people with a \$1,250 staff travel bonus each
- Flew the world's first zero-waste flight

## Financial framework continues to support shareholder returns

- Net debt<sup>6</sup> of \$4.7b, provides significant financial flexibility, >\$1.2b in net free cash flow<sup>7</sup>
- Fully franked dividend of 13 cents per share (\$204m); and an off-market share buy-back of up to 79.7m shares<sup>8</sup>



## STRONG PERFORMANCE DESPITE FUEL AND FOREIGN EXCHANGE HEADWINDS

1. Underlying PBT is a non-statutory measure and is the primary reporting measure used by the 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 Qantas Group. All items in the FY19 Results Presentation are reported on an Underlying basis, unless otherwise stated. For a reconciliation to Underlying PBT, please see slide 6 in the Supplementary Presentation. All items restated for changes associated with the first time adoption of AASB 15. 2. Underlying Earnings Per Share is calculated as Underlying PBT less tax expense (Group effective tax rate of 29.6%) divided by weighted average number of shares during the year, rounded to the nearest cent. 3. Calculated as ROIC EBIT for the 12 months ended 30 June 2019, divided by the 12 month average Invested Capital. 4. Weighted Average Cost of Capital calculated on a pre-tax basis. 5. Underlying EBIT for periods reported on a post AASB 15 basis. 6. Net debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. For a detailed calculation of the net debt target range, please see slide 12 in the Supplementary Presentation. 7. Net cash from operating activities less net cash used in investing activities (excluding aircraft operating lease refinancing). 8. Under the buy-back Qantas Group has the ability to buy back up to 79.7m of its shares without shareholder approval. The Group will determine the size of the buy-back at the end of the tender period, depending on relevant factors such as the market price of shares at the relevant time, shareholder demand, market conditions, the Group's forecast earnings and capital requirements and the requirements of its Constitution and applicable laws. For illustrative purposes, assuming a buy-back price of \$4.85 (being a 14% discount to an assumed market price of \$5.64, as at 19 August 2019), the total spend by the Group would be \$387m. The Group can vary the size of the buy-back, or decide not to buy back any shares, at its discretion.

# Integrated Portfolio Provides a Stable Earnings Base



Maximising leading Dual Brand Domestic position through network leadership and customer focused investments



Group Domestic<sup>1</sup> Underlying EBIT of \$1,034m supported by proactive capacity management



Record<sup>2</sup> Loyalty result supports earnings growth and diversification

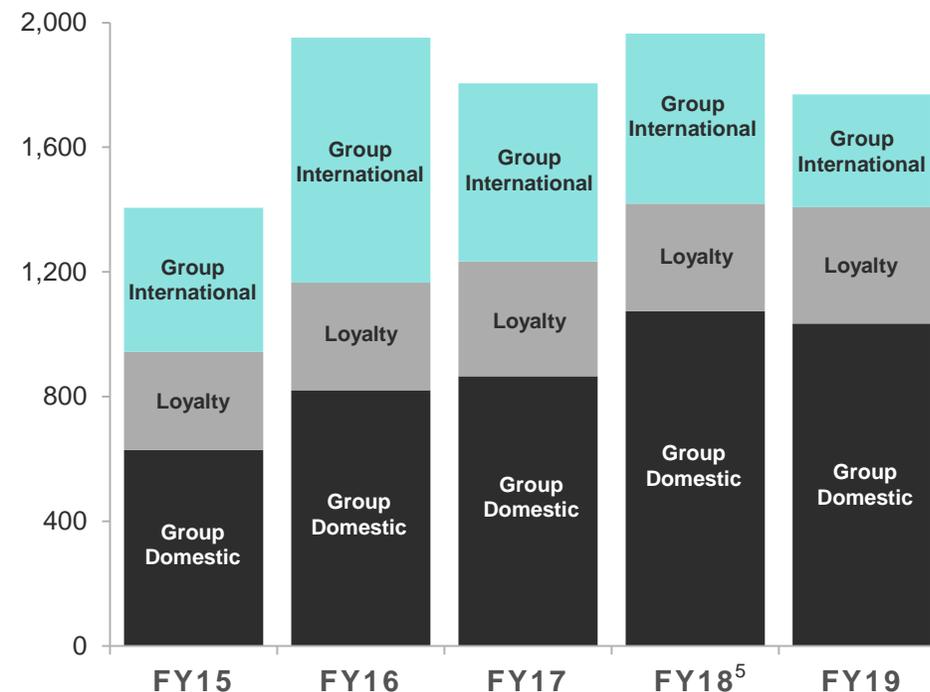


Strengthened core airline partnerships and continued structural transformation reduces earnings cyclicality of Group International<sup>3</sup>



Highly trusted brand that supports diversification into new businesses

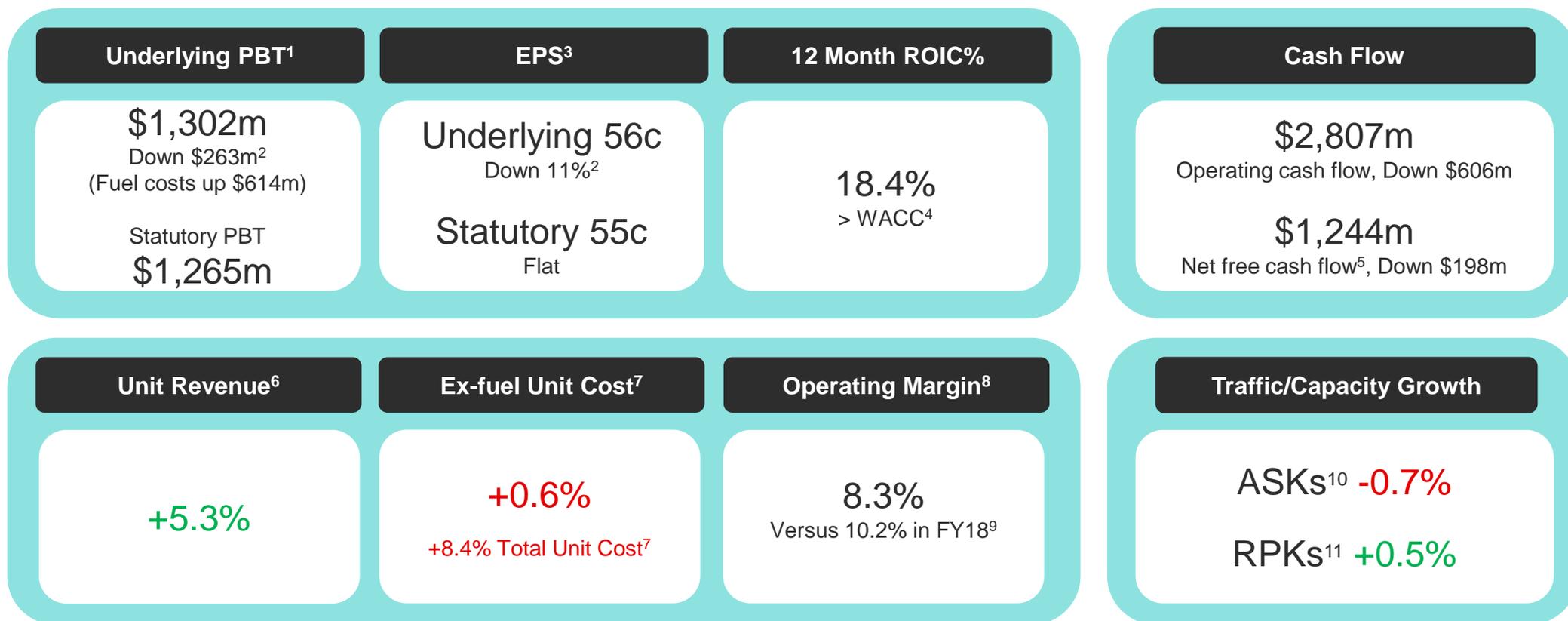
Operating Segment EBIT<sup>4</sup> (\$M)



## INTEGRATED PORTFOLIO PROVIDES A STABLE EARNINGS BASE

1. Group Domestic includes Qantas Domestic and Jetstar Domestic. 2. Underlying EBIT for periods reported on a post AASB 15 basis. 3. Group International includes Qantas International, Freight, Jetstar International Australian operations, Jetstar New Zealand (including Jetstar Regionals), Jetstar Asia (Singapore) and the contributions from Jetstar Japan and Jetstar Pacific (Vietnam). 4. Measured on Underlying EBIT. Excludes the Corporate and Unallocated/Eliminations segments. 5. FY18 restated for changes associated with the first time adoption of AASB 15.

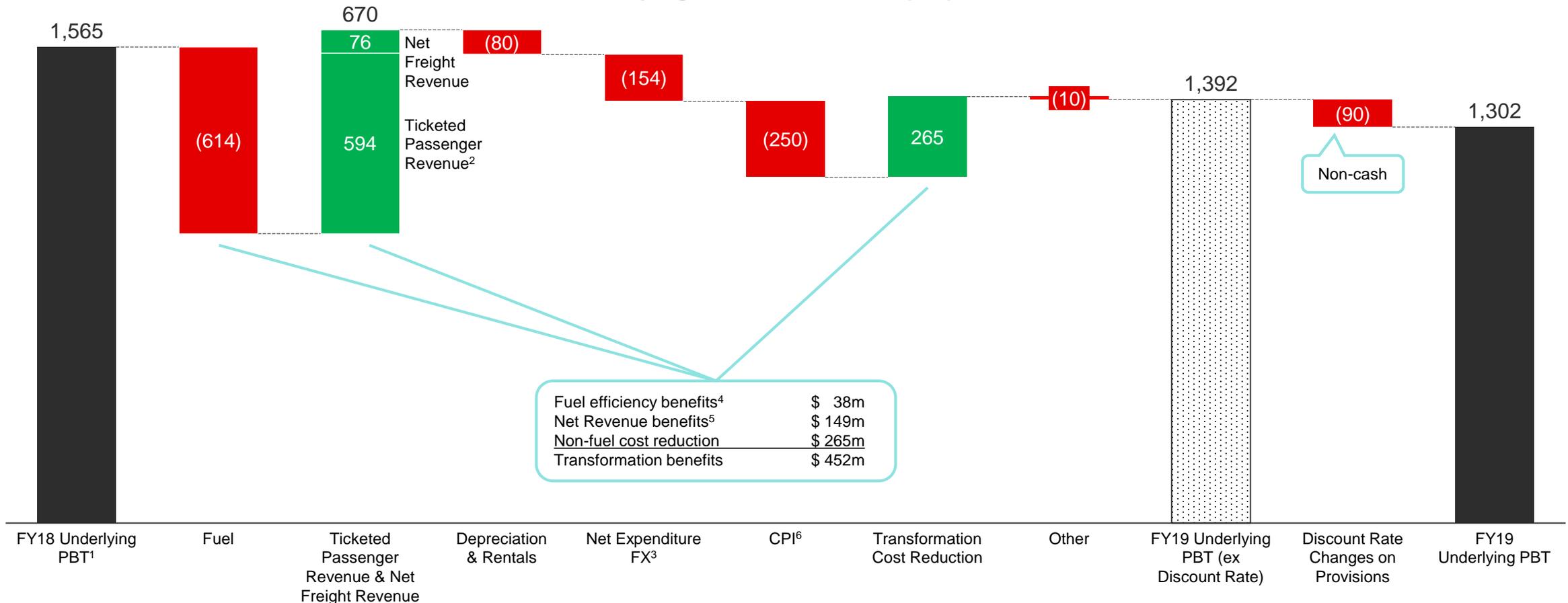
# FY19 Key Group Financial Metrics



1. Underlying PBT is a non-statutory measure and is the primary reporting measure used by the 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 Qantas Group. All items in the FY19 Results Presentation are reported on an Underlying basis unless otherwise stated. Refer to Supplementary slide 6 for a reconciliation of Underlying to Statutory PBT. 2. Compared to FY18 restated for changes associated with the first time adoption of AASB 15, where applicable. 3. Underlying Earnings Per Share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 29.6%) divided by the weighted average number of shares during the year (consistent with the Statutory Earnings per share calculation). 4. Weighted Average Cost of Capital calculated on a pre-tax basis. 5. Net cash from operating activities less net cash used in investing activities (excluding aircraft operating lease refinancing). 6. Ticketed passenger revenue divided by Available Seat Kilometres (ASK). Subject to rounding. Compared to FY18 restated for changes associated with the first time adoption of AASB 15. 7. Total Unit Cost is calculated as Underlying PBT less ticketed passenger revenue per Available Seat Kilometre (ASK). Compared to FY18 restated for changes associated with the first time adoption of AASB 15. Ex-fuel refers to unit cost excluding fuel, FX on net non-fuel expenditure, impact of discount rates on provisions, and share in investments accounted for under the equity method. 8. Group Underlying EBIT divided by Group Total Revenue. 9. FY18 restated for changes associated with the first time adoption of AASB 15. 10. Available Seat Kilometres. Total number of seats available for passengers, multiplied by the number of kilometres flown. Compared to FY18. 11. Revenue Passenger Kilometres. Total number of passengers carried, multiplied by the number of kilometres flown. Compared to FY18 restated for changes associated with the first time adoption of AASB 15.

# FY19 Profit Bridge

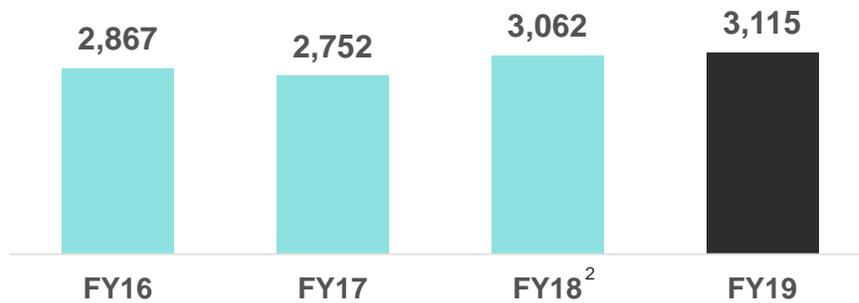
## Underlying Profit Before Tax (\$M)



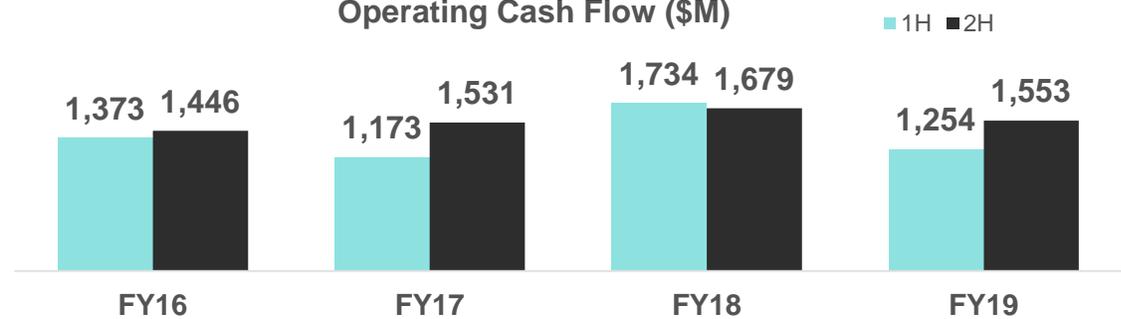
1. FY18 Underlying PBT restated for changes associated with the first time adoption of AASB 15. 2. Represents the change in Unit Revenue and Available Seat Kilometres. 3. FX other than on ticketed passenger revenue, net freight revenue, fuel and depreciation & non-cancellable aircraft operating lease rentals. 4. Includes reduction in consumption from fuel efficiency and reduction in into-plane costs following Transformation initiatives. 5. Revenue benefits less incremental costs associated with that benefit including costs of increased activity where related to a Transformation initiative. 6. Company estimate, including wage and other inflation.

# Operating Cash Flow Trend

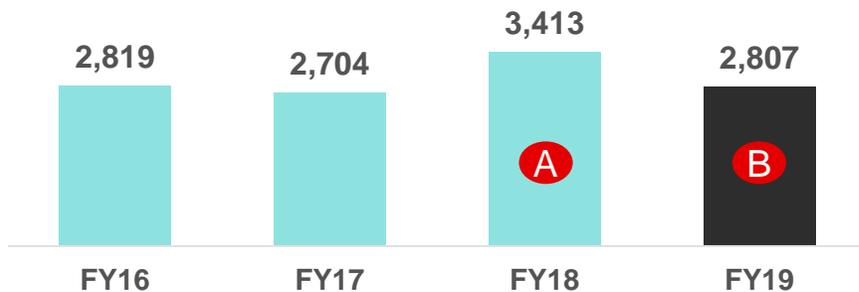
Statutory EBITDA (\$M)<sup>1</sup>



Operating Cash Flow (\$M)



Operating Cash Flow (\$M)



- Stable Statutory EBITDA<sup>1</sup>; Quality of earnings remains strong
- Recommended the payment of Australian company tax
- Fluctuation in operating cash flows impacted by the following timing differences:

**(A) FY18** – Lower option premium outflows  
 ~\$380m – Higher working capital benefits

**(B) FY19** – Higher option premium outflows  
 ~\$(340)m – Lower working capital benefits

## STRONG OPERATING CASH FLOW GENERATION

1. Earnings before income tax expense, net finance costs, depreciation and amortisation. 2. FY18 restated for changes associated with the first time adoption of AASB 15.

# Maximising Leading Dual Brand Domestic Position

## Dual Brand strategy at the core of the Group's portfolio strength

>\$1b

Group Domestic<sup>1</sup> Underlying EBIT of \$1,034m in FY19

5

Years of disciplined market capacity management, maintaining Unit Revenue growth in high fuel environment

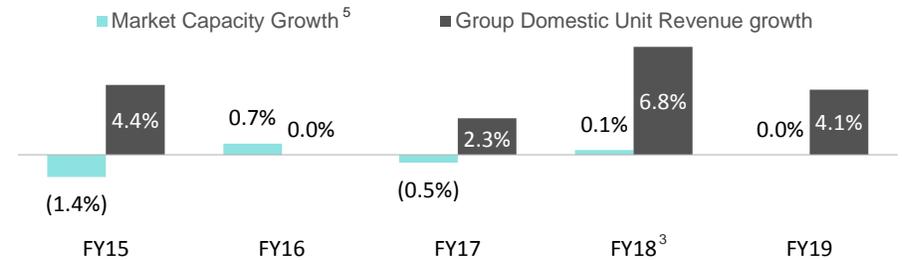
>10%

>10% ROIC<sup>2</sup> for Qantas Domestic and Jetstar Domestic

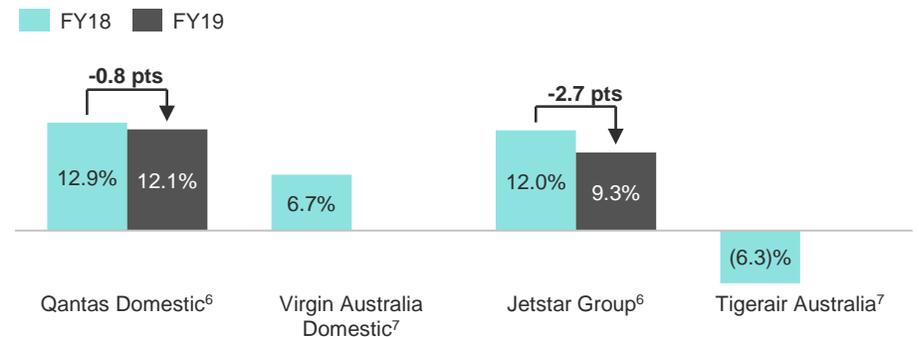
4.1%

Increase in Group Domestic Unit Revenue<sup>3</sup> in flat market capacity environment as market demand absorbed excess capacity

Group Domestic Unit Revenue Growth<sup>4</sup>



Domestic Margins



### CAPACITY DISCIPLINE MAINTAINS EARNINGS IN HIGH FUEL ENVIRONMENT

1. Includes Qantas Domestic and Jetstar Domestic. 2. Calculated as ROIC EBIT for the 12 months ended 30 June 2019, divided by the 12 months Average Invested Capital. 3. Compared to FY18 restated for changes associated with the first time adoption of AASB15. 4. Compared to prior year. 5. Compared to prior year. Market capacity growth source: BITRE capacity data and published schedules. 6. Calculated as Underlying segment EBIT divided by total segment revenue. Restated for changes associated with the first time adoption of AASB 15 (Qantas Domestic and Jetstar Group only). 7. Competitor operating margins calculated using published data. Calculated as Underlying segment EBIT divided by total segment revenue. FY19 data not yet published.

# Building a Resilient Qantas International

**\$285m**

**Underlying EBIT in FY19** down \$113m<sup>1</sup> as increased revenue partially offset increases in costs. Fleet and network transition building resilience

**6.4%**

**Increase in Unit Revenue** compared to FY18<sup>2</sup>, fleet and network transition progressing, unit revenue growth accelerating to +7.8% in 2H19

**8**

**787-9 Dreamliner deliveries to date**, further six to be delivered by Aug-20 leading to retirement of 747s

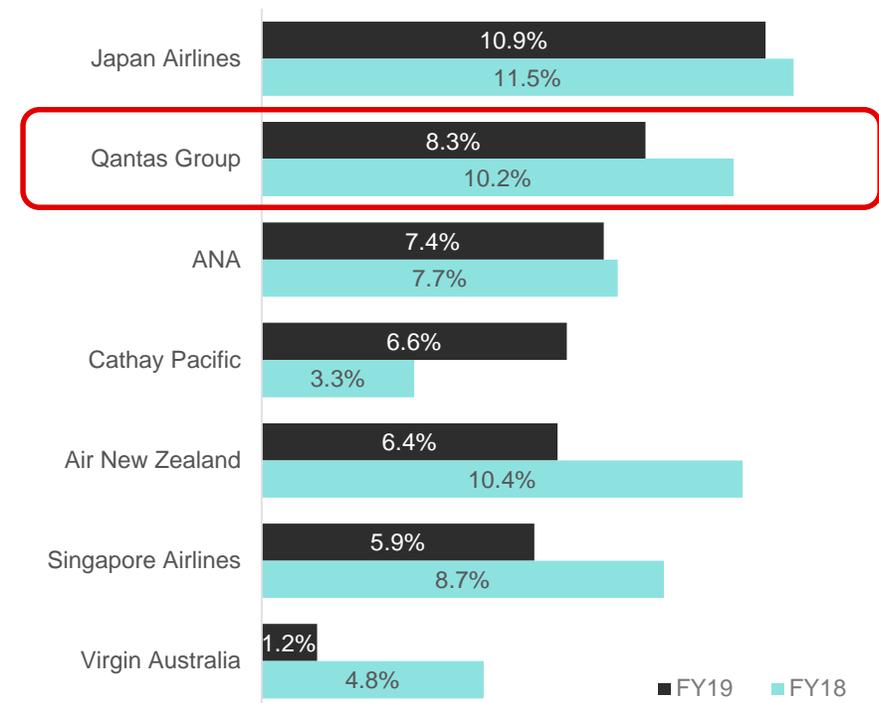
**30%**

**Premium seat mix on 787-9 Dreamliner**, driving revenue resilience and increased customer satisfaction on the Perth–London route

**6**

**New routes launched or announced**, Melbourne–San Francisco, Melbourne–Queenstown and Sydney–Nadi launched, and Brisbane–Chicago, Brisbane–San Francisco and Sydney–Sapporo<sup>4</sup> announced

**Airline Group Operating Margin<sup>3</sup>**



## STRONG GROUP MARGIN RELATIVE TO REGIONAL PEERS

1. Measured as Underlying EBIT versus FY18 restated for changes associated with the first time adoption of AASB 15. 2. FY18 restated for changes associated with the first time adoption of AASB 15. 3. Regional peer margins calculated using published Group level data. Calculated as EBIT (or equivalent) divided by Total Revenue. For all airlines, FY18 represents the period 1 July 2017 to 30 June 2018 and FY19 represents the period 1 July 2018 to 30 June 2019, both restated for first time adoption of AASB 15/IFRS 15 where available. FY19 based on Bloomberg estimates for Virgin Australia and Air New Zealand. 4. Seasonal service.

# Segment Results

# Qantas Domestic

- Underlying EBIT of \$740m, Unit Revenue up 5.0%<sup>1</sup> in FY19
  - More than offset fuel cost increases
  - Partially offset FX impacts on non-fuel costs
  - Market capacity in line with demand
  - Grew share of Corporate and SME<sup>2</sup> markets
  - Growth in Resources market revenue; \$47m increase in FY19
- Continued investment in customer experience
  - 15pts customer advocacy<sup>3</sup> premium to competitor<sup>4</sup>
  - Wi-Fi roll out on track for completion by November 2019<sup>5</sup>
  - Expansion of regional resident fares program and removal of change fee; Commenced Turboprop refurbishment and regional lounge upgrades
  - Announced second pilot academy in Mackay
  - Continued investment in domestic lounges with Melbourne Domestic Lounges upgraded and Tamworth Lounge refreshed
  - 83%<sup>6</sup> on time performance, premium to competitor

|                  |     | FY19   | FY18<br>(Restated) | VLY % <sup>1</sup> |
|------------------|-----|--------|--------------------|--------------------|
| Revenue          | \$M | 6,106  | 5,945              | 2.7                |
| Underlying EBIT  | \$M | 740    | 765                | (3.3)              |
| Operating Margin | %   | 12.1   | 12.9               | (0.8) pts          |
| ASKs             | M   | 33,866 | 34,385             | (1.5)              |
| Seat factor      | %   | 77.8   | 77.8               | -                  |

## MAINTAINING OUR LEADING POSITION IN THE DOMESTIC MARKET

1. Variance to FY18 restated for changes associated with first time adoption of AASB 15. 2. Small to Medium Enterprise. 3. Customer advocacy measured as Net Promoter Score (NPS). Based on Qantas internal reporting. 4. Competitor refers to Virgin Australia. Based on Qantas internal reporting. 5. Applies to the 737 fleet. 6. Includes Qantas domestic mainline and regional services. Competitor refers to Virgin Australia. Source: BITRE.

# Qantas International<sup>1</sup>

- Strong Unit Revenue growth of 6.4%<sup>2</sup> more than offset fuel cost increase
  - Second half earnings improvement as competitor capacity reduced
- Unable to fully offset other cost increases including
  - FX on non-fuel costs
  - Cost of concurrently flying 747 and 787 aircraft while transitioning fleet
- New network, hub restructure and fleet renewal continue to build resilience
  - Significant improvement in performance of London services, profitable for the first time in 10 years
  - Perth–London service achieved network leading customer advocacy
- USA market experienced competitive pressure. Approval of American Airlines Antitrust Immunity opening up new opportunities
- Continuing investment in customer experience
  - New Singapore First Lounge / expanding Business Lounge
  - A380 cabin upgrade commenced
- Resilient Freight earnings, renewed seven-year Australia Post contract

|                  |     | FY19   | FY18<br>(Restated) | VLV % <sup>2</sup> |
|------------------|-----|--------|--------------------|--------------------|
| Revenue          | \$M | 7,425  | 6,925              | 7.2                |
| Underlying EBIT  | \$M | 285    | 398                | (28)               |
| Operating Margin | %   | 3.8    | 5.7                | (1.9) pts          |
| ASKs             | M   | 69,571 | 69,280             | 0.4                |
| Seat factor      | %   | 86.0   | 84.2               | 1.8 pts            |

## BUILDING EARNINGS MOMENTUM IN SECOND HALF OF FY19

1. The Qantas International segment includes Qantas Freight. 2. Variance to FY18 restated for changes associated with first time adoption of AASB 15.

- Record Jetstar Group Revenue
  - Domestic Unit Revenue up 2.7%<sup>1</sup>, Ancillary revenue per passenger up 12%
  - Jetstar International<sup>2</sup> Unit Revenue up 6.0%<sup>1</sup>
  - Revenue increase more than offset higher fuel costs
- Underlying EBIT result reduced by negative impact of FX<sup>3</sup> movements and significant increases in airport charges and taxes in Singapore
- Associate airlines<sup>4</sup> profitable
  - Jetstar Japan achieved record profit<sup>5</sup>
  - Jetstar Pacific (Vietnam) remained profitable
- Almost two thirds of fares sold<sup>6</sup> for under \$100, maintaining affordability
- Continuing investment in customer experience, transformation and operational efficiency
  - ‘Plus 3kg’ carry on continued to support ancillary revenue growth
  - Club Jetstar membership grew to over 340,000 members<sup>7</sup>
  - Cabin enhancement program completed, capital efficient expansion with 3% extra seats added<sup>8</sup>

|                      |     | FY19   | FY18<br>(Restated) | VLV % <sup>1</sup> |
|----------------------|-----|--------|--------------------|--------------------|
| Revenue <sup>9</sup> | \$M | 3,961  | 3,795              | 4.4                |
| Underlying EBIT      | \$M | 370    | 457                | (19)               |
| Operating Margin     | %   | 9.3    | 12.0               | (2.7) pts          |
| ASKs                 | M   | 47,993 | 48,763             | (1.6)              |
| Seat factor          | %   | 86.1   | 85.6               | 0.5 pts            |

## RESILIENT PERFORMANCE IN A CHALLENGING ENVIRONMENT

1. Variance to FY18 restated for changes associated with first time adoption of AASB 15. 2. Includes Jetstar International Australian operations and Jetstar New Zealand (including Jetstar Regionals). 3. Overall Jetstar Consolidated Group, impacted by \$65m FX increase on non-fuel costs (excluding associates). 4. Comprised of Jetstar Japan and Jetstar Pacific (Vietnam). 5. Record AUD profit share. 6. Airfares sold within the Jetstar network including Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific (Vietnam). 7. Members as at 30 June 2019. 8. Compared to original configuration. 9. Revenue consolidated by the Qantas Group, does not include Jetstar Japan and Jetstar Pacific (Vietnam).

# Qantas Loyalty

- Record<sup>1</sup> Underlying EBIT result up 8.4%
  - Returning to double digit profit growth in the second half
- Record Revenue
  - Record number of points earned from Financial Services products, with Qantas Points earning credit card growth outpacing market<sup>2</sup>
  - Points earned across coalition partners up 17% with continued growth in everyday earn segments
  - 27% growth in New Business<sup>3</sup> revenue through scale up
- Announcement of the biggest Frequent Flyer program overhaul in 32 years, representing a \$25m investment, expected to be offset in the first year
  - One million additional reward seats available on Qantas and partner airlines per annum, launching new program tier and club
- 12% increase in Qantas Points redeemed across airline, hotel and retail rewards; supporting member engagement within the program
- Diversification of EBIT growth through New Business portfolio
  - Qantas Insurance achieved 46% growth<sup>4</sup> in the Health Insurance market with one of the lowest average premium increases<sup>5</sup>
  - Continued growth in Qantas Premier portfolio; strong card acquisition and doubled the spend volume on book<sup>6</sup>

|                  |     | FY19  | FY18<br>(Restated) | VLY % <sup>7</sup> |
|------------------|-----|-------|--------------------|--------------------|
| Revenue          | \$M | 1,654 | 1,519              | 8.9                |
| Underlying EBIT  | \$M | 374   | 345                | 8.4                |
| Operating Margin | %   | 22.6  | 22.7               | (0.1)pts           |
| QFF Members      | M   | 12.9  | 12.3               | 4.8 <sup>8</sup>   |

## ON TRACK TO ACHIEVE TARGET OF \$500-600M UNDERLYING EBIT BY 2022

1. Underlying EBIT for periods reported on a post AASB 15 basis. 2. Qantas Points earning credit cards includes co-branded credit cards and Qantas Premier cards. Based on 12 months to June 2019 growth in credit cards accounts. Source: RBA credit and card charges statistics at June 2019 and Qantas internal analysis. 3. New Business includes Qantas Insurance and Qantas Money. 4. Based on 12 months to June 2019 growth in net persons insured compared to all Australian Private Health Insurance funds. Source: Qantas/nib internal analysis and estimates. 5. Qantas Health Insurance average premium increase of 1.76%, effective 1 April 2019. One of the lowest when compared to the 37 private health funds' average premium increases. Source: Australian Government Department of Health, excludes the Australian Government Rebate. 6. Based on 12 months to June 2019 growth in spend on Qantas Premier Everyday, Qantas Premier Platinum and Qantas Premier Titanium credit cards. 7. Variance to FY18 restated for changes associated with the first time adoption of AASB 15. 8. Adjusted to remove the impact of rounding of member numbers.

# Financial Framework

# Financial Framework Aligned with Shareholder Objectives

1. Maintaining an Optimal Capital Structure

**Minimise cost of capital by targeting a net debt range of \$5.2b to \$6.5b<sup>1</sup>**  
(See slide 16)

2. ROIC > WACC<sup>2</sup> Through the Cycle

**Deliver ROIC > 10%<sup>3</sup> through the cycle**  
(See slides 17 to 18)

3. Disciplined Allocation of Capital

**Grow invested capital with disciplined investment, return surplus capital**  
(See slides 19 to 20)



**MAINTAINABLE EPS<sup>4</sup> GROWTH OVER THE CYCLE**



**TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE<sup>5</sup>**

1. Based on current invested capital of ~\$8.9b, refer to Supplementary Slide 12. 2. Weighted Average Cost of Capital, calculated on a pre-tax basis. 3. Target of 10% ROIC allows ROIC to be greater than pre-tax WACC through the cycle. 4. Earnings per Share. 5. Target Total Shareholder Returns within the top quartile of the ASX100 and global listed airline peer group as stated in the 2018 Annual Report, with reference to the 2018-2020 LTIP.

# Maintaining an Optimal Capital Structure

## Leverage and liquidity

### Optimal capital structure

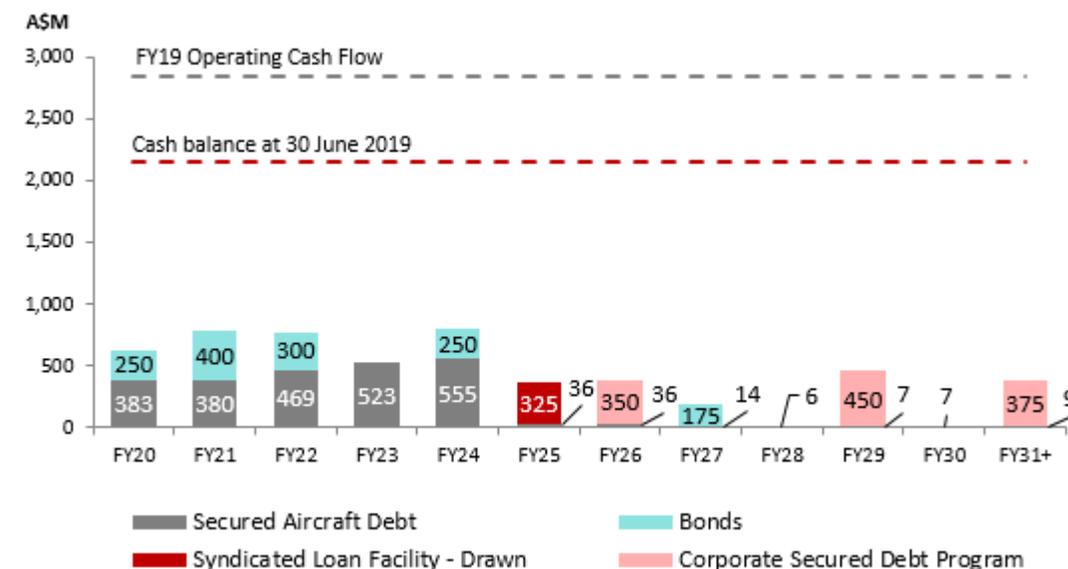
- Net debt<sup>1</sup> at \$4.7b, below the bottom of the target range
  - Provides significant financial flexibility
- Extended tenor and diversified funding
  - 10 and 12 years issuance of A\$ Corporate Debt Program; total \$825m refinancing FY19 and FY20 debt repayments
  - New funding sources – 12 year issuance to traditional USPP<sup>2</sup> investors
  - Drawn Syndicated Loan Facility of \$325m extended six years
- Unencumbered aircraft valued at ~US\$3.1b<sup>3</sup>; 51% of the Group fleet<sup>4</sup>
  - Enhanced quality of unencumbered pool; three new 787-9s added in FY19
  - Investment Grade credit ratings from Moody's (Baa2)

### Strong short term liquidity

- Cash of \$2.2b<sup>5</sup>; Undrawn facilities of \$1b (extended to FY23 and FY24)

### Optimising cost of debt

Debt Maturity Profile as at 30 June 2019 (\$M)<sup>6</sup>



## SIGNIFICANT FLEXIBILITY AND FINANCIAL STRENGTH

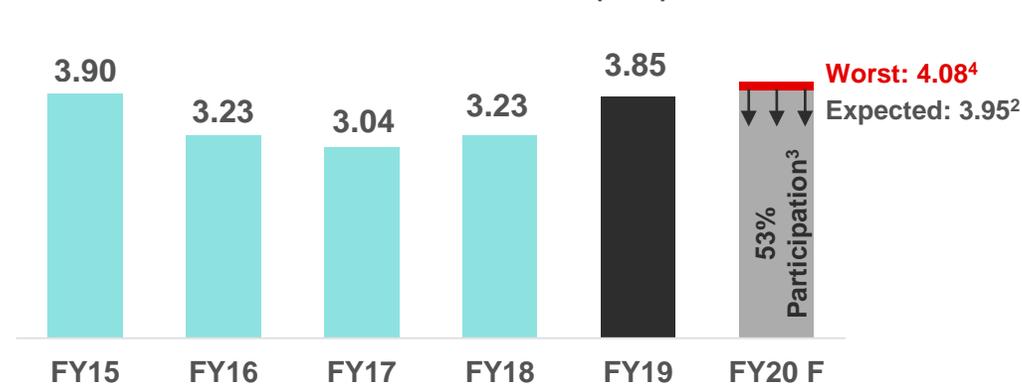
1. Net debt includes on balance sheet debt and aircraft operating lease liabilities under the Group's Financial Framework. Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and rereasured over lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate. 2. US Private Placement. 3. Based on AVAC market values. 4. Based on number of aircraft as at 30 June 2019. The Group fleet totalled 314 aircraft. Includes Jetstar Asia (Singapore) owned fleet (18 x A320) and excludes Jetstar Pacific (Vietnam) and Jetstar Japan. 38 Aircraft entered the Corporate Debt Program and 2 leased aircraft were refinanced to unencumbered aircraft in FY19. 5. Includes cash and cash equivalents as at 30 June 2019. 6. Cash debt maturity profile excluding operating leases.

# Delivering ROIC >10% Through the Cycle

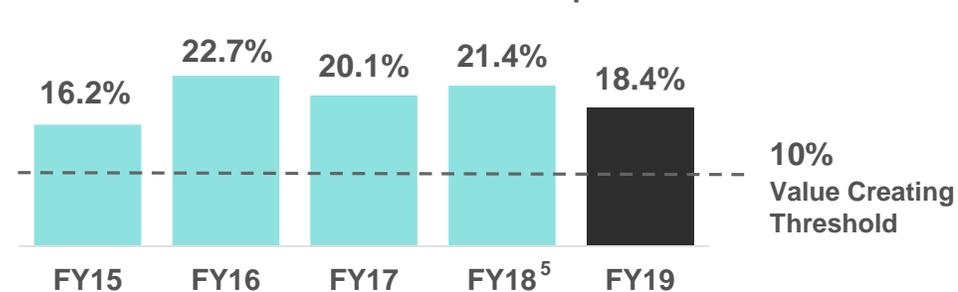
## Protecting ROIC through the disciplined hedging program

- FY19 fuel cost of \$3.85b
  - Effective hedging program contained FY19 fuel cost increase to \$614m or 19%<sup>1</sup>
- Opportunistically extended FY20 hedge profile
- FY20 expected fuel cost of ~A\$3.95b<sup>2</sup> is fully hedged with protection in place against adverse movements
  - 53% participation<sup>3</sup> to favourable price movements
- Operational flexibility to mitigate rising fuel costs over the medium to longer term

FY20 Fuel Cost Outlook (A\$B)



Return on Invested Capital



### MAINTAINED STRONG ROIC IN RISING FUEL ENVIRONMENT

1. Compared to FY18. 2. As at 20 August 2019. Expected FY20 fuel costs assumes forward market rates of Jet Fuel USD74/bbl and AUDUSD 0.6763. Actual fuel costs for FY20 will be impacted by changes in Jet Fuel prices and AUDUSD. 3. Participation from current market Brent prices down to USD64/bbl for remainder of FY20. 4. Worst FY20 fuel costs assumes forward market rates of Jet Fuel USD84/bbl and AUDUSD 0.7012. Assumes no changes in Jet Fuel Refining Margin. 5. FY18 restated for the first time adoption of AASB 15.

# Delivering ROIC >10% Through the Cycle

*Transformation continues to deliver*

Achieved \$452m Transformation benefits in FY19<sup>1</sup> with 23% of FY20 pipeline in delivery phase<sup>2</sup>

- **Operational Efficiency**

- Group efficiencies including supply chain, operations support, procurement and IT
- Reduced fuel burn – e.g. Flight Pulse App enhancements, on board weight reduction
- Reduced fuel usage – additional three 787-9 Dreamliners, retirement of three 747s
- Telemetry on Ground Service Equipment

- **Empowering Employees**

- Operational staff digital device enablement
- Tailored training to individual needs

- **Customer Experience**

- Enhanced online and airport check-in technology
- Customer disruption management improvements
- Digital channel expansion for services – e.g. SMS and other messaging systems

- **Revenue Optimisation**

- Jetstar ancillary revenue per passenger growth
- Full year benefits from Qantas International network and hub restructure
- Jetstar A320 / A321 Cabin Enhancement Program
- New and enhanced products to customers – e.g. Qantas Business Rewards

\$265m  
cost  
benefits

\$149m  
net  
revenue  
benefits<sup>3</sup>

\$38m  
fuel  
efficiency  
benefits<sup>4</sup>

72% of  
initiatives less  
than \$1m

**ON TRACK TO ACHIEVE AT LEAST \$400M GROSS BENEFITS IN FY20**

1. See Supplementary slide 5 for details of Transformation costs treated as items not included in Underlying PBT for FY19. 2. Initiative milestones completed to unlock benefits towards the annual target. 3. Revenue benefits less incremental costs associated with that benefit including costs of increased activity where related to a Transformation initiative. 4. Includes reduction in consumption from fuel efficiency and reduction in into-plane costs following Transformation initiatives.

# Disciplined Capital Allocation

## *Disciplined capital expenditure*

- Net capital expenditure<sup>1</sup> of \$1.6b in FY19, excluding aircraft operating lease refinancing
  - Three 787-9 Dreamliners delivered
  - Reconfiguration and refresh programs for A320/A321, A380 and Turboprop aircraft
  - Lounge upgrades
  - Continued investment in Transformation
  - Brought forward aircraft payments, disciplined use of surplus capital for commercial advantage
  - Includes benefit of asset sales; Catering and Melbourne Domestic Terminal assets
- FY20 gross<sup>2</sup> capital expenditure forecast of \$2.0b<sup>3</sup>, including:
  - Payments for six 787-9
  - Continuation of A380 fleet reconfiguration
  - Completing Singapore First and Business lounges
  - Continuation of Turboprop refresh
  - Investment in technology and digital including enhancements to personalisation and flight planning capabilities



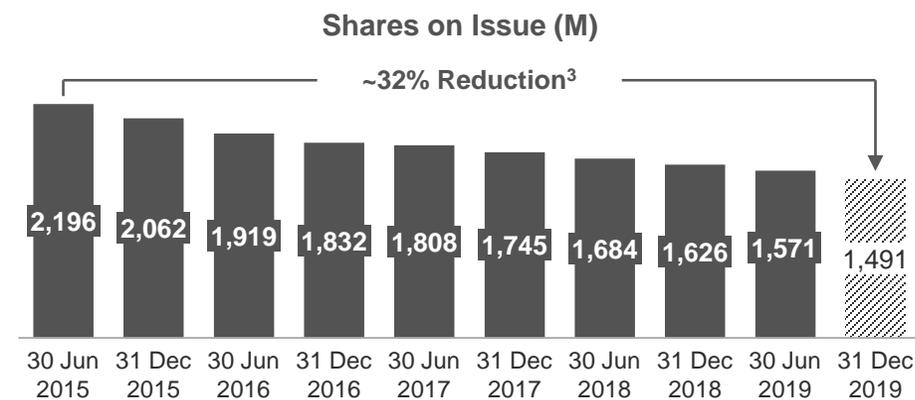
### FINANCIAL FRAMEWORK GUIDES DISCIPLINED ALLOCATION OF SURPLUS CAPITAL

1. Equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) and the impact to Invested Capital from the disposals/acquisitions of operating leased aircraft. 2. Gross capital expenditure excludes the proceeds, if any, from the sale/disposal of assets. 3. Subject to foreign exchange rate movements, assumes AUDUSD 0.69.

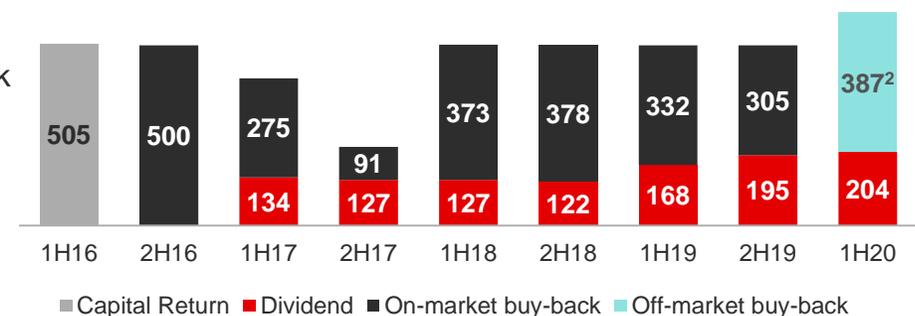
# Disciplined Capital Allocation

## Shareholder distributions

- Completed on-market share buy-back of \$305m in 2H19
  - 3.4% of issued capital purchased in 2H19 at an average price of \$5.53
  - Reduced issued capital by ~6.7% in FY19 at an average price of \$5.63
  - 28.5%<sup>1</sup> reduction in shares on issue since Oct 2015 at an average price of \$4.58
- Off-market share buy-back of up to 79.7m shares<sup>2</sup> announced
  - ~32%<sup>3</sup> reduction in shares on issue at completion of this buy-back
- Announced a fully franked base dividend of 13 cents per share (\$204m)
- Our approach to capital management is as follows
  - Balance sheet strength is our priority
  - Surplus capital will be assessed at each half in accordance with the financial framework
  - The first tranche of surplus capital will be allocated to a base dividend
    - Currently assessed at ~\$400m per annum, equates to 27 cps post this buy-back
  - Balance of any additional surplus will be allocated to additional shareholder returns having regard to circumstances at the time



### Track Record of Delivering Shareholder Returns (\$M)



### >\$4B OF CAPITAL RETURNS<sup>4</sup> TO SHAREHOLDERS SINCE OCTOBER 2015

1. Reduction in shares calculated against balance as at 1 July 2015. 2. Under the buy-back Qantas Group has the ability to buy back up to 79.7m of its shares without shareholder approval. The Group will determine the size of the buy-back at the end of the tender period, depending on relevant factors such as the market price of shares at the relevant time, shareholder demand, market conditions, the Group's forecast earnings and capital requirements and the requirements of its Constitution and applicable laws. For illustrative purposes, assuming a buy-back price of \$4.85 (being a 14% discount to an assumed market price of \$5.64, as at 19 August 2019), the total spend by the Group would be \$387m. The Group can vary the size of the buy-back, or decide not to buy back any shares, at its discretion. 3. Reduction in shares calculated against balance as at 1 July 2015. Represents indicative reduction in shares where announced buy-back enables the purchase of up to 79.7m shares. 4. Subject to completion of announced off-market share buy-back of up to 79.7m shares.



# Building Long-Term Shareholder Value

# Recognising and Responding to Emerging Global Forces

## *The long-term context*

### Understanding the Long-term Context



New Centres of Customer Demand and Geopolitical Influence



Rapid Digitisation and the Rise of Big Data



Shifting Customer and Workforce Preferences



Resource Constraints and Climate Change

### Clear Strategic Priorities to FY20



Maximising Leading Domestic Position through Dual Brand Strategy



Building a Resilient and Sustainable Qantas International, Growing Efficiently with Partnerships



Aligning Qantas and Jetstar with Asia's Growth



Investing in Customer, Brand, Data and Digital



Diversification and Growth at Qantas Loyalty



Focus on People, Culture and Leadership

**OUR ONGOING COMMITMENT TO SAFETY, ENVIRONMENT AND COMMUNITY**

# Balanced Scorecard to Measure Success to FY20

*On track to meet near term targets*

|                       | TARGET              |   |                  |   |
|-----------------------|---------------------|---|------------------|---|
|                       | METRICS             | TIMEFRAME   | PROGRESS TO DATE |   |
| ACHIEVING OUR TARGETS | Segment Performance | ROIC > WACC <sup>1</sup>  | FY18 – FY20      | FY19 ROIC > WACC <sup>1</sup> for all operating segments                      |
|                       |                     | Qantas Loyalty targeting EBIT CAGR <sup>2</sup> 7-10%                                       | FY22             | On track for \$500-600m EBIT target by 2022                                   |
|                       | Transformation      | Annual \$400m gross benefits  | FY18 – FY20      | \$452m in gross annual benefits for FY19                                      |
|                       | People              | Continued improvement in employee engagement  | FY18 – FY20      | Revised engagement survey methodology to be deployed in FY20                  |
|                       | Customer            | Continued improvement in Net Promoter Score   | FY18 – FY20      | Maintaining NPS premium to competitor <sup>3</sup>                            |
|                       | Innovation          | Identify and develop new products, services and processes that drive revenue and efficiency | FY18 – FY20      | Qantas Frequent Flyer Redemption reset, Qantas Distribution Platform launched |

**GROUP RETURN ON INVESTED CAPITAL EXCEEDS 10%, SUSTAINABLE RETURNS TO SHAREHOLDERS**

1. . Weighted Average Cost of Capital calculated on a pre-tax basis. 2. Compound average growth rate in Underlying EBIT. 3. Competitor refers to Virgin Australia.

# Focus on People, Culture and Leadership

- **Investing in our people**
  - Announced \$1,250 staff travel bonus for around 25,000 employees
  - Rewarding non-executive employees with over \$340m in bonuses for the past five years<sup>1</sup>
  - 2019 Randstad Award for most attractive place to work in Australia
  - Developing new employee listening strategy to be rolled out in FY20
- **Driving better business outcomes and people experience through inclusion and diversity**
  - Building an inclusive employee experience, diversity in our organisation and ways of working and external leadership by leading in Australia and the aviation industry
  - Current focus on gender balance, Reconciliation Action Plan, Accessibility and Inclusion and LGBTI+ inclusion
  - 36% of women in senior management roles<sup>2</sup>
  - 1.4% of our Qantas Group Australian workforce identify as Aboriginal and Torres Strait Islander
- **Qantas Group Pilot Academy opening September 2019**
  - Announced two pilot academy locations; Toowoomba and Mackay
  - Providing a secure pipeline of pilots for Qantas Group airlines



## CONTINUING TO INVEST IN OUR PEOPLE

1. Cash bonuses and nominal value of staff travel vouchers announced for non-executive employees with respect to the FY15 to FY19 period. 2. As of 30 June 2019.

## Leading on sustainable aviation as we move to carbon neutral growth

- Continued to grow the world's largest offsetting program
  - Fly Carbon Neutral is the largest offset program of any airline
  - A customer offsets their flight every 59 seconds
  - Developing world-first carbon neutral products alongside some of our 30+ corporate offsetting partners
- Implemented the industry's most ambitious targets to reduce single-use plastics by 100 million by end of 2020 and reduce waste to landfill by 75% by end of 2021
  - Flew world's first zero waste flight
- Improved the Group's fuel efficiency by 2.2 per cent over FY19, one of the highest rates since 2009
- Continuing to raise our ambition on carbon offsetting and investing in the development of sustainable aviation fuels in our Centenary year



In FY19 the Qantas Group has made significant gains in maintaining high operational standards, acting responsibly and being transparent



## Our No.1 Priority – Safety

Risk management starts with the safety of our customers and employees

- Continued focus on highest level of operational safety standards
- Strong improvement in workplace safety in our Regional Airlines and in the Airports area of Qantas Airlines, a traditionally manually intensive work environment
- At the forefront of improving security outcomes by operating within a security framework that is proportionate, agile and responsive to changing risks across our network



## Community

Supporting communities and engaging our people

- Targeting 3%<sup>1</sup> of annual spend with Indigenous suppliers
- Supported Uluru Statement from the Heart campaign for constitutional reform
- Investing up to \$10m per annum on flight discounts for residents in 16 remote regional towns
- Raised \$3m<sup>2</sup> in drought relief for farmers and communities
- Launched new grants program, delivering \$5m to regional Australia over five years
- Supporting Australian based suppliers

**ACTING RESPONSIBLY TO MAINTAIN OUR SOCIAL LICENCE TO OPERATE**

1. Commitment to procure 3% of contestable spend per annum by the end of FY24. 2. Raised by Qantas Group and Qantas Group customers.

# Project Sunrise Update

- Best and Final Offers received from Boeing and Airbus; detailed evaluation progressing
- Discussions continuing with regulators to adjust existing crew operating limits
- Challenge remains to negotiate productivity flexibility with pilots, discussions ongoing
- High-level design of cabin configuration
- Three research flights planned for 1H20; emissions will be fully offset
  - Leveraging planned delivery flights of next three 787-9s
  - Will operate non-stop New York and London to Sydney
  - Testing of new techniques to maximise passenger and crew wellbeing in partnership with Monash University and Charles Perkins Centre at Sydney University
  - Findings will generate data that can be applied across Qantas' ultra-long haul services
- Project Sunrise will only be pursued if it meets strict business case hurdles



**ON TRACK FOR FINAL DECISION BY END OF CALENDAR YEAR 2019**

# Outlook

# 1H20 Outlook

## *Domestic and international operating environment*

- Demand is mixed in the Domestic market
  - Qantas Corporate market is flat (Resources sector is strong, offsetting weakness in other sectors), Qantas growing market share
  - SME market growth moderating but Qantas market share continues to grow
  - Weakness in the price sensitive leisure market, premium leisure steady
- International capacity environment remains stable
  - Positive outlook remains for premium demand, growth moderating due to strong prior year performance
  - Strong Asian demand in price sensitive leisure market offsetting currency related weakness
- Group capacity expected to increase<sup>1</sup> by ~1% in 1H20
  - Domestic market capacity expected to be flat<sup>1</sup> to slightly down in 1H20
  - Group International capacity expected to increase<sup>1</sup> by ~1.5% in 1H20; international competitor capacity is expected to reduce<sup>1</sup> by ~1% in 1H20

1. Compared to 1H19.

# FY20 Group Outlook

- Current Group operating expectations:
  - FY20 fuel cost is expected to be ~A\$3.95b<sup>1</sup>
  - Combined impact of the sale of airport domestic terminals is expected to reduce earnings by \$100m, including \$70m non-cash
  - FY20 underlying depreciation and amortisation expense expected to be ~\$130m<sup>2</sup> higher than FY19
  - FY20 transformation benefits (cost, fuel efficiency and net revenue) expected to be ~\$400m
  - FY20 inflation on expenditure forecasted to be ~\$250m (including wage growth)
  - Gross<sup>3</sup> capital expenditure expected to be \$2.0b<sup>4</sup> for FY20
- The Group will adopt AASB 16 from 1 July 2019. Refer to Supplementary Slides numbered 19 and 20 for additional information.

Questions?

# Disclaimer & ASIC Guidance

This Presentation has been prepared by Qantas Airways Limited (ABN 16 009 661 901) (Qantas).

## Summary information

This Presentation contains summary information about Qantas and its subsidiaries (Qantas Group) and their activities current as at 22 August 2019, unless otherwise stated. The information in this Presentation does not purport to be complete. It should be read in conjunction with the Qantas Group's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange, which are available at [www.asx.com.au](http://www.asx.com.au).

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## Financial data

All dollar values are in Australian dollars (A\$) and financial data is presented within the twelve months ended 30 June 2019 unless otherwise stated.

## Future performance

Forward looking statements, opinions and estimates provided in this Presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.

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