

ALAN JOYCE
QANTAS FULL YEAR RESULT
SYDNEY, 20 AUGUST 2015

Good morning.

Qantas has announced an Underlying Profit Before Tax of \$975 million for the financial year ended 30 June 2015.

This represents a turnaround of \$1.6 billion compared with FY2014.

TRANSFORMATION

The driving force behind this turnaround is the \$2 billion Qantas Transformation program – the biggest step change for our company since it was privatised two decades ago.

To date, \$1.1 billion of cumulative transformation benefits have been realised, including the \$894 million of benefits unlocked in FY2015 alone.

This means that if it wasn't for our transformation program, Qantas would not be announcing a profit today.

We are ahead of where we thought we'd be against every target we set ourselves at the start.

Return on invested capital (ROIC) was 16 per cent, in line with the Group's target of delivering ROIC above 10 per cent through the cycle.

We have achieved our Group target of paying down more than \$1 billion in debt.

The Group's leverage metrics are now within investment-grade range, the strongest balance sheet we've had since the Global Financial Crisis in 2008.

Every segment is now making a healthy profit, with returns exceeding cost of capital, including record results for Jetstar, Qantas Loyalty and Qantas Freight. This has combined to deliver the best first half result in four years and the best second half result in the company's history.

This transformation has been all about getting our foundations right. Being smarter with our costs; faster with our decisions; more productive with our assets. And on these stronger foundations, we can build a much stronger Qantas.

The logic from the beginning was to front-end the tough decisions so the Group could reshape its operations as rapidly as possible for long-term, sustainable growth in earnings and shareholder value.

And we should remember there were some very tough decisions.

But because we made the conscious choice to move fast, we are delivering one of the biggest turnarounds in Australian corporate history. And we have more to do.

It is important to acknowledge just who has been driving this turnaround – and that is our people.

No other company in this country has people with more pride, more belief, or more commitment than those who go to work each day for Qantas.

It is these 30,000 individuals who have been responsible for implementing this program of rapid and significant change.

They have made sacrifices along the way – including management pay freezes that lasted three years and freezes of 18 months for more than 10,000 EBA employees.

That's why it was so pleasing to announce in July that we would reward that sacrifice with a \$90 million one-off bonus for those EBA employees who agree to the 18 month pay freeze.

PERFORMANCE OF KEY SEGMENTS

Turning to key points in the full year result:

Qantas International was profitable on a full-year basis for the first time since the GFC, with an underlying EBIT of \$267 million - a turnaround of \$764 million from last year's result.

The business has pursued growth opportunities through smarter use of aircraft, adding capacity to Los Angeles, Dallas, Vancouver, San Francisco, Santiago, Tokyo and Singapore.

Qantas International has also announced plans to expand partnerships with key partners American Airlines and China Eastern, both of which (if approved by regulators) will provide valuable growth opportunities.

Qantas Domestic reported underlying EBIT of \$480 million, compared with \$30 million in financial year 2014. Combined with Jetstar, the Group made over \$600 million from its domestic flying operations.

Qantas Domestic made network changes and managed capacity in line with the transitioning Australian economy. For example, capacity is being reduced in mining-intensive Western Australia and Queensland, while meeting new demand on East Coast routes, in line with the Group's dual brand strategy.

Customer satisfaction reached record levels in FY2015, which is borne out by our strong retention of corporate accounts.

The Jetstar Group reported record underlying EBIT of \$230 million, up from a loss of \$116 million in FY2014.

This was driven by strong performances in both the Australian domestic and Australian international market, with Jetstar International achieving a record profit following introduction of the B787.

Jetstar's New Zealand business was also profitable and all Jetstar-branded airlines in Asia improved their performance compared with FY2014.

Qantas has written off its minority stake in Jetstar Hong Kong, with an impact of \$21 million, following the Hong Kong regulator's decision not to approve the airline's operating license. Qantas will make no further investment in Jetstar Hong Kong.

The Jetstar Group's controllable unit costs were reduced by 2 per cent, underpinning low fares.

Qantas Freight reported another record underlying EBIT of \$114 million, compared with \$24 million in FY2014.

The business renewed Australia Post as its biggest domestic freight customer, as well as adding a new major customer in Toll Group.

Qantas Loyalty reported record underlying EBIT of \$315 million, up from \$286 million in FY2014.

It maintained record customer satisfaction, and continues to have a clear lead over competitor loyalty programs.

Qantas Frequent Flyer added 33 new partners and grew its membership to 10.8 million. At the same time, Qantas Loyalty continued to diversify, with adjacent businesses contributing around 30 per cent of overall earnings growth.

CAPITAL MANAGEMENT

So while there is much more to do, the Group has returned to its optimal capital structure.

The financial discipline we have applied will enable us to invest in the new Qantas. But it also gives us the means to reward our shareholders, who have been both patient and supportive as we implemented our transformation program.

For this reason, Qantas has today announced a proposal for a capital return of \$505 million, equalling 23 cents per share, and related share consolidation. The proposed share consolidation is designed to give shareholders an earnings per share outcome similar to a buyback.

If both the capital return and share consolidation are approved by shareholders at our Annual General Meeting in October, the capital return will be paid in early November 2015.

INVESTING IN OUR CUSTOMERS

Customers have always been at the heart of the Group's strategy. For that reason the transformation program has been accompanied by ongoing investment in aircraft, lounges, training, and technology.

For instance, the refurbishment of Qantas' A330 fleet is approaching the halfway stage, with 10 already flying across Australia and internationally.

We have new first and business class lounges in Los Angeles and will open our new business lounge in Perth this month. New Brisbane lounges will open from 2016.

Jetstar will move into a brand new terminal at Melbourne Airport later this year, which will make life easier for thousands of customers.

And we are rolling out new technology, including SMS check-in, a new system to improve handling of flight delays, and a mobile travel app.

Both Qantas and Jetstar will be re-launching their websites in 2016.

INVESTMENT IN NEW AIRCRAFT

These are obviously a very satisfying set of business outcomes by any measure, and I am pleased to be able to announce them this morning.

But Qantas is not just any business.

We know it has always been something special to Australians.

The flying kangaroo has always projected this country's image.

Every Qantas aircraft is a symbol of Australia.

And that is why I am so pleased today to announce our newest symbols - a milestone acquisition that marks our turnaround.

Today, I can announce eight new Boeing 787-9s will join the Qantas International fleet from 2017, to gradually replace five of our 747s.

Because the 787 is smaller than the jumbo, this replacement ratio gives us the flexibility of having more aircraft without significantly changing our overall carrying capacity.

The advantages that these remarkable aircraft will offer to Qantas customers are hugely exciting – including its improved cabin pressure, larger windows and technology to reduce turbulence.

However, the most significant advantage of the 787-9 – the reason we chose to wait for this particular aircraft – is its incredible efficiency. Its new technology will reduce fuel burn, cut heavy maintenance requirements and open up new destinations around the globe.

Of course, the decision to place this order is not one that has been reached lightly.

We have always been clear that buying these aircraft required a number of key hurdles to be cleared.

We said Qantas International needed to become sustainably profitable. Today it is profitable, returning its cost of capital, and still has many more transformation initiatives to deliver.

We said we needed to pay down \$1 billion in net debt – and we've done that.

And we said we needed a competitive business case, including a new enterprise agreement with our long-haul pilots. We reached that agreement last month, when it passed with more than 80 per cent support of the pilot body.

This deal delivers productivity gains of 30 per cent and new career progression opportunities. Credit is due to the pilot community for helping pave the way for these new aircraft through this commitment.

In addition to these core requirements, we have also been closely examining every aspect of what the 787 can deliver for Qantas.

We have thoroughly analysed the network economics.

We have scrutinised alternate aircraft purchase options.

And we are now satisfied that the 787-9s represents the best choice for the Qantas we are building.

History tells us that major aircraft investments are often watershed moments in defining what we can achieve.

Qantas transformed when it took delivery of some of the first Boeing 707s in 1959. It meant many propeller aircraft could be phased out. The Pacific Ocean could be crossed more easily and the U.S. and London came a lot closer.

Qantas transformed again when, in the 1970s, the newly acquired Boeing 747s made long haul air travel more affordable for millions of Australians. The 707s were phased out, and international travel became a mainstream reality.

In 2008, the A380 transformed the cabin experience with a new level of passenger comfort.

And so our airline will transform yet again when we take delivery of the first red tail Dreamliners in 2017. The new 787 era will be one of efficiency, of comfort, and of endurance.

Qantas is rapidly growing fitter, stronger, and smarter. These aircraft are a fitting emblem of that evolution.

They have been ordered with an eye to the next twenty years and beyond. They show that we are revitalised and that we are here for the long haul.

A GROUP APPROACH

These new 787s will enter what is now a well-balanced Group fleet.

From small to large – our Group model means we have the flexibility to rapidly respond to shifting market conditions, as we are doing in Australia right now.

We have a premium airline, Qantas; a low-cost carrier, Jetstar; a regional airline, QantasLink; and a charter airline, Network Aviation.

These are separate entities, but our Group structure allows us to think about them holistically. When economic conditions shift, we are well placed to shift with them.

THE NEED TO KEEP EVOLVING

It is a good feeling to be at the helm of this great company as it begins the first phase of a remarkable turnaround.

I am hugely proud of how our reinvigoration is contributing to long-term shareholder value. Yet transformation in our industry must be a constant. The key to sustainability is being able to adapt, and that means we have to maintain the momentum.

As the national carrier, Qantas has historically reflected the best of Australia. A sense of optimism and pride.

I believe the Qantas of 2015 is recapturing that spirit.

We want Australians to feel proud not just of this great airline's history, but also in where we are going.

And I believe we are advancing rapidly down that path. Thank you.