
# 2006/07 Full Year Results Investor Presentation

August 16 2007

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Brands with Spirit

## Record Result

- Moved on successfully following bid
- Profit before tax + 53.8% to $1,032 million
- Group returning above Cost of Capital

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# Key Drivers

- Net passenger revenue + 13.4%
- Strong performance from both flying brands
- Improved yield and load on 3.4% capacity growth
- Underlying unit cost improvement of 1.9%
- Net cash position +16% to more than $3.3 billion

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# Strategic Priorities

- Capital Management
- Continued profitable growth of airline businesses
- Restructure ownership of aircraft assets
- Development and separation of portfolio businesses
- Improve efficiency across all areas of the business

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# Capital Management

- Stronger cash position due to better operating environment
- Continue to target an investment grade credit rating
- Three capital management strategies
  - Dividend policy
  - On-market share buy-back
  - Portfolio restructuring

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# Dividend Policy

- Full year dividend + 36% to 30 cents per share
- 83% payout ratio above average for ASX Industrials
- Targeting continued attractive payout ratios and dividend growth

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## On-Market Buy-Back

- Will return over $1 billion to shareholders
- Efficient means of returning capital
- Improve return on equity and EPS for shareholders
- Improve overall cost of capital for Qantas

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## Investment Grade Credit Rating

- Access to capital markets
- Low cost unsecured credit
- Flexibility to withstand shocks
- Fund growth

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# Qantas Group Airlines

- Two brand strategy highly successful
- Considerable benefits to both Qantas and Jetstar
- Both now heavily dependent on each other
- Strategy enables better response to competitive challenges
- Group has 67% of domestic market and highly competitive positions on major international routes

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# Competitive Challenges

- Tiger Airways
- Air Asia X
- Virgin Blue ‘new world’ strategy and trans-Pacific entry
- Growth of Middle Eastern carriers

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# Qantas

- Major investment in premium brand, product and service
- Over 5,000 domestic, regional and international services a week
- Growth to continue over next five years
- Continuing to improve cost and efficiency

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# Qantas - Domestic

- Market share on key routes >60%
- Yield premium maintained at ~35%
- Customer satisfaction high
- Vast majority of domestic routes performing

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# Qantas - Regionals

- Demand very strong
- Nearly 2,000 services a week and growing capacity
- Most efficient aircraft for the markets
- Important feed to domestic and international network



# Qantas - International

- Demand robust from nearly all points of sale (except Japan)
- Strong structural position on key routes and building new routes
- Majority of routes now profitable
- Benefiting from product investment - premium cabins especially strong
- Ranked in top 5 of global airlines in 2007 Skytrax

# Jetstar

- Only low cost carrier profitable since start-up
- 1,300 domestic, international and intra-Asian flights a week
- Growth to continue - 10 times launch size by 2010/11
- Enables Group to cover all flying segments profitably
- World's Best Low Cost Airline - Skytrax

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# Jetstar - Domestic

- Fourfold increase in A320 profitability
- Domestic market share >15%
- 9 x new A320s will drive 40% capacity growth
- Cost leadership - ~15% lower than Virgin Blue
- Product enhancements

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# Jetstar - International

- Eight destinations by September 2007
- Targeting leisure/unprofitable Qantas operations
- Two-class product proving successful
- Operating profit in first year

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# Asian Investments

- Jetstar Asia
- Pacific Airlines
- Pan-Asian opportunity

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## Fleet

- Major fleet renewal program to support growth of flying businesses
- Investment since 1999/2000 in new, fuel efficient aircraft
- Major orders for B787 and A380 aircraft at good prices
- Largest B787 order and second largest A380 order

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## Cost and Efficiencies

- Cost pressures continue
- Sustainable Future Program on track to achieve $3 billion benefits by June 2008
- Considering extension of Program
- Segmentation will assist market-based benchmarking

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# Unlocking Value

- Complete segmentation of portfolio businesses over next 18-24 months
- Separate teams working through options for each business
- Overriding principles are:
  - Transparency of each business
  - Retention of effective control of key businesses
  - Preservation of Group and network benefits

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# Fleet Ownership

- Infrastructure assets viewed by capital markets as a different class of assets
- They have a lower cost of capital than airlines
- Qantas has 120 owned aircraft and 104 aircraft on order which could be included

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## Fleet Ownership

- Alternatives include:
  - Sale and leasebacks
  - Refinancing existing fleet
  - Joint venture with existing lessor
  - IPO/demerger of a Qantas vehicle

- Decision likely in early 2008



## Fleet Ownership

- Operational flexibility

- Manage residual value risk

- Long-term efficient funding source

- Potential strategic partnership

## Qantas Frequent Flyer Program

- Work on transforming QFFP well underway
- New structure in place with segment reporting in 2007/08
- Also launching significant Program enhancements from second half 2007/08
- Also considering partnership/ownership alternatives



## Qantas Frequent Flyer Program

- Any seat availability on Qantas and Jetstar
- Expanded Frequent Flyer Store reward options
- Wider travel reward options
- Expanded partner base
- Launch of Jetstar loyalty program

# IFRIC 13

- Early adopt IFRIC 13 - Customer Loyalty Programs from 1 July 2007
- Fundamental change to ‘earned point’ accounting
- Move from incremental cost provisioning to ‘fair value’
- $370 million (tax effected) reduction in opening retained earnings at 1 July 2007



# Freight Enterprises

- Combined freight interests contributed around $100m PBT
  - Underlying increase of 4.5% excluding legal fees
- Freight revenue increased, underpinned by stronger yields
- Strong performance from Startrack Express and Australian air Express
- Segment reporting and further detailed disclosure from 2007/08

# Freight Enterprises

- Separation and transparency of assets
  - Air Cargo
  - Australia
  - Asia
- Organic growth and acquisitions/partnerships to build scale
- Acquisitions must satisfy two criteria:
  - Strategic fit
  - Right price

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# Qantas Holidays

- Established new inbound business in Australia
- Strengthening on-line capabilities
- Driving margin improvement
- Examining options for further growth

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# Outlook

- The first six weeks of 2007/08 have been very strong for all our flying businesses and forward bookings are equally buoyant through to the end of the calendar year.  As a result, and subject to no major deterioration in market conditions, we are expecting another good profit in 2007/08, which we are currently expecting to be around 30% higher than the 2006/07 profit before tax result.

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