

NATIONAL CARRIER

QANTAS GROUP PUBLIC AFFAIRS JOURNAL

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A return to San Francisco and a deeper alliance with American Airlines

Last month, the Australian Competition and Consumer Commission (ACCC) granted interim authorisation for Qantas' expanded partnership with American Airlines.

The decision recognises the importance of the partnership in facilitating trade and tourism between Australia and the United States, through providing increased choice for customers, including the launch of Qantas' direct services between Sydney and San Francisco and the entry of American Airlines on the Sydney–Los Angeles route later this year.

The partnership between two national carriers has strengthened since initial ACCC authorisation in 2011 and demonstrates the importance of alliances in global aviation as vehicles for positive cooperation between airlines, resulting in improved product and service offerings for consumers. The successful launch and subsequent expansion of Qantas' services between Sydney and Dallas/Fort Worth was a direct result of the partnership – Dallas/Fort Worth, the primary hub of American Airlines, provides connections to nearly 200 destinations and is an important business and tourism centre in the US.

The partnership has also underpinned the success of Qantas' Trans-Pacific services which depend on accessing the breadth, depth and efficiency of the American Airlines network in the US, Canada and Mexico. Similarly, the success of American Airlines' new Los Angeles service will be dependent on utilising Qantas' Australian sales and distribution channels and domestic network.

Whilst the final ACCC decision is pending, the authorisation process has generated significant third-party support and recognition of the sizeable contribution that the partnership has made to trade and tourism between the US and Australia through improved air connectivity and choice for consumers.

The expanded partnership will also provide opportunities for future growth, including on Trans-Pacific routes not currently served by either airline such as New Zealand.



WELCOME

Last month we marked 20 years since Qantas transitioned from a government-run corporation to a fully privatised and listed company on the Australian Stock Exchange. The decision to privatise Qantas was part of broader reform occurring across aviation globally, and Australia was at the forefront of this change. It was a timely move which enabled Qantas to modernise and benefit from the rapid expansion of global air travel.

Aviation has changed dramatically over the last 20 years. Today, the Asia-Pacific region is the biggest market in terms of passenger numbers and digital technology has transformed how people think about, plan and book travel. The Asia-Pacific region has become the biggest market in terms of passenger numbers and digital technology has transformed how people think about, plan and book travel.

So where does the 20th anniversary find Qantas?

Qantas' product offering and customer service has revolutionised. In 1995, Qantas carried 16 million passengers per year. Today, the Qantas Group carries almost 50 million with the youngest fleet in over two decades. We continue to break records in customer satisfaction levels and in on-time performance.

Our role as the national carrier and our commitment to connecting regional communities, promoting tourism or being there to bring Australians home in times of crisis has not changed. Whilst we are more diverse, innovative and agile than in 1995, our commitment remains the same – to provide the highest standards of safety and service in bringing people together across Australia and around the world and in championing the best of Australia wherever we fly.

Please contact us at
government@qantas.com.au

"Strong performance of the trans-Pacific route has long been a bedrock of the Australian visitor economy and arrangements such as these, which underpin that performance, must be supported." – Brisbane Airport Corporation

"Since 2011 the alliance has benefited Australian consumers by allowing Qantas to offer its customers better access to destinations within the United States whilst boosting Australia's tourism industry by increasing the ability for both airlines to market and sell tickets to Australian destinations." – Department of Infrastructure and Regional Development



"This will create jobs, mean cheaper fares and more choice for New Zealanders and our international visitors, and will provide a welcome boost to regional economies... extra air links will help connect regional New Zealand with the world, making it easier to do business and for Kiwis and tourists to get around the country" – *The Rt. Hon John Key, Prime Minister of New Zealand*

"We know from experience that competitive regional airfares and regular services encourage New Zealanders to travel around the country, to visit family and friends, attend events or for short breaks ... Offering them more good value options for flights will definitely boost (this)" – *Chris Roberts, CEO TIANZ*

OPPORTUNITY TO JOIN QANTAS GOVERNMENT AND INTERNATIONAL AFFAIRS

As Senior Manager Government and Regulatory Affairs, you will be responsible for promoting and developing a policy and political framework to promote the operational interests of the Qantas Group in its ongoing relationship with government and regulatory agencies.

You will manage a range of activities related to airports, security, facilitation, CASA, Air Services Australia, the ATSB and ICAO, and maintain the relationship with the Department of Defence across ongoing policy and operational issues which have a direct impact on the Qantas Group.

Essential to this role will be a high-level understanding of Qantas Group operations including regulatory arrangements, aviation policy and legislation, relationships with relevant regulatory agencies, as well-developed analytical abilities, verbal and written communication skills, negotiating skills and the ability to prioritise effectively and produce creative solutions.

Applications can be made online via [Qantas Careers](#) page.

Jetstar announces launch of regional services in New Zealand

Qantas Group CEO Alan Joyce and Jetstar Group CEO Jayne Hrdlicka were joined by New Zealand's Prime Minister John Key in Auckland to announce Jetstar's plans to start flying to regional destinations in New Zealand from later this year.

Jetstar transformed the New Zealand market six years ago when it brought low fares and competition to the main routes and will now be doing the same for regional New Zealand. Jetstar will use a fleet of five 50-seat Bombardier Q300 turbo-prop aircraft to initially fly to at least four regional centres.

The new regional destinations, to be announced in September, will connect to the broader Qantas Group network, including both Qantas and Jetstar flying across the Tasman. Regional fares will go on sale in September with first flights taking off in early December.



Qantas to expand direct services between Australia and Japan

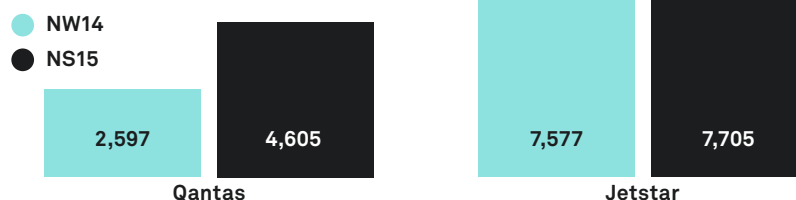
Qantas has made it easier for customers to travel between Japan and Australia with the launch of new services from Tokyo's Haneda Airport to Sydney and Tokyo's Narita Airport to Brisbane in August 2015.

Qantas' new direct, overnight service from Haneda Airport, close to downtown Tokyo, is a convenient option for business travellers heading to Australia, which is likely to continue to grow in light of the Japan-Australia Economic Partnership Agreement. It provides options for customers connecting from destinations across Japan when flying on Qantas' partner Japan Airlines.

With direct flights to Brisbane from Tokyo's Narita Airport, Qantas has made popular destinations across Queensland even more accessible and easier to explore. Customers travelling on Qantas' A330s on this route can take advantage of the new, Business Suite with a fully-flat bed, upgraded Economy and inflight entertainment services as they are progressively introduced across the fleet.

Qantas Group services from Australia to Japan

(Seats per week in each direction)



Are domestic airfares competitive?

The Qantas Group is firmly opposed to cabotage given, amongst many reasons, it is globally unprecedented. Proponents of cabotage argue that Australian carriers are uncompetitive, that airfares are too expensive and that there is inadequate capacity to meet demand. They also argue that opening up the Australian domestic market to competition from Asian low-cost carriers such as Indonesia's Lion Air or Malaysia's Air Asia on routes like Darwin–Sydney or Cairns–Brisbane is the solution.

Is this assessment based in fact or anecdote?

Airfare pricing is dynamic and driven by an interplay between supply and demand. Airlines pricing to stimulate demand or charging a premium in peak periods is an intuitive result of the market behaviours. As such, there will always be pricing anecdotes of airfares booked at the last minute or in peak travel season which are more expensive.

A balanced assessment of the market dynamics, industry and government data highlights that airfares in Australia are competitively priced, that the choice, breadth and depth of the network is bigger than ever and that there is sufficient capacity to meet demand and grow the market.

Expensive or cheap?

A recent analysis of Qantas' domestic performance found that a 70 per cent of passengers who travelled in 2014 booked Discounted Economy fares, with Business passengers representing under 5 per cent of total passengers.

The Australian Government's Bureau of Infrastructure, Transport and Regional Economics (BITRE) highlights that in real terms, Australia's best Discount Economy airfares are near an all-time low. In 2014, the index for Discounted Economy airfares was 40.6 per cent lower than in 2003. This data highlights the fact that dividends from innovation and competition are delivering lower airfares to Australian travellers. Simultaneously, the product experience, service standards and on-time performance of Qantas Group airlines continues to improve on the back of significant investments.

Are there enough seats?

Capacity is not static, it adjusts in line with demand.

The Qantas Group operates Australia's most comprehensive domestic and regional network. Qantas' route announcements in July, including the launch of Sydney–Sunshine Coast and Melbourne–Gold Coast demonstrate an agile response to market demand.

Capacity in the Australian domestic market is near an all-time high and grew by 7 per cent in the past five years. The slight contraction of 2 per cent in the last 12 months is predominantly due to changes in the mining industry, accelerated retirement of Qantas' Boeing 767 fleet and the adoption dynamic scheduling in order to better meet demand.

Is capacity constraining demand?

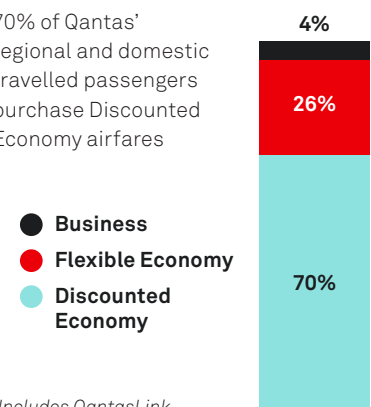
The International Air Transport Association (IATA) found that in 2014, the global average for domestic seat factors was 79.4 per cent. During this period Australia operated with 76.6 per cent, while comparable countries like the USA and India operated with seat factors of 83.7 per cent and 84.7 per cent respectively. Seat factors on Australian domestic carriers averaged 76.4 per cent for year-ending May 2015 and whilst there was a marginal increase of 0.2 per cent over the same period, it is clear that there is more than sufficient capacity to accommodate new demand.

WHAT IS CABOTAGE?

Cabotage is the right to carry domestic passengers and freight between cities within another country, with the domestic sector operated as an extension of a service that originates in an airlines' home country.

Qantas Domestic* passengers in CY2014 by fare class

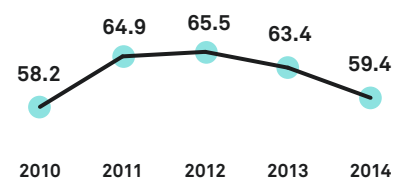
70% of Qantas' regional and domestic travelled passengers purchase Discounted Economy airfares



*Includes QantasLink

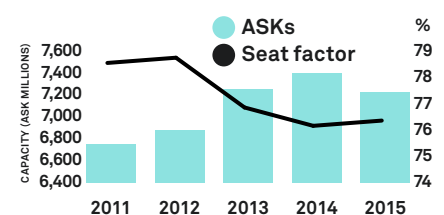
Domestic Best Discounted Economy yearly average CY2010–2014 (A\$)

Domestic Economy airfares are 40.6% lower than 2003



Source: BITRE, Domestic Air Fare Indexes Index (July 2003 = 100)

Australian Domestic Aviation market 2011–2015



Source: BITRE, Domestic and Regional Airlines – Industry Totals



Qantas Environment update

Qantas congratulates the Australian Government and the Minister for the Environment, the Hon Greg Hunt, in their efforts to secure UNESCO's recent endorsement of Australia's strong efforts to protect and manage the iconic Great Barrier Reef. The Qantas Group supports the Government's long term sustainability plan for the reef and the role of the Great Barrier Reef Foundation. Qantas Group CEO Alan Joyce has been a member of the Great Barrier Reef Foundation Chairman's Panel since 2008.

2m tonnes of carbon offset since 2007

8% of customers voluntarily offset their flight

5% reduction in carbon emissions from aviation fuel from FY12 to FY15

29.5m kilograms fuel saved in FY15

\$59m saved through removal of the Carbon tax in H1

QANTAS GROUP FACTS

| | | | |
|----------------------------|-----------|---|----------|
| Employees (March 2015) | 31,124 | Codeshare partners | 25 |
| Fleet | 297 | Passengers carried in FY14 | 48.7m |
| Fleet age | 7.2 years | Total spend on goods and services in FY14 | \$10.26b |
| International destinations | 27 | Suppliers | 13,877 |
| Domestic destinations | 65 | Qantas Frequent Flyer members | 10.1m |

QANTAS GROUP INTERNATIONAL NETWORK



*Seasonal only.
*From December 2015.
*From September 2015.