Alan Joyce
Qantas Group FY13 Results Announcement
Sydney, 29 August 2013

Good morning and welcome to the Qantas Group's full year results announcement.

For the financial year ended 30 June 2013, the Qantas Group reported Underlying Profit Before Tax of $192 million.

That compares to an underlying profit of $95 million last financial year.

Statutory Profit After Tax was $6 million.

That compares to a statutory loss of $244 million last financial year.

This result shows good progress in the Group's strategy against a challenging backdrop – with high fuel costs and intense competition.

Three of our four major business segments were profitable – Qantas Domestic, Jetstar and Qantas Loyalty.

And we halved Qantas International's losses compared with last year.

As a Group, we are in a strong position.

We have Australia's best airlines and best loyalty business.

In FY13 we maintained our profit-maximising 65 per cent share of the domestic market through Qantas Domestic and Jetstar, with combined domestic earnings of more than $450 million.

We are making Qantas International best for global travellers as we bed down our partnership with Emirates.

We are continuing Jetstar's strategic expansion across Asia.

And Qantas Loyalty remains a major driver of earnings and customer satisfaction.

On top of this, we are making our business even stronger.

We have a program called Qantas Transformation, which includes major strategic initiatives to improve efficiency and reduce costs.

These include the ongoing restructure of our international network; reconfiguring aircraft; and consolidating operations.

In FY13, we achieved $171 million of benefits from these strategic initiatives.

And we aim to reach $300 million in cumulative benefits in FY14.

As well as strategic initiatives, we achieved a further $257 million in benefits from ongoing cost management – helping to offset annual inflation.

Overall, we reduced the Group's comparable unit costs by 5 per cent during the year.

This was the best annual cost reduction we have ever seen at Qantas.

We have now reduced unit costs by a total of 19 per cent since FY09 – a remarkable achievement given the tough conditions we have faced and the improvements we've made to our product.

During the year, a number of factors had a positive or negative impact on earnings in FY13.

Negative impacts included moving our hub for European flights to Dubai. The carbon tax. Pilot back pay.

And additional start-up losses from Jetstar's new ventures in Asia.

Positive impacts included last year's Boeing settlement to compensate for delays in the Dreamliner program.

And a $134 million change in accounting estimates for recognising passenger revenue when tickets have passed their scheduled travel date.

Netted out, this had a positive impact to earnings of $40 million for the year.

Such positives and negatives are part of running an airline.

Our priority is to manage these factors while driving improvements in underlying performance.

And that is exactly what we did in FY13.

Group Financial Position

We have also strengthened the Group's financial position.

For the year, we achieved positive net free cash flow of $372 million.

Gross debt was reduced by $1 billion.

And we have liquidity of $3.4 billion – made up of $2.8 billion in cash and $630 million in undrawn debt facilities.

We are adopting a prudent approach to capital expenditure, with $500 million in further reductions announced today.

We have been able to reduce capex significantly because of investments we have already made in fleet.

Over the past four years, we have taken delivery of 116 new aircraft – more than a third of our fleet.

As a result, our average passenger aircraft age is now 7.9 years – its lowest level since privatisation.

We continue to generate cash through non-core asset sales.

During FY13 we sold our stake in the StarTrack road freight business.

And we sold two catering centres to Gate Gourmet.

Today I'm pleased to announce that we have reached an agreement to sell Qantas Defence Services to Northrop Grumman – for a price of $80 million for the business and other related assets.

Northrop Grumman will acquire 100 per cent of QDS – which will be renamed.

And they expect to offer employment to the 320 employees of QDS following completion of the sale.

I can also confirm today that we will continue the $100 million share buyback program that we commenced in December 2012 – helping return the benefits of prudent financial management to shareholders.

Let me now move on to the Group's individual business segments.

Qantas Domestic

Qantas Domestic reported underlying EBIT of $365 million.

That is down 21 per cent on last year.

But Qantas Domestic remains the clear domestic profit leader.

And it has retained its 84 per cent of the vital corporate travel market.

We are seeing a trend of corporate customers come back to us after trying the alternative. In FY13 we won back eight accounts, renewed 111, and secured 84 new accounts. We lost just seven.

Qantas Domestic is achieving record customer satisfaction.

But we are not resting on our laurels.

We want to lift our service to an even higher level.

We have refreshed our 767 fleet, increased lounge space and expanded our charter business.

Around 14,000 of our people have been through advanced customer service training, with a further 3,000 to follow in FY14.

And we will continue to invest for our customers.

Today we're revealing the fantastic new cabins and seats that will feature on our A330 fleet from late 2014 – both domestic and international – including lie-flat beds in business.

I believe these A330s will offer the best domestic flying experience anywhere in the world.

Our domestic customers also value our superior record of on-time performance.

In FY13 we beat the competition in 10 out of 12 months – our fourth consecutive annual win.

And we have won seven out of seven months so far this year.

The domestic market remains tough – but we are ahead on every measure.

Qantas International

Qantas International's result was an underlying EBIT loss of $246 million, meaning we have nearly halved its losses compared with last year.

We are two years into our five-year turnaround plan for Qantas International – and we are on track towards our target of a return to profit in FY15.

We have restructured Qantas International's network around a series of global gateways.

The Emirates partnership is the latest and most important element of this strategy.

It is a great deal for customers.

It gives us a clear network advantage over our competitors to London and Europe.
And it is performing strongly, in line with our expectations.
We saw a surge in bookings when the partnership went on sale, reflecting latent demand.

Since then bookings have stabilised and continue to be very strong.

Codeshare bookings by Qantas customers on Emirates' network are running at about twice the level of our previous network to Europe – which included BA, Cathay, Air France and Iberia.

Bookings by Emirates customers on the Qantas Domestic network are running at about three times the level of our previous network.

And frequent flyer redemptions on partner airlines were up 50 per cent in the last quarter of FY13, driven by Emirates.

Customer satisfaction with the Dubai route has been very strong.

So far, almost half a million Qantas customers have travelled through Dubai.

There is still a lot of work to do bedding down the partnership in FY14.

But by FY15 we expect to see the full commercial benefits flow.

Partnering with Emirates has enabled us to strengthen our network across the Tasman and in Asia.

In fact, the Qantas Group now has its biggest ever presence in Asia.

With Qantas International and its partners, we offer 130 flights per week from Australia to 11 destinations across the region.

But this is a huge, complex region, and success in Asia requires a long term commitment – with the right approach for each market.

There is no ‘one size fits all’ solution.

Our strategy is to provide the best possible product and service on routes to major Asian hubs – and to extend our network through the right partners.

We are investing in our Asian lounges and the aircraft we fly to Asia.

Our upgraded A330-300s, with the interiors you see today, will operate on Asian routes.

We are also expanding partnerships – such as with China Eastern, one of the world’s biggest airlines.

When you put all this together, Qantas International is set to become more competitive than ever before in Asia.

But I repeat – this is a long term strategy and there will be no overnight payoff.

We are also continuing to reduce Qantas International’s costs – by an exceptional 5 per cent in FY13, on a capacity reduction of 6 per cent.

Qantas International made a positive contribution to the Group’s free cash flow.

However, we cannot be complacent.

The market is very tough.

And we expect the robust response to the Emirates partnership to continue through FY14.

We remain squarely focused on delivering the Qantas International turnaround plan to meet our targets for a strong, sustainable business.

Jetstar

Jetstar reported underlying EBIT of $138 million, down 32 per cent – reflecting tough Australian market conditions and start-up losses in Jetstar Japan and Hong Kong.

During the year Jetstar reached 100 million passengers and 100 aircraft.

It was recently voted the second best low cost carrier in the world.

It continues to deliver earnings growth for the Qantas Group.

And we continue to build Jetstar's presence in Asia.

Just over a year ago we launched Jetstar Japan.

Since then it has carried 2 million passengers and is the largest low cost carrier in the Japanese domestic market.

Japan's LCC growth potential is huge.

The Japanese aviation market is six times the size of the Australian market – yet low cost carriers account for only around 5 per cent of airline capacity.

We also expect strong demand growth for low cost air travel in Vietnam and Hong Kong.

Jetstar Hong Kong took on a new shareholder in FY13 and continues to move through the regulatory approval process.

Last week it reached an important milestone, with formal gazettal by Hong Kong's Air Transport Licensing Authority.

Jetstar Hong Kong hopes to receive final regulatory approval by the end of 2013.

Qantas Loyalty

Qantas Loyalty reported another record result, with underlying EBIT of $260 million, up 13 per cent.

Membership has reached 9.4 million people – with an average of 2,000 new members every day.

We beat our membership target in FY13.

And we are targeting 10 million members in FY14.

July billings were up 11 per cent on the prior year, with strong growth trends continuing into August.

We continue to broaden the program, through new partners such as Emirates and new innovations such as the Qantas Cash membership card, launched yesterday. Around 500,000 people registered for the card in advance, which is a great endorsement of the product.

Qantas Frequent Flyer now has hundreds of program partners, including Woolworths, David Jones, Optus and all the major Australian banks.

This is a business that other airlines would love to have - and it will remain at the core of the Qantas Group's strategy.

Looking Forward

Looking to the rest of FY14, we expect that trading conditions will remain challenging – despite a reduced level of capacity growth in the Australian domestic market.

We have seen the Australian dollar record its second largest quarterly fall since the float.

Over the long term, we view the lower dollar as a positive.

It encourages inbound tourism.

And it reduces the cost deficit between Qantas and our competitors.

But in the short term a lower dollar is a challenge, resulting in higher fuel costs – when jet fuel is already a major headwind.

At current market rates we expect underlying fuel costs to be $160 million higher in the first half than in the prior period.

The global outlook is mixed.

The US economy is improving and there are signs of recovery in Europe as well.

At the same time, there is uncertainty over how fast and how sustainable the recovery will be.

In this volatile market, we are focused on the elements we can control.

We are strengthening our domestic business and holding our market share.

The turnaround of Qantas International is on track as we grow its network and reduce its costs.

We continue to build the Jetstar brand in Asia, positioning it for success across the region.

And we are broadening Qantas Loyalty for our frequent flyers.

As we move forward, we will continue to secure the Group's future through prudent management of costs, capex and debt.

And we will continue to deliver the Qantas Transformation program, making our business more productive and efficient.

There are many challenges ahead, but we have an outstanding aviation business – and we have a clear strategy to build an even stronger Qantas Group.

Thank you for your time.

We're happy to take questions.