Alan Joyce
Qantas Group Half-Year Results
Sydney, 26 February 2015

Today I am pleased to report the results so far of the fundamental business transformation that is underway at Qantas.

Qantas today reported an underlying profit before tax of $367 million for the six months to December 2014, and a statutory profit after tax of $206 million.

This is a $619 million improvement over the same period last year at the underlying level.

The decisive factor in this result – our best half-year performance for four years - is our transformation program, which delivered $374 million in benefits in the first half.

Without the impact of transformation, Qantas would not be profitable today.

The other positive drivers in the results were:
- $208 million from reduced depreciation;
- $162 million from increased revenue per available seat kilometre;
- $59 million from the removal of the carbon tax; and
- $33 million from lower fuel prices.

This result confirms that we are executing the right plan with discipline and speed.

We are meeting, or exceeding, all our targets as we build a strong, sustainable future for Qantas and grow long-term shareholder value.

Since we announced our transformation program in December 2013 we have:
- Lowered our cost base;
- Grown free cash flow and revenue;
- Improved fleet, product and service;
- Strengthened customer satisfaction;
- Reduced debt and strengthened the balance sheet;
- Improved our return on invested capital;
- Achieved our youngest fleet age in more than 20 years; and
- Simplified the fleet from eleven to nine aircraft types, on the way down to seven.

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

We now have a strong foundation for sustainable growth.

I want to express my deep appreciation to the people of Qantas who have worked so hard to make this transformation succeed.

We have come together to protect this great Australian company and give it a sustainable future.

I also want to thank our customers.

We are delighted to repay their loyalty with even better Qantas experiences today, and more rewards to come in the future.

All parts of our business have contributed to this good result.

Qantas International was profitable for the first time since the GFC with underlying earnings of $59 million, a turnaround of $321 million over the same period last year.

Over the period it cut unit costs by almost 4 per cent while revenue increased by nearly 5 per cent.

The partnership with Emirates is now more than two years old and it continues to deliver.

We've seen exceptional customer satisfaction with our Dubai hub and increased range of destinations, which in turn has given us a significant competitive advantage.

With smarter fleet utilisation, Qantas has been able to offer new or additional capacity, including seasonal flights to Vancouver and additional services to LA, Santiago and Japan.

Our new A330 product and lounges in Singapore, Hong Kong, and Los Angeles have been met with acclaim.

In 2011 we set ourselves the task of getting Qantas International back into profit.

We expect to achieve that goal this year, on target.

Our domestic airline businesses performed well over the half – with total domestic profitability of just under $300 million.

The Qantas Group strengthened its position substantially in the domestic market.

Qantas Domestic reported an improvement of $170 million compared with the same period last year, with underlying earnings of $227 million.

With its unrivalled network, frequencies, lounges, and Loyalty program, Qantas Domestic retained an overwhelming 80 per cent revenue share of the Australian corporate market.

Looking at large corporate accounts, we recorded 113 renewals, 42 new accounts - with 16 of those won back from the competition - and just four lost.

Customer satisfaction with Qantas Domestic was at record levels in the December quarter.

The Jetstar Group continues to build scale and brand presence, flying to 66 destinations across 16 countries in the Asia-Pacific.

It reported underlying earnings of $81 million, an improvement of $97 million on the same period last year.

Domestically, Jetstar achieved earnings of $63 million, driven by improved yields and loads and a continued focus on managing costs and capacity

Strong Jetstar International earnings of $51 million reflected the benefits of a network restructure and the roll-out of the Boeing 787 Dreamliner.

Qantas' investments in the Jetstar-branded airlines in Asia will generate long-term returns in the world's most important emerging markets.

These airlines improved their performance in the first half, relative to the prior period, with a $13 million reduction in Qantas' share of losses.

Jetstar Asia in Singapore was profitable in the December quarter.

Both Qantas and Jetstar have won a string of awards and recognition for product, service and safety.

Qantas Loyalty continued its outstanding performance.

With 10 per cent earnings growth, Loyalty achieved underlying earnings of $160 million.

It attracted more than 400,000 new members in the half, to reach a new high of 10.5 million.

Continued innovation and investment in programs like the online mall, Aquire, and Qantas Cash card, have helped grow, diversify and maximise the customer base. They have brought in a younger demographic, with 60 per cent of new members aged 36 or younger.

Qantas Freight delivered underlying earnings of $54 million, a strong improvement which was driven by significant recovery in the international freight market - outweighing a challenging domestic market.

Overall, this result demonstrates the continuing strength in our portfolio of integrated Qantas Group businesses.

The Group's financial position improved significantly with more than a billion dollars in cash generated from operations for the half, up nearly 45% on the prior year.

The outlook for the Group's operating environment in the second half of this financial year has improved after a turbulent period.

Demand is mixed in the domestic market and steady in the international market.

Importantly, market capacity – both domestic and international – is moderating and aligning more closely to demand.

Yield and load factors have stabilised and are in the early stages of recovery.

Lower fuel and Australian dollar values have, overall, improved our competitive position.

While fuel prices produced a modest benefit in the first half, we expect fuel costs for the full year to be no more than $4 billion at current prices – which will be a significant boost to the bottom line in the second half.

And we expect <u>all operating segments to be profitable</u> in the full year.

Today's results are good and we take pride in our progress so far.

Transformation has been central to our recovery and we will drive it forward with all our energy.

It is about making ourselves strong and resilient through the ups and downs of economic cycles.

Over the next two years we will further strengthen the Qantas position.

We will be a company able to withstand tough times, capitalise on the good times, and deliver sustainable and attractive long term returns to our shareholders.

We will be a stronger integrated Group portfolio where each business complements the others, generating sustainable returns through the cycle.

We will always be the airline that represents the best of the Australian way of life.

And today we can see a bright future for this great Australian company.

Thank you.