CANBERRA AIRPORT

2018 PRODUCTIVITY COMMISSION INQUIRY INTO THE ECONOMIC REGULATION OF AIRPORTS

RESPONSE TO AIRLINE SUBMISSIONS

APRIL 2019

CANBERRA AIRPORT

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1. Introduction

Canberra Airport would like to specifically respond to submissions to the Productivity Commission's (PC) Draft Report by Airlines for Australia and New Zealand (A4ANZ) and Qantas. Since this Inquiry commenced, Canberra Airport has worked enormously hard on both its relationship with Qantas and in resolving a significant number of commercial disputes with Qantas. We have refrained from making any negative public comments of Qantas during this inquiry and we are pleased to advise that we have resolved all commercial matters. It has been a productive and positive engagement, and our relationship is strong and mutually respectful.

However, in that context, we are deeply disappointed, although perhaps not entirely surprised, by some of the comments and allegations made by Qantas Government Relations and A4ANZ (the highly-paid lobbyists for Qantas and others) and feel it important that we respond to these matters. This is a submission we would have preferred not to write but the inaccurate claims need to be addressed and responded to with the facts.

We are also disappointed with the tone and the behaviour of A4ANZ and Qantas in relation to the prosecution of their views. It is unfortunate that they are unable to treat the Commission and other participants involved in this inquiry with an appropriate level of respect, and that they seem to have little regard to the independent and professional manner in which this inquiry has been undertaken.

Through both the tone and quality of evidence presented by Qantas and A4ANZ, it is clear that their focus in this process is not to give all evidence a full and clear airing, but to create a new game by trying to change both the rules and the umpire. We have no doubt that their efforts will not stop at berating members of the Commission but will end in a full canvass of Parliament House in order to air their false claims in the hopes for legislation that will only benefit their bottom line, not passengers. A4ANZ is not so much airlines for Australia and New Zealand, but rather airlines for their own self-interest.

It is worth reflecting on how A4ANZ Chairman, Graeme Samuel launched the A4ANZ crusade against airports – with a complete falsehood. Appearing on Radio National on 5 August 2017, Samuel introduced the new A4ANZ lobby group by slamming Sydney Airport for abusing its monopoly power by gouging passengers on the train to Sydney Airport – he said, "built into your train fare if you stop at the domestic or international terminals is a big slug for a charge payable to the airports, on top of the normal fare." Sydney Airport has no involvement whatsoever with the train fares to Sydney Airport and gets no revenue nor charges any fee to the train or its passengers, a fact that would be very well known to Samuel, former Chairman of the ACCC. So, this statement by Samuel was completely factually incorrect and it was deeply unfair, and as the very first prepared statement, it set the standard for the way in which A4ANZ have advanced their arguments.

With such an ominous and inauspicious start, Samuel has followed through with his inaccurate commentary, and overtly aggressive behaviour. He is no longer a credible participant in this inquiry process, and we encourage the Commission to be very cautious in relying on any comments made by A4ANZ.

Aside from this submission, we do not intend to respond publicly to the unfair criticisms and factual inaccuracies, and in some cases dishonest presentation of information that some of the airline participants and lobbyists have levelled against us. We prefer to let the merits of our submissions stand for themselves. They clearly demonstrate that:

- Canberra Airport does not have sufficient market power to warrant an increased level of monitoring;
- Qantas has enormous power in the domestic airline market and is exercising this market power aggressively in Canberra to the detriment of the travelling public, especially leisure travellers;
- The major airlines operating at Canberra Airport, and Qantas in particular, have significant countervailing market power and actively exercise this market power aggressively in Canberra and at other airports (including not meeting contractual payment obligations, withholding payments for extended periods, and choosing only to service one segment of our passenger market (i.e. business and not leisure));
- Canberra Airport has not abused any residual market power that we possess, and certainly do not warrant being subject to increased regulation; and
- Canberra Airport has long-term agreements in place with all airlines operating at Canberra Airport – commercial agreements that airlines entered into freely and without coercion.

Qantas Government Relations is effectively lobbying to reduce prices to which Qantas agreed and are contractually bound and to unpick commercial agreements they willingly entered into and which have underpinned significant investment by airports. This type of conduct is completely improper.

The facts presented by the airlines, prior to the release of the Draft Report, and the economic merits of their arguments do not justify any regulatory action. We again endorse the findings of the PC in the Draft Report. Further, the airlines have not presented any new facts or information which should influence the conclusions reached in the Draft Report.

Protesting more aggressively and loudly does not improve the merits of the airlines' arguments. In fact, this process has highlighted the sort of behaviour that Qantas is prepared to pursue in order to achieve the outcome they want as a dominant corporation used to getting its way. It also has publicly revealed that A4ANZ and airline claims and assertions cannot be relied upon because so many of their arguments are inaccurate.

We support the continuation of the current light-handed regulatory regime, as recommended by several successive independent PC Inquiries including the current Draft Report. We certainly do not support the introduction of a Negotiate Arbitrate Regulatory Regime as promoted by the airlines and their highly-paid lobbyist.

In closing, Canberra Airport would again note that this is a submission that we would have preferred not to make. However, the inaccurate and inflammatory claims of A4ANZ and Qantas Government Relations are not only deeply hurtful and personal for a family company that prides itself on integrity and customer service, but they are also damaging to the reputation of the Canberra Airport. As such, we have no choice but to address these matters directly and in a comprehensive and open basis to set the record straight for this PC Inquiry and any future inquiries or examinations of airport/airline relationships and conduct. Accordingly, these remarks should be seen and used only in that context – they should not characterise the broader relationship that Canberra Airport has with airlines, including Qantas. We reaffirm our mutual respect and the collaborative relationship we have with the Qantas operational team at all levels and after a challenging 12-18-month period, with their commercial team as well. We would be pleased if once this PC Inquiry was completed, the Qantas Government Relations team took some time to better understand the positive relationship Canberra Airport shares with their Qantas colleagues.

The reality is that the partnership between Qantas and Canberra Airport has been one of the best collaborations between airports and airlines for almost all of the twenty-one years since our family purchased the leasehold interest of the airport from the Australian Government. It has been one built on deep trust and respect and high levels of customer focus and service. Canberra Airport looks forward to continuing such a relationship.

2. Qantas Group Submission 48 (10/9/2018) and Submission DR115 (25/3/2019)

2.1 The Unauthorised Diversion

The Qantas submission claims that:
"In March 2017, Qantas Group was forced to pay a non-standard $18,000 diversion fee (more than 20 times that at Sydney Airport) following an unexpected landing due to bad weather. Canberra Airport parked a ground vehicle behind the aircraft and refused to allow the aircraft to leave until payment was made by credit card."

This Qantas claim relates to an international flight diverted to Canberra Airport on 30 March 2017.

The facts of this matter:

- Canberra Airport has limited diversion aircraft parking positions and manages this limited capacity through Diversion Agreements with international airlines to allocate the scarce capacity in the event of diversions. Airlines must have a diversion agreement to divert to Canberra to avoid the risk of too many planes trying to land and park on limited aircraft parking aprons. Qantas did not have an international diversion agreement, having let it lapse after 2014, after six years of being part of the system. Qantas had previously committed to only divert to Canberra Airport in an emergency (not a weather closure event).
- At the date of the diversion flight, Qantas had refused to pay the diversion charges as invoiced for their 6 previous unauthorised international diversion flights to Canberra:

Date	Registration	Aircraft Type	Origin
30 March 2015	VH-QPF	A330	Shanghai
5 June 2016	VH-OEH	747-400	Hong Kong
5 December 2016	ZK-ZQE	737-800	Queenstown
17 February 2017	VH-OEG	747-400	Johannesberg
17 February 2017	VH-XZA	737-838	Auckland
17 February 2017	ZK-ZQB	737-800	Queenstown
30 March 2017	ZK-ZQE	737-800	Auckland

- In relation to the unpaid diversion flights that occurred on 17 February 2017 (exactly five weeks prior), Canberra Airport had a significant safety issue. With the closure of Sydney Airport due to a weather event, we had received two Qantas 747 international diversions (one of these 747 diversions was operated by Atlas Air on behalf of Qantas and so is not listed above), two Qantas 737 international diversions and one Virgin 737 international diversion, all without notice. We also had a number of domestic diversions at the same time. The same afternoon, there were severe bushfires to the east of Queanbeyan, and approximately half of our diversion aprons were quarantined for firefighting aircraft to refill and fight the fires. Our airport was literally full when we discovered that a third Qantas 747 diversion was inbound to Canberra Airport. With the assistance of the CEO of Qantas Domestic and through him, Qantas Operations, we were able to get the third 747 urgently re-directed to another airport, narrowly averting full closure of Canberra Airport.

- Closure of Canberra Airport is a material event under many of our governing documents, and a major failure for an airport. Closure would have been disastrous given the firefighting flight operations that were underway at Canberra Airport at the time.

- As a result of the significant concerns we raised, we received a commitment from Andrew David, CEO of Qantas Domestic, that Qantas would no longer divert international flights to Canberra Airport without an agreement being in place. Qantas also committed to pay the outstanding diversion invoices immediately. This payment was not received.

- On 30 March 2017, the subject diversion flight occurred. The facts relating to this diversion flight are as follows:

  a) Qantas did not pay Canberra Airport $18,000 on a credit card before the aircraft was allowed to depart. That allegation is completely false, and we presume it has not been supported with any evidence provided by Qantas.

  b) Qantas was not authorised to land an international diverting aircraft; Qantas knew it had no such right and that it had no operational or commercial agreement with Canberra Airport. Qantas had undertaken not to divert aircraft and to pay the charges for the 17 February 2017 diversions (but failed to do so).

  c) Further, the Qantas diversion was not an emergency nor operational necessity, rather it was a commercial decision to land in Canberra rather than Melbourne. Note Qantas never responded to this question as to emergency or operational criticality despite the question being asked.

  d) While the Canberra Airport vehicle was parked at the aircraft, the aircraft was promptly and efficiently refuelled with Canberra Airport support and assistance and waited for a slot clearance at Sydney Airport once that airport re-opened.

  e) The Canberra Airport vehicle was in communication with the pilot of the diverted aircraft and Qantas ground staff. At no time was there a safety issue, and this statement is verified by a subsequent CASA investigation of the matter which confirmed the same.

  f) The Qantas aircraft was delayed by an estimated 8 minutes as a result of a Canberra Airport vehicle parking at the stairs to the aircraft.

  g) The diverted aircraft departed without making any payment and made its allocated slot time at Sydney Airport, so ultimately there was no delay as a result of what happened at Canberra Airport.

  h) The dispute in relation to this diversion was effectively resolved between the parties on 4 April 2017 – a mere four days after the dispute. Indeed, the Qantas CEO warmly suggested catching up for dinner in two subsequent pieces of correspondence to Canberra Airport's Chairman and CEO.

  i) Further, a formal International Diversion Slot Agreement was agreed with Qantas within six weeks and Qantas now routinely divert a maximum of 1-2 international aircraft during bad weather events in Sydney.

  j) The invoice, when it was eventually paid, in relation to the subject diversion flight was for $5,000 (not $18,000 as claimed by Qantas).

k) At no stage did Canberra Airport publicly release documents about this matter as both Qantas and Canberra Airport are subject to the same contractual confidentiality obligations in this regard.

l) In May 2018, more than thirteen months later, Qantas aired this matter publicly, and further, released confidential information to the public in relation to this matter. Qantas took this approach as a public attack on Canberra Airport, in direct response to significant public coverage of their cancellation rate on the Canberra-Sydney route (note related media articles in Attachment A) – a completely unrelated situation. We can only presume that Qantas was also publicly positioning for the PC Inquiry about to commence, and trying to get a public criticism of an airport's behaviour "on the record".

We have included our correspondence to Qantas in relation to this matter in Attachment B. We have not included the correspondence that we received from Qantas – we believe that the provision of this correspondence is a matter for Qantas. Certainly, there is nothing in the Qantas correspondence which changes, disputes, or otherwise conflicts with the facts as presented by Canberra Airport above.

Further, the continued inaccurate and emotive public criticism by Qantas of Canberra Airport in relation to this matter is another demonstration of the way Qantas is prepared to distort the facts and the way they were prepared to behave when challenged publicly about their poor cancellation rates.

We would be pleased to provide whatever further information the Commission requires to verify our comments above.

Fundamentally this was not an exercise of market power by Canberra Airport and certainly not an inappropriate nor improper one. We expect that the PC now has sufficient evidence to form this view on this matter. If anything, it demonstrates the attitude of Qantas and the use and exercise of their own market power in continuing to operate and use facilities without agreement and not paying at all.

2.2 Qantas Claims About Market Power

Qantas state that their market share is now lower than in 2006 when the PC found that Qantas had countervailing market power at 75% market share (now 58%). Qantas also claims that, due to the high proportion of business travellers in Canberra's market segmentation, the modal substitution of road between Canberra and Sydney is not a real substitute and therefore does not reduce Canberra Airport's market power. Qantas argues that Canberra Airport, therefore, does have significant market power.

Canberra Airport has responded comprehensively to the question of the market power of Canberra Airport in our submission dated 25 March 2019 which already directly responds to these comments from Qantas.

In addition to our previous submission, while we confirm Qantas has 58% domestic passenger market share at Canberra Airport in total, they have a 68% share of the Sydney-Canberra passenger market.

2.3 Fuel Throughput Levy – Qantas Incorrectly Claims That Canberra Airport is Charging a Fuel Throughput Levy

Qantas states in its submission to the PC (page 36) that:
"*Other airports charging a FTL include Alice Springs, Broome, Archerfield, Tennant Creek and Canberra and we understand that there are other airports where the charging of a FTL has been flagged. With respect to Canberra Airport, the fee consists of an infrastructure charge and a FTL with no transparency on the split between the two charges.*"

This statement is incorrect and should be disregarded. Canberra Airport does not charge any fuel throughput levies. In Canberra, Southern Aviation Services Pty Limited (SAS) owns the fuel infrastructure located at Canberra Airport and built new common use infrastructure so as to facilitate competition amongst fuel suppliers and thus reduce costs to airlines. Canberra Airport leases a site to SAS, but SAS is not a subsidiary of Canberra Airport. (However, SAS is part of our broader corporate group). SAS licenses the use of the fuel infrastructure to fuel companies, and the licence fee for the use of SAS infrastructure is charged by SAS to the fuel companies on a volume basis. And this is an entirely appropriate arrangement where the fuel companies do not own the infrastructure – SAS do. SAS does not charge the airlines a fuel throughput levy.

Importantly, Canberra Airport does not charge a fuel throughput levy to the airlines or to the fuel companies and has no involvement in the provision of jet fuel at Canberra Airport. The claims by Qantas is this regard are factually incorrect.

On request, we would be pleased to provide whatever further information the Commission require to verify this point.

2.4 Qantas Claims Canberra Airport Charges Twice as High as Adelaide

Canberra Airport's charges are all based on commercial agreements that Qantas entered into willingly. Importantly, in relation to our terminal charge, the airlines agreed to a price and the indexing of that price based on a defined service requirement, and the price was agreed before the terminal was built. And the airlines also agreed to relinquish their domestic terminal leases at Canberra Airport as part of this agreement. The option was always available to airlines to negotiate to continue on with their existing terminal leases (and note Qantas owned their terminal) and not agree to Canberra Airport's terminal prices. It is perplexing that Qantas can now put forward an argument that they are now more than ten years after the fact unhappy with contractual terms and prices they willingly entered into.

Further, under the Development Deed, Canberra Airport could have delivered a terminal that only met the minimum defined requirements, but we elected to deliver something much more. But this had no effect on the pre-agreed price. In other words, Qantas has enjoyed the benefits of the high-quality Canberra Airport terminal when Canberra Airport was only obliged commercially to deliver something much less.

In relation to Adelaide, Canberra Airport does not have visibility on the prices that Qantas pay at Adelaide Airport. However, we do note that Adelaide's total passenger volumes in 2018 were 8,346,000 compared to Canberra Airports 3,248,000. There is clearly an economy of scale benefit that Adelaide should receive all else being equal. We also note that the airfield at Adelaide is similar in scale and age to Canberra Airport's, and would assume there is not a significant difference in asset value. Equally, the terminals at both Adelaide and Canberra are common user and domestic / international. While Adelaide's terminal is larger, Canberra's is newer, so again without knowledge of Adelaide asset values, the two terminals should be relatively similar in value. So, an economy of scale advantage for Adelaide is highly likely (played out by lower pricing).

In relation to other airports, we note that our own terminal charge is approximately 40% less than the published new terminal charge at Perth Airport.

Further, we have already highlighted that our terminal is not a function of the cost of building the asset. The terminal price was agreed with Qantas before the terminal was built, based on Qantas' facility requirements, and Canberra Airport could have built a terminal considerably smaller and of less quality (and at a lower cost), and Qantas would be paying the same price.

Importantly, and completely inconveniently for the "reasonableness test" that Qantas seem to be lobbying for, Qantas has agreed to Canberra Airport's prices prior to Canberra Airport committing to invest. Qantas and other users of Canberra's terminal have enjoyed the benefits of a world-class, high-quality terminal, when Canberra could have delivered something much less, at the same price.

2.5 Qantas Claims High Airfares are Because of Airport Charges

Qantas claims that its own high airfares are because of high airport charges. This is incorrect. We would like to highlight to the Commission the revenue per kilometre that Qantas is earning on Canberra-Sydney services ***excluding*** airport charges. Our previous submissions have shown that on average Qantas' average revenue per kilometre on the Canberra-Sydney route is more than double their revenue per kilometre on Melbourne-Sydney ***excluding*** airport charges. Also based on average fare data, Qantas fares at Canberra are at a 15-20% premium compared to Virgin's. This highlights how Qantas is using its market power and dominance in Canberra.

Based on Fourth Dimension's published data on airfares on the Canberra-Sydney route, from 2013 to 2016 average airfares increased by $45.67, a period of time when fuel prices fell, and Qantas removed costs from its business. During the same period, Canberra Airport's charges increased by $4.51, consistent with pre-agreed signed agreements. Clearly, Qantas' profitability on this route has improved considerably in recent years, and airfares at Canberra have increased unconstrained, and unrelated to Qantas' operating costs and, specifically, unrelated to Canberra's airport charges. Qantas and A4ANZ have put forward the premise that lower airport charges would mean lower airfares, but this is completely inconsistent with their own revenue systems and airfare algorithms.

2.6 Qantas Seeking to Undo Their Own Commercial Agreements

The heart of many of Qantas' complaints is the commercial agreements they willingly signed over the last two decades. Their sudden desire for a negotiate/arbitrate regime would seem to be a strategy to overturn the commercial contracts to which they have agreed as a third profit-boosting measure (in addition to reducing capacity and increasing airfares). We note that we have received no previous complaints from Qantas or anyone else regarding our prices which in relation to the terminal were agreed to in 2005. Indeed, Qantas did not raise any complaints about Canberra Airport's terminal prices to either the 2006 or 2012 PC Inquiries.

Given our experience of Qantas not paying across five different charges while under contract we do not feel that the negotiate/arbitrate proposal is at all relevant to the types of disputes that have arisen. On the contrary, our commercial disputes would best be resolved by either continued negotiation (which has been our preferred approach) or alternatively formal legal proceedings.

Indeed, Canberra Airport's ability to exercise any market power is as constrained as it was in 2006. Included in Attachment C is an extract from our Confidential October 2006 submission to the PC's Draft Report. In this submission, Canberra Airport outlined the features of our Airfield and Terminal Services Agreements, and highlighted that we effectively had no capacity to move – we had no capacity to do anything other than what the airlines had agreed with us, and no capacity to exercise any market power.

2.7 High Operating Margins for Airports Appropriate, Not Evidence of Abuse of Market Power

Qantas (and A4ANZ) continually refer to high airport operating margins (or EBITDA margins or EBIT Margins or Profit Margins) as evidence that airports, including Canberra Airport, are abusing their market power. For capital-intensive businesses like airports, operating margin is not a relevant measure for determining whether a business is profitable nor whether returns are excessive.

The fact is that airports, like other infrastructure businesses, have invested significant capital into the infrastructure assets. Airports are capital intensive businesses and as such automatically have high margins. Australian airports generally have sourced significant debt funding to invest in this infrastructure, with typical airport gearing of around 50%.

Operating expenses for an airport are usually low compared to the significant cost of funding the infrastructure (in particular the interest on debt and depreciation of the asset base). To ignore these costs, and to focus on high EBITDA margins without taking into account the full costs of providing the infrastructure is a misleading approach. An airport with a high operating margin (before interest payments or depreciation) is highly appropriate.

Similarly, property investment in commercial offices or car parks is a high-margin activity – usually the variable operating costs are significantly lower than the high investment funding costs – in other words, the interest bills are much higher than the rates, maintenance and utilities costs of the offices leased. Ignoring the interest bills and focussing purely on the revenue compared to the operating expenses does not reveal anything of the overall profitability of the property investment. Canberra Airport would be happy to provide the PC with data on this point.

In relation to Australian airports, a high operating margin is entirely normal and highly appropriate and is not evidence of abuse of market power. Any argument by A4ANZ and Qantas based on this being evidence of market power is readily understood by any person with basic financial literacy to be baseless and without foundation.

2.8 Qantas' Record Profitability Continues

Qantas (and A4ANZ) have made numerous comments about the profitability of Australian airports being evidence of abuse of market power. These comments are drawn purely from EBITDA margin information which, as discussed above, is not a relevant measure for determining the profitability of a capital-intensive business.

The fact is that Qantas is one of the most profitable airlines in the world, as demonstrated in their latest results presentation, included in full in Attachment D. These results highlight Qantas' very significant countervailing market power. The key highlights from this presentation are:

- The first half of 2019 has seen record earnings for Qantas Domestic, Jetstar Domestic, and Qantas Loyalty;
- Qantas has earned a Group Return on Capital (ROIC) of 19.3%, and for the fifth year in a row ROIC is above the target of 10% (and significantly so);
- The Qantas Group Unit revenue per available seat km (ASK) is up 5.7% while ASKs are down 0.5%: in simple words, airfares are up while capacity is reduced;
- Qantas state that their Dual Brand Domestic strategy is at the core of the Group's financial strength: Unit Revenue growth is 6.1% while ASKs are down 2.1%. Again, capacity is reduced, and airfares increased;
- Qantas Domestic's operating profit margin at 14% is significantly higher than competitor Virgin at 8.5%, while Jetstar Domestic's operating profit margin is 12.4% compared to Tiger's 2.6% operating loss;
- Qantas International's operating profit margin is 2.4% (compared to the previous year margin of 6.5% with the decrease driven by the fuel cost increase). The international operating profit margin is more typical of a competitive airline environment whereas the domestic margin is reflective of Qantas' domestic market dominance.
- Qantas is the second most profitable airline compared to its global peers, only out-performed by Japan Airlines on an operating profit margin basis. Qantas is more profitable than Singapore Airlines, Air New Zealand, Cathay Pacific, and ANA;
- Despite an increase in forward bookings of 7% and clear, strong demand, Qantas Domestic is projecting flat capacity and continued unit revenue growth (in other words, continued increases in airfares, scarcity of capacity and increased profit per passenger).

And for the fourth successive year, in the domestic market, Qantas has reduced capacity (as measured by ASKs) and increased airfares (as measured by revenue per ASK) as highlighted by the table below. Further, this capacity reduction is despite strong growth in demand in all market segments – business, leisure and VFR. That any company in Australia with 65% market share in their market can do this in successive years is a significant indicator of market power, but that Qantas can do this unconstrained when they are making 80 to 90% of the domestic industry profits demonstrates how effectively Qantas are wielding that market power.

Qantas Dual Brand Domestic Performance					
	FY15	**FY16**	**FY17**	**FY18**	**1H19**
Capacity (ASKs[1])	(3.1%)	(1.0%)	(2.8%)	(2.4%)	(2.1%)
Airfares (Unit Revenue Growth[2])	4.4%	0%	2.3%	6.8%	6.1%

Source: Qantas Investor Result Centre https://investor.qantas.com/investors/?page=result-centre

Qantas' market power claims about Canberra Airport (and other Australian airports) are presented as if they are 'acting in the best interests of consumers' and rest on their false premise of passing on any savings to consumers. The economics of this have been discredited and the Australian public knows that this promise is false given the pricing behaviour of Qantas in the domestic market which is further evidenced by the above data Qantas has produced to its shareholders.

Well-respected journalist Michael Pascoe says that "Analysing federal aviation statistics raises the suspicion Qantas is putting profit ahead of customers." Pascoe believes that data shows that Qantas is not only increasing their fares, but they are boosting their load factor by cancelling flights and moving passengers to other flights on the key Melbourne-Sydney route. https://thenewdaily.com.au/money/finance-news/2019/03/28/qantas-cancelling-flights-to-improve-loadings/ This behaviour is not dissimilar to what Canberra Airport was concerned about on the Canberra-Sydney route in late 2017 and early 2018 when flight cancellation rates were several times the national average.

2.9 Qantas' Claim of Gold Plating

Another example of Qantas' false claims in its public relations campaign for this PC Inquiry was Qantas' accusation of Canberra Airport "gold plating" our terminal at a CAPA Forum in August 2018. Andrew Parker (Qantas) was quoted as follows:

"It has to be dealing with the gold-plated issue of 'build it and they will come', we need you to fund our capital projects," said Mr Parker, who runs Qantas' government, industry and international affairs division.

"To use the Canberra example, it's a glorious airport terminal, it is one of the most expensive in Australia, and we are expected to cover these costs. They're the sorts of outcomes we don't think work for us or the travelling public."

These comments by Qantas do not reflect the commercial reality of the structure of the Qantas (and other airlines) terminal deal. Further Qantas has never raised an issue of gold plating with us or any other regulator or commentator ever before – including in the PC Review in 2012.

Firstly, the Qantas terminal deal and Passenger Service Charge (PSC) was not set by reference to a building block methodology – it was set by commercial agreement in an MOU signed by both parties on 16 December 2005 and the charge was agreed by both sides to be $5.50/Pax and for it to be

[1] ASKs – available seat kilometres.
[2] Unit Revenue Growth – ticketed passenger revenue divided by ASKs.

indexed annually at 3.5%. This was a non-binding MOU but was formally locked in through the Multi-User Domestic Terminal Development Deed signed with Qantas on 8 November 2007 and jointly announced to the public. This reaffirmed the price and the annual indexation to apply for 15 years from completion – and the document also included a detailed specification of Qantas' user requirements.

The absolute key issue is that the price was set by mutual and willing agreement based on the new terminal meeting Qantas' essential requirements and specifications - exceeding those requirements, especially in terms of quality, has never impacted the price Qantas (or other airlines) paid and legally it cannot impact the price charged by Canberra Airport.

In entering this agreement and agreeing to pay this per passenger charge, Qantas voluntarily gave up a long-term land lease which had 10 years to run on which Qantas had built its own terminal and which had significant expansion capability and also a separate land lease on which Qantas had built an engineering maintenance facility. Both were demolished for the new terminal. Qantas deliberately chose to move away from being an owner of a terminal in Canberra and being responsible for capital investment in and maintenance of such facilities, and it chose to move to a common user terminal environment so as to achieve the savings in capital and operating costs as well as to reduce its risks and responsibilities.

Secondly, it is important to highlight that this pricing agreement was reached before investment was made in the new terminal, and indeed before the detailed design of the new terminal was complete. To put that another way, Canberra Airport committed to the significant investment in the new terminal once commercial agreement was reached with the largest customer – Qantas. Investment would not have been made without this commercial certainty. We also note that construction and investment in the terminal commenced in February 2008 at the height of the GFC amid great uncertainty, and this was the largest private infrastructure project in Australia during this 2008-2010 period.

We are pleased to include our correspondence to the Honourable Anthony Albanese, Minister for Infrastructure, Transport, Regional Development and Local Government, in 2008 and again in 2012 in relation to the terminal investment by Canberra Airport. These letters (in Attachment E) are a good summary of the risks Canberra Airport took and the commercial arrangements that were in place to underpin the significant investment made.

Thirdly, this alleged "gold plating" of our terminal is a public policy argument that is being run in complete isolation and as an invented fiction contrary to the commercial position of Qantas. In fact, at exactly the same time (to the hour) that Qantas Government Relations made the public comments at the CAPA Forum, Canberra Airport was meeting with Qantas Commercial executives, and they openly agreed that "gold plating" was not a relevant issue given the commercial structure of the deal outlined above. Further, at the terminal's opening, the Qantas CEO specifically praised the facilities and the project (which was delivered without one dispute whatsoever) and ever since that time we have enjoyed excellent feedback from Qantas' senior management, local staff and passengers. Qantas is as proud of Canberra Airport's terminal as we are. It is a complete fiction for Qantas Government Relations to complain that the terminal is too good for its customers or business.

At the time of these comments, Canberra Airport wrote to clarify Virgin Australia's position on the "gold-plating' accusations. Virgin's view was quite different from the Qantas public comments and in fact, completely distanced Virgin's commercial approach from A4ANZ's policy advisory and commentary. Virgin raised no issue with Canberra Airport's prices or quality when invited to do so and reiterated that in a meeting shortly after the correspondence.

Based on the Qantas behaviour in this example, it is clear that Qantas run quite different positions in commercial discussions compared to their media positioning. Qantas' public comments are clearly targeted at influencing public perception, lobbying government stakeholders, and attempting to influence regulatory policy change. Their public comments are often inaccurate, misleading, and in some cases fabricated and exaggerated to suit whatever their policy change objective may be. They should be disregarded. Further, this style of behavior and negotiation should be reflected upon in terms of the proposed introduction of a negotiate/arbitrate model because the reality is that this sort of gaming behavior would quickly dominate airport/airline negotiation processes.

3. Airlines For Australia and New Zealand Submission DR106 (25/3/2019)

The A4ANZ submission has also made numerous incorrect claims about Canberra Airport, some of which refer to the Qantas submission. However, of even more concern to Canberra Airport is that A4ANZ has also taken some comments from the Qantas submission and mispresented them in their own report in a misleading manner to attempt to criticise Canberra Airport even more strongly.

3.1 A4ANZ Claims That Canberra Airport Has Abused its Market Power

The A4ANZ has claimed that the PC is ignoring the evidence it has provided demonstrating abuse of market power by Canberra Airport. The fact is that A4ANZ has not provided any evidence of this.

The following is an extract from the A4ANZ submission (italicised) with Canberra Airport comments on each point in green font.

This comment was extremely concerning, given that the Commission already has in front of them evidence showing Canberra Airport's exercise and abuse of market power, including (but not limited to):

- *In the AFIA submission, evidence was provided that the charges at Canberra Airport compared to downtown locations are nearly four times as much ($82 vs $21 per transaction) for rental car operators.*

  The AFIA submission did not single out Canberra Airport in any way – they presented information on 45 airports including Australian airports. On the information provided by AFIA, Canberra was rated the fifth highest Australian airport on a cost per transaction basis, behind airports such as Cairns, Sydney, and Alice Springs.

  Canberra Airport has not been able to verify the accuracy of AFIA information, but we note that a range of facilities is provided to car rental operators at Canberra Airport, not just a shop front and business licence. Car rentals have a premium location, high exposure, the closest parking bays to the terminal, and premium branding at Canberra Airport. Further, we provide significant sealed car rental storage facilities, wash bays, and office amenities to many of the car rental operators. It is not clear to Canberra Airport how AFIA factors in this range of services and amenities into its data for Canberra Airport (or other airports and off-airport comparisons).

  Based on the AFIA data, Canberra Airport was actually the lowest of the Australian airports on concession cost per passenger, but highest on rent per transaction – probably reflective of the significant and high-quality facilities which Canberra Airport provides to car rental operators at Canberra Airport.

  Regardless of the veracity of the information used by AFIA, we find it incredulous that A4ANZ presents our fifth overall ranking as evidence that Canberra Airport has abused its market power. We reject that assertion as unfounded and baseless.

- *In the Qantas Group's submission, clear evidence of Canberra Airport exerting its market power was supplied given, including:*

- *Charging (including security charging) over 200% more than Adelaide Airport;*

  Canberra Airport has responded to this baseless claim above. Charging prices willingly agreed to by airlines who gave up existing long-term leases is not exerting market power. The airlines did not even present such an argument in the 2006 and 2012 PC Inquiries, so we are not sure how Canberra Airport is exerting market power in applying agreed annual indexation to prices agreed to by airlines.

- *Airport charges (including take-off and landing fees and passenger facilities charges) that contribute 34% of the estimated cost of flying a passenger between Canberra and Sydney. These airport charges account for the single largest cost incurred by Qantas on this route, which is not comparable to any other route's cost base;*

  Both Qantas and A4ANZ have referenced this cost estimate. It should be noted that the original reference in the Qantas submission was that the total airport costs on a Canberra – Sydney service could be up to 34% of Jetstar's "low prices" on that route, not Qantas' costs as now quoted. These are two totally different things. It had no regard to the actual Qantas costs. Such a sloppy error which totally distorts the argument by A4ANZ is exceptionally misleading. It should be noted:

  1. Jetstar does not operate on this route, so firstly there is no referable "low Jetstar fare" for this route. We can only assume that Jetstar have made up a fictitious fare for a fictitious service on this route;
  2. The Qantas submission then goes on to assume that 34% is the proportion of the total costs of its own services on this route. In fact, their submission's reference to 34% related to a proportion of a fictitious Jetstar fare not a proportion of Qantas' cost base.
  3. More generally, we cannot make a comment on Qantas' costs or Jetstar's non-existent average fares as it is not disclosed. However if we assume Qantas' airport charges costs are in the range of $20-30 per passenger, then:

     For this claim that airport charges are 34% of the Qantas costs, then one can calculate that the Qantas costs are $58-$88 per passenger (or $71 as a midpoint) and that every $ above this is pure profit. The would imply that Qantas makes:

     $158 profit (or 222% margin) on a $229 discount one-way ticket to Sydney
     $218 profit (or 307% margin) on a $289 discount one-way ticket to Sydney
     $318 profit (or 447% margin) on a $389 full economy one-way ticket to Sydney
     $369 profit (or 519% margin) on a $440 full economy one-way ticket to Sydney
     $573 profit (or 807% margin) on a $644 full economy one-way ticket to Sydney

- *Jetstar being unable to offer flights from the airport as Canberra Airport's charges could account for up to a third of the airline's low prices, and would distort the airline's underlying cost base on the route. This of course has a negative impact on competition;*

  Canberra Airport has addressed this above and highlights it is not based on evidence. The baseless and inaccurate nature of this claim is highlighted in our own submissions that Tiger Airways (Jetstar's low-cost competition) successfully operates at Canberra (and we are advised by Tiger that we are one of their most profitable operation locations). Tiger has demonstrated that our cost base does indeed work for low-cost carriers. Finally, Jetstar did accept a deal in 2016. Canberra Airport ran a competitive tender style pitch to both Tiger and Jetstar during 2016, with start-up incentives to the first of the two low-cost carriers to accept the proposal. Jetstar actually accepted the proposal but was a day too late, Tiger had accepted the offer first, and Canberra Airport honoured the terms of the offer. Canberra Airport also refers the PC to its evidence given at the public hearings in relation to this matter.

- *Leasing costs at Canberra Airport independently assessed as being significantly above market values (the full amount of this was disclosed to the Commission);*

  This comment was made by Qantas in its original submission in relation to all airports, not specifically in relation to Canberra Airport. Canberra Airport has not seen the valuation prepared by Qantas' valuers so cannot comment specifically to the content, assumptions, methodology, justifications or conclusions apparently reached by Qantas' valuers. We would be pleased to review and provide comment if possible. In the absence of the opportunity to review and respond to the valuation report, it cannot be accepted by the PC as evidence of abuse of market power.

  Further, if it is for example, about the Qantas Club lease then:

  1. Qantas willingly entered into a lease;
  2. The leased area is in a premium location, and is of an extremely high quality and specification; and
  3. During construction of the terminal, Qantas requested a significant expansion of the Qantas Club Lounges area and Canberra Airport was able to satisfy Qantas' request, and there was no concern raised by Qantas about the rent levels of this lease.

  This is not an abuse of market power.

  If the comments relate to Qantas' Plaza Office lease, Qantas again willingly entered into this lease, and Canberra Airport has recently facilitated the surrender of this lease. This is not an abuse of market power. This is another baseless claim which does not stack up against any evidence.

- *The now well-publicised incident in which a Qantas aircraft was held to ransom. Following an unexpected landing due to bad weather, Qantas Group was forced by Canberra Airport to pay a nonstandard $18,000 diversion fee, equivalent to $100 per passenger.*

  This claim is absolutely false. We refer the PC to the information that Canberra Airport has provided to this misleading allegation above.

- *Examples of lack of transparency over inclusions in charges.*

  Canberra Airport cannot comment on this point – it is not made in sufficient detail to allow a response. We do however note that all airport charges at Canberra Airport are based on signed long-term commercial agreements with airlines. Importantly, airlines have agreed to the charges through detailed commercial negotiations. Clearly, information was provided to a level sufficient for each airline to reach an agreement. This is not evidence of abuse of market power.

3.2 A4ANZ Claims About Market Power

Like Qantas, A4ANZ also claim that, in the context of Canberra Airport's market power, modal substitution on the Canberra-Sydney route is immaterial. Canberra Airport has responded comprehensively to the question of market power of Canberra Airport in our submission dated 25 March 2019 which already directly responds to these comments from A4ANZ.

3.3 Box 2 of the A4ANZ Submission (page 16)

A4ANZ has included a worked example on page 16 of their submission which seems to be an attempt to demonstrate that there is no material loss of demand for an increase in airfares on the Canberra – Sydney route. This example is completely contrary to the perfectly good real-world example which we have already outlined in our submission on 25 March 2019 (pages 10 to 16). On the Canberra-Sydney route, there has been a significant increase in airfares (more than doubling in real terms since the 2012 PC inquiry, excluding airport charges) which has driven a significant reduction in passenger volumes on this route over the same period (passenger volumes are down around 10% or 100,000 passengers).

Simply put, the A4ANZ example is confusing, completely lacking in merit, and demonstrated to be factually incorrect based on actual historical data.

3.4 Confidential Submission to the PC by Canberra Airport

A4ANZ has criticised Canberra Airport for making a confidential submission to the Productivity Commission. A4ANZ claim that Canberra Airport made an entirely confidential submission which they were not able to scrutinise.

As the Commission can attest, Canberra Airport provided two versions of our main submission – a confidential version, and a public version. The public version was the same as the confidential version, but with confidential information removed. The confidential material was either specific commercial prices or information which Canberra Airport is contractually obliged to keep confidential or information about airline behaviour which is best not aired in public. This is no different from other inquiry participants, including Qantas, Virgin and A4ANZ, who provided a public version with confidential information redacted.

4. Public Hearing Comments by Qantas

If the PC was in any doubt as to the veracity and thus reliability of the Qantas evidence submitted prior to the PC hearings, it should have no doubts now after the public hearings.

We put forward the following comments by Qantas' Government Relations spokesman at the PC Public Hearings as evidence of the incorrect statements Qantas has made:

1. Qantas claims that Qantas does not have market power in its own markets. The evidence exists that factually disproves this comment – the Qantas Group has around 65% market share in the domestic market and from that market share makes between 80% and 90% of the industry profits. There is no other example in this country where one business wields so much market power and is so dominant in their own industry. Qantas evidence that it has no market power in its own markets is as baseless as all of its claims about airports. This claim sits alongside the other great Qantas misrepresentation to the PC and the public – that it would pass on any savings on airport charges to consumers.

2. Qantas claims that Qantas does not have ***any*** countervailing power. None. We note the numerous submissions to the PC which in fact present the opposite – that is Qantas has significant countervailing power and regularly use that market power against airports.

3. Qantas claims that Qantas routinely face price increases of 40 to 50% from airports on a take it or leave it basis. In its public submissions, Qantas has not provided evidence of this claim.

4. Qantas claims that it is ludicrous to think that Qantas has not paid or can choose not to pay its airport charges invoices. In the same breath, Qantas goes on to effectively say that Qantas is not paying Perth Airport's invoices, but are paying what they think is a reasonable price. That is, Qantas is setting its own price for the use of Perth Airport.

   Further, at Canberra Airport up to February 2019, Qantas had significant unpaid overdue amounts owing to Canberra. This included short-paid amounts on Canberra Airport security invoices dating as far back as July 2012. And this is in a circumstance where Qantas is contractually and unequivocally bound to pay these costs and contractually bound to pay interest on overdue amounts. A negotiate/arbitrate model would not address Qantas' refusal to pay amounts due under contracts. For completeness, we are pleased to advise that Canberra Airport has now reached commercial settlement with Qantas on these unpaid amounts.

5. Qantas and A4ANZ, as evidence of poor behaviour, have criticised Australian Airports for the price of coffee or bottled water at Airport terminals. It is a fact that the price of coffee and bottles of water is no different in terminals that are operated by Qantas. Since the last PC Inquiry in 2012, Qantas has had full control of its domestic terminals in Sydney, Melbourne, Brisbane and Perth – the four price monitored airports. Given the Qantas market share of 65%, Qantas is controlling the retail offering (including coffee prices) for 65% of passengers at the four biggest airports, and on the other hand, those four airports are controlling the retail offering to only 35% of the market. In other words, a domestic passenger is twice as likely to buy their cup of coffee in a Qantas controlled coffee shop. So comments about coffee prices and bottled water prices relate primarily to Qantas' own retail facilities, not Airport leased retail facilities.

5. Australian Business Aviation Association Inc (ABAA) DR110 (25/3/2019)

ABAA has in its submission described Canberra Airport as having a "very high level of fees" for private business jets. They have included their calculation of Canberra Airport charges for three example flights. Each example calculation is incorrect and significantly overstated. We address each example below:

Example 1 – each charge for the described operation is exactly double what the charges would be. The Airfield charges are applied on landing only (not on take-off) and ABAA has calculated two days parking charges, not one.

Example 2 – of the charges calculated, only two of the four charges are calculated correctly. This example is based on two days of aircraft parking. The ADC and the Security Levy are both significantly overstated: the actual ADC would be less than half that calculated and the Security Levy would be a third of the ABAA calculation.

Example 3 – again the ADC and Security Levy are both incorrect and significantly overstated.

Further, Canberra Airport (like most Australian airports) do not provide ground handling services, and so while the ABAA comment that ground handling costs are in addition to the airport charges is correct, it is of no relevance to the current inquiry.

6. Information Requested by the Productivity Commission

During Canberra Airport's appearance at the Hearings, the Commissioners requested additional information be provided by Canberra Airport. We respond to these requests below.

6.1 Mode of Transport CBR – SYD

The Commission has requested that Canberra Airport provide any available data on mode of transport between Canberra and Sydney.

A summary of the data Canberra Airport has access to is included below. The airport passenger information is based on BITRE passenger data by route. The coach information is as provided to Canberra Airport verbally by Murrays (and has been cross-checked against the bus schedules and estimate average loads). Murrays advised Canberra Airport that they have between 750,000 and 800,000 passengers per annum between Canberra and Sydney, and estimate that their competitors Greyhound have around 350,000 passengers per annum.

In 2009, AECOM undertook a mode of transport study as part of the High-Speed Rail Phase 2 study. AECOM found that, in 2009, 77% of people travelled between Sydney and Canberra by car, 12% by air, and 10% by coach. In 2018, we have used the actual air and coach data and have assumed that the car proportion of the total market is the same as in 2009. Based on these assumptions, we estimate that the total passenger market for the Canberra-Sydney route is 9.2M, and Canberra Airport has around 10% market share.

Mode of Transport Canberra - Sydney	AECOM* 2009 CBR-SYD	Airport** 2018 CBR-SYD	Passengers
Air	12%	10%	950,000
Coach	10%	12%	1,100,000
Car	77%	77%	7,058,000
Rail	1%	1%	92,000
Total passenger market	100%	100%	9,200,000

* 2009 Mode of transport study of the SYD-CBR corridor for the High-Speed Rail Phase 2 Study

** Canberra Airport passenger data and estimates used for 2018 assessment

6.2 Canberra Airport's "Rack Rate Airport Charges"

The Productivity Commission requested that Canberra Airport submits to the Inquiry its "published rack rate aviation prices", and at the hearing, Canberra Airport agreed to do so. However, and as previously advised to the Commission, Canberra Airport does not have "published rack rate prices".

The fact is that we have six RPT operators at Canberra Airport (Qantas, Virgin Australia, Tiger Air, Singapore Airlines, Qatar Airways, and Fly Pelican). Each of these six airlines has individual aviation agreements with Canberra Airport which are confidential. There is no need for "published rack rates" at Canberra Airport, so we do not have them.

Further, we note that we have already provided to the Commission the Aviation Services Agreement and Terminal Services Agreements between Canberra Airport and Qantas (and the agreements with Virgin Australia) on a confidential basis. The Commission should be able to reach its own conclusions in relation to Canberra Airport's pricing on the basis of the documents provided already, without Canberra Airport having to produce a set of prices which apply to no user of Canberra Airport.

7. Conclusion

Canberra Airport would again like to thank the Commission for its consideration of our comments above. On a range of points, we disagree with comments made by Qantas Government Relations and A4ANZ and have highlighted our view of these matters in our submissions to this inquiry. As far as possible, we have attempted to provide factual information and support for our comments. We are pleased to provide any further information requested by the Commission that we have in our possession to demonstrate that our comments are indeed factual.

Ultimately, where Canberra Airport and another participant have provided conflicting information on the same matter, the Commission will need to reach a conclusion based on the facts and support provided by the two parties. While there are many significant claims made by A4ANZ and Qantas, we do not feel much of the airline position has been supported by evidence or facts, and in these circumstances, we encourage the Commission to have little regard to it.

Attachment A – Cancellations on the Canberra-Sydney Route

MONEY FINANCE NEWS 10:17pm, Mar 28, 2019 Updated: 10:00pm, Mar 28

Qantas cancelling flights as it seeks to improve loadings

"Obviously we'd rather not cancel any flights": Qantas *Photo: AAP*

Michael Pascoe ANALYSIS

SHARE

Don't like having your flight cancelled? Don't fly Tiger. And, on the Sydney to Melbourne route, think twice about Qantas as well.

Analysing federal aviation statistics raises the suspicion Qantas is putting profit ahead of customers.

While increasing fares, Qantas also is increasingly cancelling flights on the world's second-busiest domestic route.

That has the considerable advantage of boosting its load factor – shunting passengers off the flight they've booked to spare seats on flights either side of the desired time.

The more bums on seats of any one flight, the more profitable it is. The savings in fuel and landing charges for every cancelled flight are considerable, especially with the expensive Sydney to Melbourne route.

According to the latest Bureau of Infrastructure, Transport and Regional Economics **figures**, Qantas last month cancelled 6.4 per cent of its scheduled flights between our two biggest cities.

The cancellations are disproportionately high on the MEL-SYD route. *Photo: Getty*

That compares with 4 per cent of Virgin Australia flights, 2.9 per cent of Jetstar's and 8.8 per cent of Tiger's.

(In January, Tiger cancellations on the route hit an amazing 16.8 per cent. Of the 572 scheduled flights, 96 were cancelled. If you had booked a Tiger flight between the biggest capitals, there was one chance in six that it didn't happen.

The budget airline is also the worst for on-time arrivals, managing it only 68 per cent of the time last year. So we'll leave Tiger to only those whose flying is not time-sensitive.)

Bad weather on the route obviously disrupts flights and causes cancellations, especially if an airport is reduced to using a single runway.

A Qantas spokesperson said that the level of frequency on the MEL-SYD route meant Qantas was usually able to accommodate customers within one or two hours of their original flight time.

"For us, if we're able to consolidate flights when there's a lot of disruptions, it also means we can combine two 737s into one A330 service meaning we can get customers to their destination.

"But obviously we'd rather not cancel any flights."

The trouble with only blaming weather is that it affects all airlines, and last month's statistics are part of a trend.

On this vital trunk route in 2017, Qantas averaged 3.8 per cent cancellations. Over 2018, the average was 5.8 per cent. Over the first two months of this year, 6 per cent and now February, 6.4 per cent.

Virgin Australia's cancellations have been heading in the other direction – 4.8 per cent in 2017, 4.4 per cent last year, 3.7 per cent so far this year and 4 per cent last month.

The cancellation percentage gap between Tiger and Qantas in February was the same as the gap between Qantas and Virgin.

Another curious aspect of the rising cancellation rate on this massively profitable route is how little other sectors out of Sydney and Melbourne are affected.

For example, on the next-busiest routes of Sydney to Brisbane and Melbourne to Brisbane, Qantas cancelled just 2.4 per cent and 0.3 per cent of flights last month respectively.

Indeed, for both major carriers, you'd be unlucky to be on a cancelled flight going anywhere except between Sydney and Melbourne.

Leaving out that route, Qantas only cancelled 0.9 per cent of its scheduled domestic flights last month. On the same basis, Virgin cancelled just 0.1 per cent.

Total national cancellations last year, including Sydney to Melbourne, ran at 1.9 per cent for Qantas and 1.7 per cent for Virgin. Jetstar scored 2.5 per cent and Tiger 3.5 per cent.

Total national cancellations last month were Qantas 2.3 per cent, Virgin 1.5, Jetstar 1.8 and Tiger 5.6.

Qantas and Virgin Australia were specifically asked if they ever cancelled flights on the SYD-MEL route to boost load factor, that is, not for weather or equipment-failure reasons.

They had not responded by the time of publication.

The Canberra Times

NATIONAL ACT

Canberra Airport asks federal government for help on cancelled Sydney flights

By **Tom McIlroy**

Updated October 31, 2017 – 4.07pm, first published at 12.17pm

Canberra Airport's owners have called for the federal government to investigate higher than average flight cancellation rates from Sydney and to consider introducing new national performance benchmarks.

The calls come after figures showed flights between Canberra and Sydney topped the nation for cancellations last month, at 8.1 per cent and ahead of Sydney to Melbourne flights at 7.5 per cent and Melbourne to Sydney at 7.4 per cent.

Managing director of the Canberra Airport Stephen Byron has asked the government for help. JAMILA TODERAS

Department of Infrastructure and Regional Development statistics showed there were 59 cancelled flights on both the Canberra to Sydney route and Sydney to Canberra, far higher than the 30 cancellations between Canberra and Melbourne in the same period.

Canberra Airport managing director Stephen Byron has approached Transport Minister Darren Chester calling for action.

Airlines Qantas and Virgin say there's no problem on the Canberra to Sydney route.

"It's my view that there ought to be a national standard at which the federal government properly investigates the issue," he said.

"That should probably be a level of about 4 to 5 per cent of cancellation rate.

"Sadly that's about the rate that Canberra to Sydney normally rates at, but of course now we're seeing a rate of double that at 8.1 per cent.

"Clearly there needs to be some sort of investigation to find out why Canberra to Sydney is always worse than other routes of out Canberra."

In September, Qantas cancelled 32 flights from Sydney to Canberra, 6.8 per cent of its schedule for the month, while Virgin cancelled 27 flights, or 10.5 per cent.

Qantas cancelled 31 flights in the other direction, or 6.6 per cent, while Virgin cancelled 28 flights, or 10.9 per cent of its schedule.

Nationally, cancellations represented 2.7 per cent of all scheduled flights, up from 1.7 per cent a month earlier and above the long term average of 1.4 per cent.

Mr Byron said the route was previously the 12th busiest in Australia for passenger numbers, but had slipped to 16th.

Passenger numbers between the two cities have fallen 12 per cent since 2009-10, while most capital cities have grown by as much as 15 per cent.

Airlines face stiff competition from driving options and almost 1 million bus trips.

"As an industry, we need to work together to improve the performance of the flights between Canberra and Sydney," he said.

"I do think it's having an impact on the number of passengers. People have said to me the bus is more reliable. They have to contend with Sydney's roads and they still think the bus is a better option," Mr Byron said.

Qantas crews at Sydney Airport told ticket holders last week the repeated delays for flights to Canberra were caused by staffing shortages and competing priorities on other routes.

The airline is increasing use of 737 aircraft on Canberra routes and aims to re-book passengers from cancelled flights within 30 minutes to three hours.

A Qantas spokeswoman said the cancellations were caused by a range of factors.

"Like all airlines, from time to time we experience disruptions due to weather or for maintenance or operational reasons.

"We are very mindful that delays are frustrating for our customers so our teams work hard to minimise the inconvenience, including putting on larger aircraft to get passengers on their way."

Mr Byron said the federal government should consider the poor results.

"The government's role is to protect consumers, customers, from a certain level of badness.

"We should be held to account by the government for this result and we should be asked to come up with the solutions," he said.

Tom McIlroy

Tom McIlroy is a political reporter for The Australian Financial Review in the federal press gallery at Parliament House.

Attachment B – Canberra Airport Correspondence to Qantas in Relation to International Diversions

Stephen Byron

From: Stephen Byron
Sent: Monday, 20 February 2017 9:18 AM
To: Andrew David [redacted]
Attachments: IMG_1503.jpg; IMG_1504.jpg

Dear Andrew

Thanks for your immediate assistance on Friday afternoon both for your availability and for being able to stop any more Qantas International aircraft being diverted and landing here.

It was a scary situation with us having a number of international aircraft who had nominated Canberra as their alternate (and thus not enough fuel to go elsewhere) as we and Sydney came into the late afternoon peak and our limited parking for international alternates already being compromised by the bush firefighting operations (see pic attached) – 15 houses were lost in a very fast moving fire.

Thanks you again and we will work through the operational issues with your operations folk this week.

Stephen

Stephen Byron
Managing Director | Canberra Airport

2 Brindabella Circuit | Brindabella Business Park Canberra Airport ACT 2609
[redacted]

CANBERRA AIRPORT

3 April 2017

Mr Alan Joyce
Managing Director and Group CEO
Qantas Airways
10 Bourke Road
Mascot NSW 2020

Dear Mr Joyce

Further to your letter of 31 March, I resent the bullying tone of your letter. There are a number of incorrect facts which elevated the drama.

We conducted ourselves with the utmost safety in mind, for example your ground staff suggested to us to park behind your aircraft so as to move and allow the stairs to be moved to facilitate a speedy departure. At all times the pilot, the Qantas ground staff and the ATC knew that the car was behind the aircraft (and it was in full view of the ATC Tower and staff). The Qantas ground crew and the pilot knew the procedure to confirm to them that the car was no longer behind the plane. Stephen Byron will respond to the facts in further detail.

Canberra Airport is always available for emergency diversions (was this one of them?). Like you, we believe safety is paramount.

We have limited capacity to accommodate five international diversions at Fairbairn and these are allocated as slots to airlines with whom we have arrangements. Once all slots for parking alternates are allocated, there is no more room. We are able to cater for domestic diversion flights as we have more flexibility, better and new infrastructure and the aircraft are smaller and lighter – but obviously this takes up significant available capacity including on taxiways.

Qantas is aware of this, and we have spoken to senior management concerning the use of our limited facility.

On 17 February 2017, we had two diversions of your 747s on the ground, an additional one in the air inbound, 50% of the apron suddenly quarantined for bushfire operations and another aircraft on approach. Other carriers have entered into commercial arrangements for the use of our Airport as an "alternate" airport in the case of weather related restrictions to Sydney had been allocated those five slots, yet your fleet of diverted aircraft filled all of the available parking without notice, without permission or authorisation. Where were the other carriers to park when they exercised their planned and agreed diversion to Canberra?

To nominate Canberra as an alternate without a commercial arrangement in place or to enquire if we can accept the diversion is irresponsible and unsafe. Alan, can you tell me if the aircraft of 30 March 2017 or 17 February 2017 nominated Canberra as an alternate in their flight plan? If not, can you tell me why they diverted to Canberra – was it because they did

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www.canberraairport.com.au

not have enough fuel to make Melbourne? If it was not a fuel emergency and was just a commercial decision then, what do we do when your aircraft which could have diverted to Melbourne (but did not for commercial reasons) occupy the parking spaces for other aircraft that have nominated Canberra as their alternate pursuant to the planned arrangements, and they do not have enough fuel to make an alternate airport, like Melbourne?

Alan, what we are dealing with here is totally terrifying. We have been trying to find out from your people how many Qantas aircraft (international and domestic) nominate Canberra as an alternate at any one time but we cannot get that information. Is there a system to ensure that Qantas monitors against the risk that we fear? If so, in the interests of safety and collaboration can it be shared with us?

Alan, I do resent the bullying force of your letter - comparing us with pirates is not only unnecessarily emotive, it is demeaning. We pride ourselves in fair dealing. We have worked tirelessly to build the best airport in the network serving your company and our customers. We have gone out of our way to give Qantas a fantastic business platform in this country's National Capital.

Notwithstanding we are only a family business, we do not enjoy being bullied by one of the Country's corporate giants. The more appropriate way for us to advance our relationship is to work cooperatively and fairly and agree on an appropriate commercial agreement to cover unforeseen flare-ups.

Mr Byron is speaking with your Mr David as he has in the past, in relation to the 17 February debacle, to ensure this does not happen again, but be assured safety is paramount for us. We have always striven to foster good relations with our biggest carrier and indeed with you personally.

Yours sincerely

Terry Snow, AM
Executive Chairman

CANBERRA
AIRPORT

3 April 2017

Mr Andrew David
CEO Qantas Domestic
Qantas Airways
A Wing, Level 1
10 Bourke Road
Mascot NSW 2020
Via email: [redacted]

cc Mr Alan Joyce
Managing Director and Group CEO
Qantas Airways
10 Bourke Road
Mascot NSW 2020
Via email: [redacted]

Dear Andrew

Thank you for your call on Friday afternoon following our discussion on Thursday, and also for your letter of 31 March 2017. As I mentioned in my text message and email of Friday evening, whilst I respect the general position from which you are coming, I don't agree with all the facts in the letter. I'd like to take the time to correct some of them as I believe it would assist both a better understanding of the incident and also facilitate a more collaborative path forward:

- It is not correct to say that the Qantas Captain was not aware that the safety car was behind the aircraft. He was informed at the time it moved there (including that when the plane was cleared for departure, the car would drive to the front of the plane and give the pilot the thumbs up for departure), he acknowledged it at the time and he further noted to the ATC Tower that the car was behind his aircraft when they later sought to give clearance for push back, and noted that it would not be a good idea until it moved. Accordingly, it is not correct to say that the aircraft was in danger because the pilot did not know about the vehicle. I would add that the pilot was calm, professional and both he and the ground crew were respectful that prior to departure other issues had to be sorted out by Sydney management with Canberra Airport. Whilst there was a broader disagreement about the authorisation of the international diversion, there was a collaborative mindset at play between the airline and airport staff which was respectful of each other's roles.

- In addition to the pilot being aware of the car's location, the Qantas ground crew responsible for the pushback knew that the car was moving from the area in front of the stairs accessing the aircraft (which was done in response to their request to facilitate as quick a departure as possible) and further that the Qantas ground crew suggested that the car move to the area behind the plane until clearance was given. Qantas ground crew were also aware of the agreed plan of ops for the car to drive to the front of the plane and give the thumbs up once cleared. Again, there is no risk that the Qantas ground crew would have proceeded with a push back given the knowledge they had and the open exchange of information between the parties involved.

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- Further, ATC was fully aware of the location of the car. ATC had full view of the vehicle at all times. At no time did the ATC give direction or instruction to the safety car to relocate its position from the rear of the aircraft.

- The plane was not held for 90 minutes, it was not delayed for 90 minutes and it was not detained for 90 minutes. Such language is emotive and ignores the operational activities which were being undertaken and always need to be undertaken – the aircraft had to refuel (which did in fact occur promptly – indeed overall, this is one of the fastest "gas and go" turnarounds for an international diversion we have had), Sydney had to reopen or decongest and the aircraft had to get a slot clearance. It is my view that the overall delay to operations would be in the order of 4-12 minutes (indeed the latest evidence would suggest it was a maximum of 8 minutes at most but was around two and a half minutes from when ATC gave pushback clearance) – the variance being dependent upon characterisation of the start time – is it either when the general discussion around getting ready for push back and departure occurred, compared to when it was actually ready for push back and ATC had slot clearance and indicated that they were ready for push back and departure. The aircraft did not have any problem making the slot time that it had been allocated in Sydney. I would also note that ahead of the actual landing of the diverted aircraft, our team facilitated the grounds team and equipment to have early access to the Fairbairn apron ahead of its arrival.

I have already advised that you have my commitment that this will not occur again in this way, even where this process is agreed and understood by the parties on the ground that they are awaiting management approval from Qantas Sydney and Canberra Airport management for departure – this will not be required for Qantas. Whilst this might be the procedure for the unauthorised international diversions of other airlines, we will use the discussions we have had between us and the trust and respect for each other, and for Qantas and our broader relationship, to ensure that whilst we work out a more permanent and formalised arrangement for international diversions, we will turn them around as soon as possible and make every effort to assist.

I would add that it was my understanding from our discussions on 17 February that there would be no Qantas international diversions until arrangements and SOPs were fully and properly agreed and, whilst I can accept this was not what you thought you had agreed to, my view of this being the correct state of affairs was enhanced by there being three Sydney weather diversion events over the coming fortnight during which no Qantas international diversion came to Canberra Airport, only domestic diversions.

I now turn to the broader issue of international diversions into Canberra Airport and the need for there to be a proper and comprehensive system which controls them. This is a pre-requisite to dealing with any commercial issues and accordingly I shall deal with some of your commercial points subsequently.

Canberra Airport has a limited amount of aircraft parking apron and thus a limited ability to park aircraft. We have accepted that domestic aircraft can be accommodated on the domestic apron and can overflow onto some of the main taxiways, noting that B737 and larger (heavier) aircraft can only be accommodated on Taxiway Bravo (so approx. 3-4 positions of overflow for domestic). In terms of international, including wide bodied international diversions, we have only the Fairbairn apron (excluding the Prime Minister's VIP fleet area). We have three wide bodied parking positions and we have estimated that we could possibly overflow an additional two positions – accordingly for in excess of ten years, we have had a firm operational policy that no more than five international diversions can be accommodated at any one time.

Until 21 September 2016, Canberra Airport was not designated as a full international airport (in fact it was formally designated as restricted) and given the limitations on parking international diversions, we have had a policy of requiring airlines to have an agreement with us regarding their nomination and use of Canberra as an international alternate diversion airport. The reason for this is to control the number of aircraft at any one time which an airline might nominate Canberra as an alternate, and thus try to land as a diversion at the one time; and in so doing limit in aggregate the number of aircraft that can be diverted to Canberra Airport and requiring parking. This process naturally requires that airlines for whom we do not have alternate slots available or arrangements in place, not be permitted to divert here and accordingly that they not nominate Canberra Airport as their alternate. Infringement of this principle places not only their aircraft at mortal danger if they do not carry sufficient fuel to go elsewhere and our Slot allocated aircraft have already landed, but it also means that if the unauthorised and thus unaccounted for aircraft land before those booked into slots arrive, then they place those booked aircraft and their passengers in mortal danger – note that the first situation is a conscious decision of the offending airline, in the latter scenario the victim airline and aircraft is totally blind sided to the actions of the offending aircraft, notwithstanding the proper planning arrangements that they have in place.

This system was accepted and agreed to by Qantas for the period 1 July 2008 to 30 June 2014 and Qantas had a formal Alternate Slot Agreement (signed 5 January 2009) which provided one international diversion slot for either Qantas or Jetstar (but not both at the same time). It included processes for Qantas to provide its flight schedules and for Canberra Airport to confirm back the times at which the slot would be available. Following the expiry of that agreement on 30 June 2014 and after extensions of the slot availability to mid November 2014, Qantas elected not to renew the international slot right and, after notice to Qantas, it was re-allocated to another carrier. There was no charge, annual or otherwise, to Qantas for this Slot Agreement and where there was a diversion under the agreement, the agreed landing and parking charges were paid. It is my understanding that as a general rule after November 2014, Qantas and Jetstar continued to accept the overall framework. Qantas did not have aircraft nominate Canberra as an alternate on their flights plans, noting that prior to this year, there were two instances since November 2014 when a Qantas international plane did divert but that the general approach was to try to avoid this at all costs because it was understood that all of the parking for international diversions was allocated.

The reality is that when we fill all of the available parking spaces with diverted aircraft, we have nowhere else to put them, other than the main runway, and then the main runway will be closed. You then face the situation where aircraft which have nominated Canberra as an alternate and thus they do not necessarily have enough fuel to get to Melbourne or Brisbane, and are placed in a situation of absolute peril and danger. Such a situation would be catastrophic.

The fear of this eventuality came into stark reality on the afternoon of 17 February 2017. Without any notification to anyone at Canberra Airport, a diverted Qantas 747 aircraft landed followed by a second Qantas Group 747. We were then advised that a third Qantas 747 was on its way for a diversion landing. Given that Sydney was closed and we had five large international aircraft with whom we had Slot Agreements and commitments inbound to Sydney (as we approached the Friday afternoon Sydney peak), we were on extremely high alert. This fear was magnified by two other B737 Qantas international aircraft diverting, a Virgin B737 international diverting and a number of other domestic aircraft diverting, noting that this was also coming into our own general domestic afternoon peak. The absolute panic of this situation was then escalated when around 50% of the Fairbairn apron was suddenly quarantined by the operations of a firefighting aircraft for refilling so as to fight a very fast moving, and out of control, bushfire threatening homes and people's lives just east of Queanbeyan.

To my immense relief, I was able to get through to you and you were able to successfully divert the third 747 diverting aircraft before it landed and to ensure that there would be no further international Qantas or Jetstar diversions that evening. This was absolutely critical to the safety of a significant number of other international aircraft and their passengers which had nominated Canberra Airport as an alternate and were bound for a closed Sydney Airport. I also appreciate your acknowledgement during that first phone call that you were surprised and almost astonished that Qantas would land an international diversion (let alone two 747s) without notifying us and requesting if it was possible, regardless of whether or not there was a formal alternate and diversion in place or not.

Andrew, we look forward to agreeing a system for Qantas international diversions, and I and my team are available to meet this week. However we cannot accommodate all Qantas international diversions. As such, we ask how many aircraft nominate Canberra Airport as their alternate in their flight plan at any one time and how is this controlled? If you could assist us with this information, it would help us all find a way forward collaboratively. My feeling is that if we can be assured that we have a safe system for controlling the allocation of a very limited resource (ie parking wide bodied diverted aircraft) with a massively high and totally unacceptable risk consequence if we get it wrong, then we can surely and easily find a way on the commerce. I commit to you to be available with my CFO this week.

In terms of a few of the commercial issues, it is not true to say that the charges are double the last agreement, though I am happy to take up that point during our further commercial discussions. I note that the charges are on terms no less favourable to those charged to other airlines. Secondly, the diversion fees for unauthorised aircraft are quite reasonably different to those of authorised aircraft who have long term arrangements in place and who pay for the annual Slot right, and your comparison to other airport's charges is thus completely inappropriate and is an inequivalent comparison. In terms of security costs going up by 50%, this is not correct as we are introducing a new security screening point in the goods loading dock and the additional labour costs from SNP represent an increase of 12-13% in overall screening costs. This is something that was always planned for the new terminal (note the area and function and use was signed off together with the design plans by Qantas on 18 May 2009). This capability and operation was due to commence in June 2013 but we deferred its commencement through collaboration with Qantas and Virgin to minimise security cost – it was due to commence in June 2014, then June 2015 but it finally commenced July 2016.

Andrew, I appreciate the tenor of our discussions this morning and confirm that my Richard Doyle will meet with your Mark Cameron re the SOPs and number of aircraft that nominate to Canberra or might divert here (domestic and international) and subsequently that myself and my CFO Stephen Carson will work with your Finance team on some commercial options. The target is this week.

I look forward to resolving this issue to the satisfaction of Qantas in line with the overall safety concerns that I have raised above.

Yours sincerely

Stephen Byron
Managing Director

CANBERRA AIRPORT

4 April 2017

Mr Alan Joyce
Managing Director and Group CEO
Qantas Airways
10 Bourke Road
Mascot NSW 2020

Dear Mr Joyce

Further to our phone conversation at 1130am today, I am satisfied that we are able to move forward. Stephen Byron and Andrew David will meet this week to resolve the situation.

As I agreed, I will have our office amend the invoice of 30 March 2017 to only reflect usual landing and parking charges. The additional recovery charge will be waived.

I am pleased that our relationship is robust enough to have a phone call to discuss these issues. Let me reassure you that the success of Canberra Airport is substantially due to the full and premium service that Qantas provides to the Canberra community.

We have gone to great trouble and expense to ensure your facility in Canberra is the best in the country. We pride ourselves in looking after our customers – though after the incident last week, you may have been unsure about that – but as I said in our phone discussion, this is not representative of our much broader and very positive relationship.

Please be assured that we are here to help.

Best wishes

Yours sincerely

Terry Snow, AM
Executive Chairman

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Attachment C - Extract from Canberra Airport's Confidential Submission to the Productivity Commission's Draft Report in October 2006 (pages 9 to 11)

Key features of Canberra Airport's terminal and airfield agreements are:

i. Transparency
Canberra Airport has negotiated these agreements on a fully open book process. This engenders an element of trust in the negotiations and eliminates any information asymmetry. This informs the airlines well into the future (due to the long term nature of airport investment) and also allows airlines to judge if and when regulatory intervention is warranted.

ii. Long terms
Canberra Airport's commercial agreements on the airfield services agreements currently extend five years (expiring midway through the next regulatory period in 2009), while the new passenger facility charge (terminal) agreements have a term of 15 years.

iii. Fixed price paths
Canberra Airport's terminal and airfield agreements feature fixed price paths that may only be altered for agreed new major capital expenditure (minor capital expenditure <$1m is included in the fixed price path, or major capital expenditure can be undertaken as long as it doesn't impact the agreed price path).

iv. No new charges to be levied by the Airport
With a fixed price path on existing charges, the airlines have also secured an undertaking for Canberra Airport not to introduce any other charges levied on the airlines for any other service. This is to prevent any revenue shortfalls resulting from the fixed prices being recovered by the Airport through other means.

v. 'Terms no less favourable'
This is a key tenet for the airlines in all agreements. This prevents the Airport from providing another airline with any more favourable terms, and includes price and non-price terms (such as access to facilities, branding, quality etc).

vi. Service level obligations
To ensure that any realised revenue shortfalls do not compromise service quality delivered by the Airport, the airlines required the Airport to commit to service levels to be met under the airfield and terminal agreements.

vii. No fuel throughput levy
While some submissions have claimed that Canberra Airport has implemented a fuel throughput levy (FTL), the Airport was required to contractually commit to not introduce a FTL. The requirement for an asset recovery charge was tabled by the Airport during negotiations and this was specifically provided for in the agreements by distinguishing the necessary investment recovery charge that would apply at Canberra Airport from the distinctly different FTL access fee.

viii. Risk sharing

The airlines perceive that the ACCC necessary new investment (NNI) process afforded airports a low risk investment (with too high asset betas). In the new terminal agreements, Qantas stated that it wants the Airport to have 'skin in the game' and, while maintaining NNI principles, elements of risk sharing have been introduced.

With long term agreements stipulating a fixed price path, no capacity to introduce any other charge, terms no less favourable and service level obligations, Canberra Airport cannot move. Whether Canberra Airport is subject to monitoring or not, the airlines have effectively secured their future. Canberra Airport is effectively unable to alter the price or non-price terms of an airline's use of the Airport.

It is also noted that the coverage of agreements negotiated by the airlines extends beyond regulated services to cover all aspects of the airline's operation at Canberra Airport. For example, as part of the terminal negotiations, Qantas included ancillary services such as staff car parking, office space, corporate lounge accommodation, ticketing and service counters in the negotiations.

Canberra Airport negotiated its commercial agreements with the airlines in good faith and they were entered into on an entirely voluntary basis by the airlines. It is noted that in entering the new terminal agreements, Qantas has opted to terminate its tenure over its owned terminal some 10 years early, providing it with significant bargaining power in negotiations with the Airport. Interestingly, Virgin Blue will also benefit from Qantas' bargaining power in these negotiations due to the obligation of 'terms no less favourable'.

With long term agreements, some that span multiple (5-year) regulatory periods and cover almost every aspect of an airline's presence at Canberra Airport, there is very little value to be obtained from ongoing formal monitoring. The reports for the next regulatory period could almost be written now. All that can be achieved from ongoing monitoring of Canberra Airport is the imposition of significant and unnecessary costs on the Airport and its users and serve to periodically undermine commercial relationships at the time of each regulatory report and review.

Attachment D – Qantas Financial Results 21 February 2019

Qantas Airways Limited
1H19 Results

21 February 2019

ASX:QAN
US OTC:QABSY

QANTAS GROUP

1H19 Highlights

Revenue strength substantially offset fuel cost increases

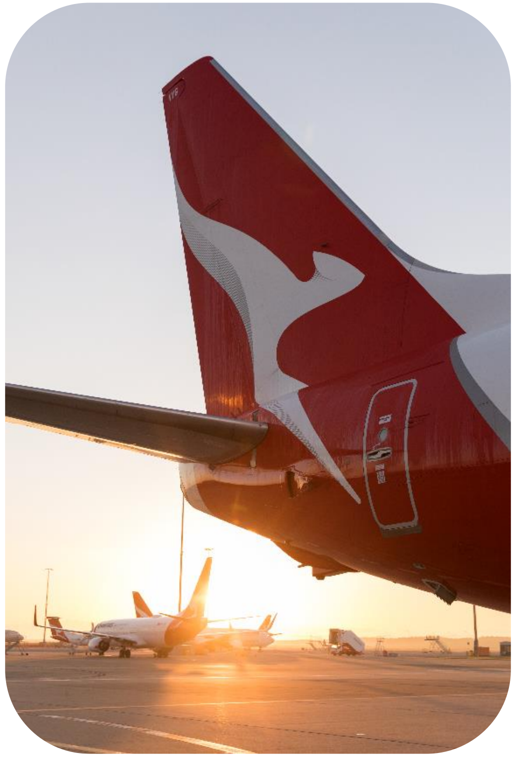
- First half Underlying Profit Before Tax (PBT)[1] $780m, Statutory PBT $735m, Statutory EPS 30.0 cps
- Continued strong Group Return on Invested Capital (ROIC) of 19.3%[2], All segments delivering ROIC > WACC[3]
- Record Qantas Domestic, Jetstar Domestic and Qantas Loyalty earnings[4], resilient performance from international airlines
- On track to deliver >$400m gross transformation benefits in FY19

Investing for our customers and people

- Three additional 787-9 Dreamliners entered into service
- Fleet introduction provided significant promotion opportunities

Financial framework continues to support shareholder returns

- Net Debt[5] of $5.2b, at the bottom of the target range
- 12 cents per share interim dividend, fully franked, additional on-market share buy-back of up to $305m



TRANSFORMED BUSINESS DELIVERS RESILIENT PERFORMANCE

1. Underlying PBT is a non-statutory measure and is the primary reporting measure used by the chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Qantas Group. All items in the 1H19 Results Presentation are reported on an Underlying basis, unless otherwise stated. For a reconciliation to Underlying PBT, please see slide 6 in the Supplementary presentation. All items restated for changes associated with the first time adoption of AASB 15. 2. Calculated as ROIC EBIT for the 12 months ended 31 December 2018, divided by the 12 months Average Invested Capital. 3. Weighted Average Cost of Capital calculated on a pre-tax basis. 4. Underlying EBIT for periods reported on a post AASB 15 basis. 5. Net Debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. For a detailed calculation of the Net Debt target range, please see slide 12 in the Supplementary presentation.

Integrated Portfolio Provides a Stable Earnings Base

Dual Brand Domestic strategy at the core of the Group's portfolio strength. Two largest[1] outbound airlines in Australia

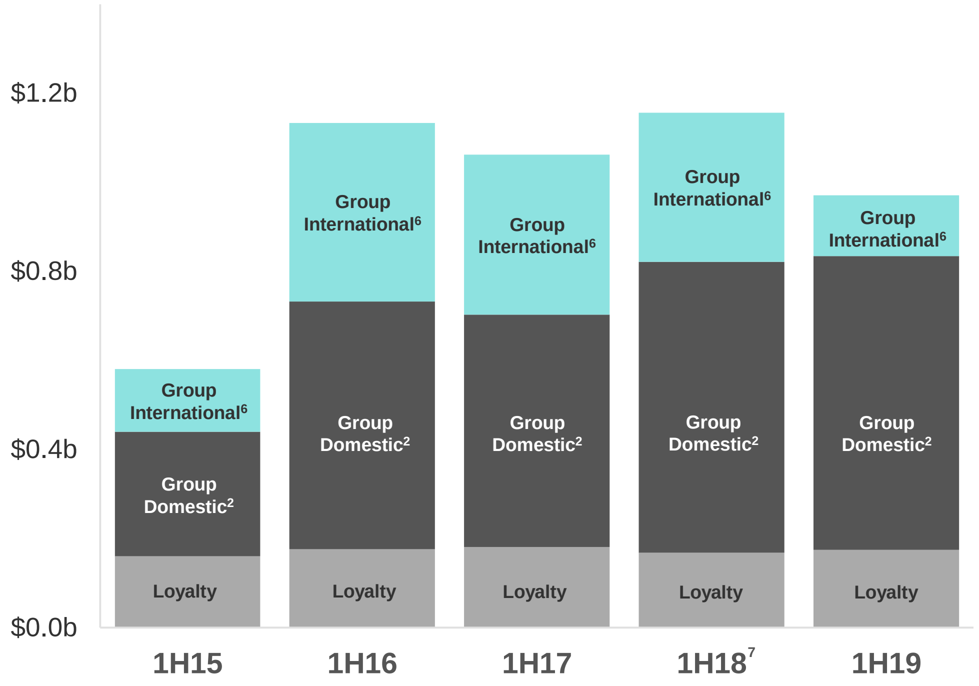
Record Group Domestic[2] Underlying EBIT[3] of $659m supported by proactive capacity management in rising fuel cost environment

Record Qantas Loyalty Underlying EBIT[3] providing growing and diversified earnings stream

Qantas International earnings[4] reduced by $219m fuel cost increase[5]. Fleet and network transition building resilience

Highly trusted brand that supports diversification into new businesses

Operating Segment EBIT[4]



INTEGRATED PORTFOLIO PROVIDES A STABLE EARNINGS BASE

1. Measured on Passengers. Source: BITRE Aviation International airline activity statistical report published data, November 2018. 2. Group Domestic includes Qantas Domestic and Jetstar Domestic. 3. Measured on Underlying EBIT for periods reported on a post AASB 15 basis. 4. Measured on Underlying EBIT. 5. Compared to 1H18. 6. Group International includes Qantas International, Jetstar International Australian operations, Jetstar New Zealand (including Jetstar Regionals), Jetstar Asia (Singapore) and the contributions from Jetstar Japan and Jetstar Pacific. 7. 1H18 restated for changes associated with the first time adoption of AASB 15.

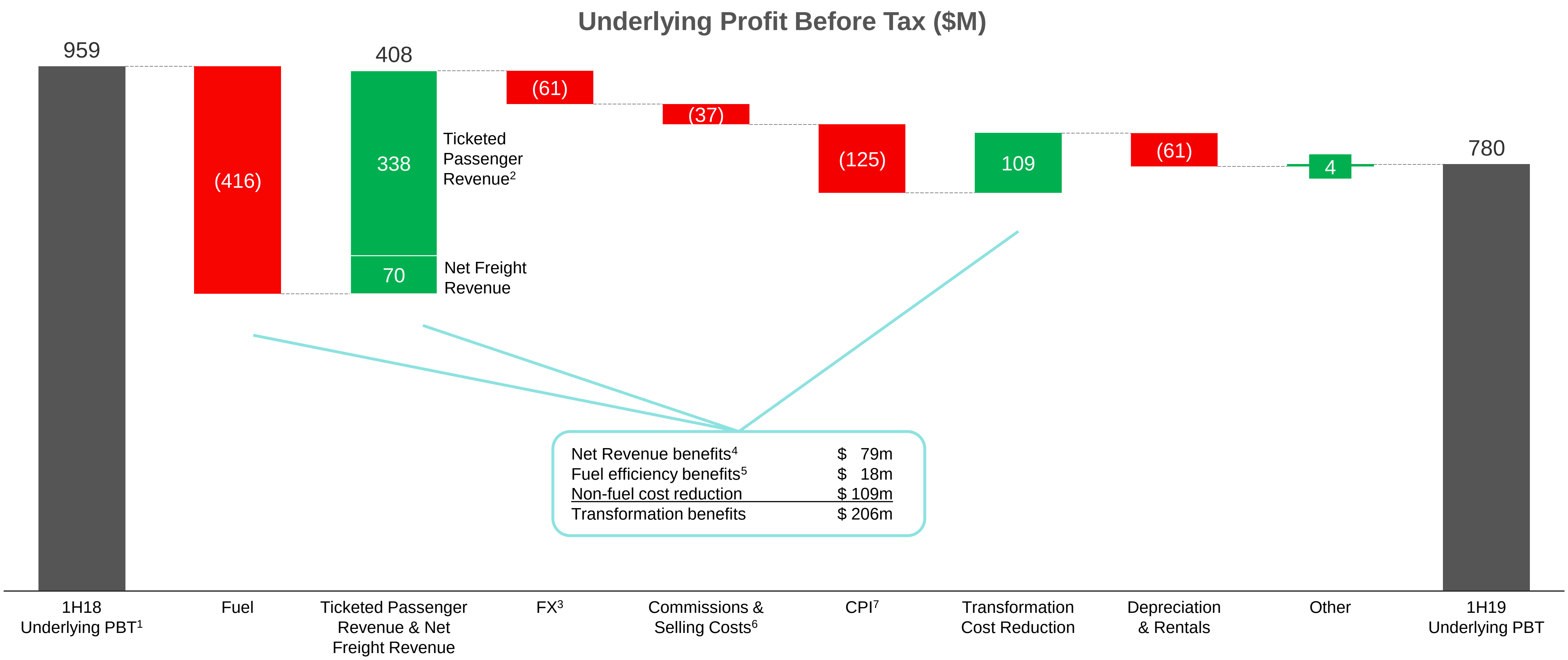
1H19 Key Group Financial Metrics

Underlying PBT[1]	Underlying EPS[3]	12 Month ROIC%	Cash Flow
$780m Down $179m[2] (fuel costs up $416m[2]) Statutory PBT $735m	31.8c Down 16%[2] Statutory EPS 30.0c Down 10%[2]	19.3% > WACC	$1,254m Operating cash flow, Down $480m[2] $218m Net free cash flow[4], Down $554m[2]

Unit Revenue[5]	Total Unit Cost[6]	Operating Margin[7]	Traffic/Capacity Growth
+5.7%	+9.8% +1.3% ex-fuel	9.5% Versus 12.0% in 1H18[8]	ASKs[9] -0.5% RPKs[10] +0.7%

1. Underlying PBT is a non-statutory measure and is the primary reporting measure used by the chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Qantas Group. All items in the 1H19 Results Presentation are reported on an Underlying basis unless otherwise stated. Refer to Supplementary slide 6 for a reconciliation of Underlying to Statutory PBT. 2. Compared to 1H18 restated for changes associated with the first time adoption of AASB 15, where applicable. 3. Underlying Earnings Per Share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 32.2%) divided by the weighted average number of shares during the year (consistent with the Statutory Earnings per share calculation). 4. Net cash from operating activities less net cash used in investing activities (excluding aircraft operating lease refinancing). 5. Ticketed passenger revenue divided by Available Seat Kilometres (ASK). Compared to 1H18 restated for changes associated with the first time adoption of AASB 15. 6. Underlying PBT less ticketed passenger revenue per Available Seat Kilometre (ASK). Compared to 1H18 restated for changes associated with the first time adoption of AASB 15. Ex-fuel refers to unit cost excluding fuel, FX on net non-fuel expenditure, impact of discount rates and actuarial assumptions, and share in investments accounted for under the equity method. 7. Group Underlying EBIT divided by Group Total Revenue. 8. 1H18 restated for changes associated with the first time adoption of AASB 15. 9. Available Seat Kilometres. Total number of seats available for passengers, multiplied by the number of kilometres flown. Compared to 1H18. 10. Revenue passenger kilometres. Total number of passengers carried, multiplied by the number of kilometres flown. Compared to 1H18 restated for changes associated with the first time adoption of AASB 15.

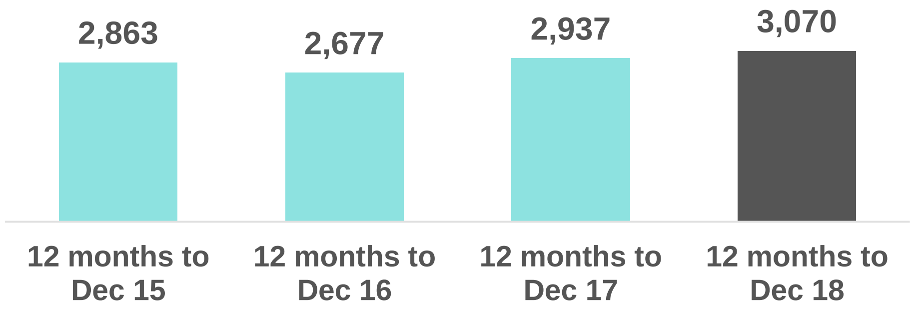
1H19 Profit Bridge



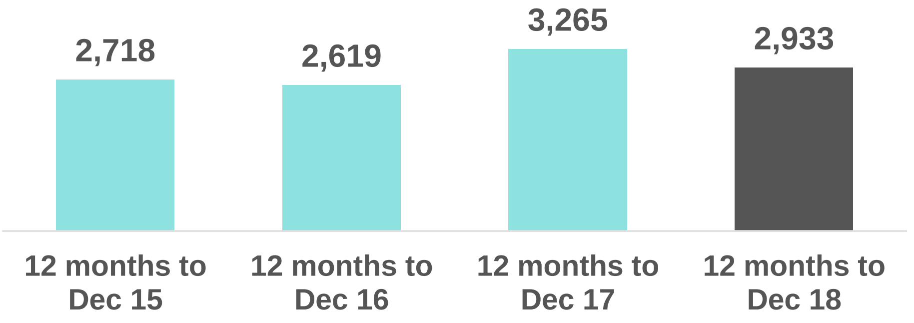
1. 1H18 Underlying PBT restated for changes associated with the first time adoption of AASB 15. 2. Represents the change in Unit Revenue and Available Seat Kilometres. 3. FX other than on ticketed passenger revenue, net freight revenue, fuel, commissions & selling costs and depreciation & non-cancellable aircraft operating lease rentals. 4. Revenue benefits less incremental costs associated with that benefit including costs of increased activity where related to a Transformation initiative. 5. Includes reduction in consumption from fuel efficiency and reduction in into-plane costs following Transformation initiatives. 6. Movement in selling, commissions and block codeshare costs, excluding Transformation benefits. 7. Company estimate, including wage and other inflation.

Operating Cash Flow Trend

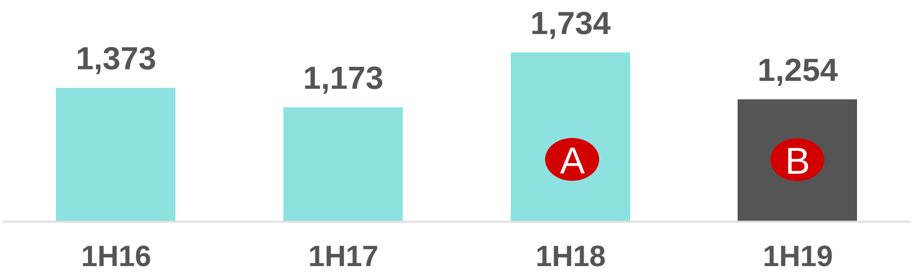
Rolling 12 Months Statutory EBITDA ($M)[1]



Rolling 12 Months Operating Cash Flow ($M)



First Half Operating Cash Flow ($M)



- Stable Statutory EBITDA[1]; Quality of earnings remains strong
- Fluctuation in operating cash flows impacted by the following timing differences:

A **1H18**
- Benefit of option premium relating to 1H18 paid in FY17
- Temporary working capital benefits

B **1H19**
- Higher option premium relating to FY20 paid in 1H19
- Reversal of temporary working capital benefits

STRONG OPERATING CASH FLOW GENERATION

1. Earnings before income tax expense, net finance costs, depreciation and amortisation. 1H18 and 2H18 restated for changes associated with the first time adoption of AASB 15.

Maximising Leading Dual Brand Domestic Position

Dual brand strategy at the core of Group's portfolio strength

$659m — **Record Group Domestic[1] Underlying EBIT in 1H19. Generating 80% of the Domestic market[2] profit from 62% capacity share**

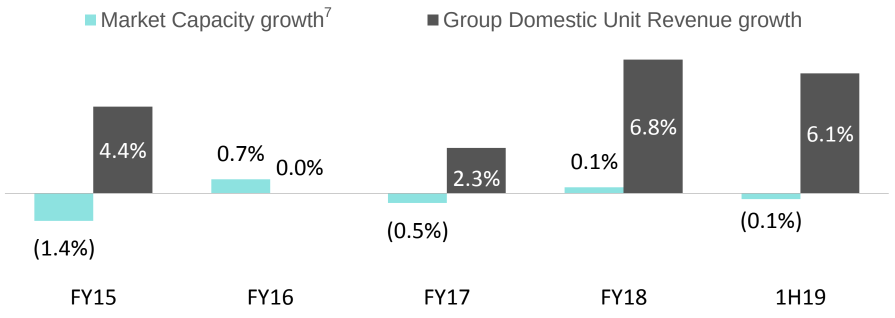
>10% — **>10% ROIC[3] for Qantas Domestic and Jetstar Domestic business**

6.1% — **Increase in Group Domestic Unit Revenue[4] in flat market capacity environment as market demand absorbed excess capacity**

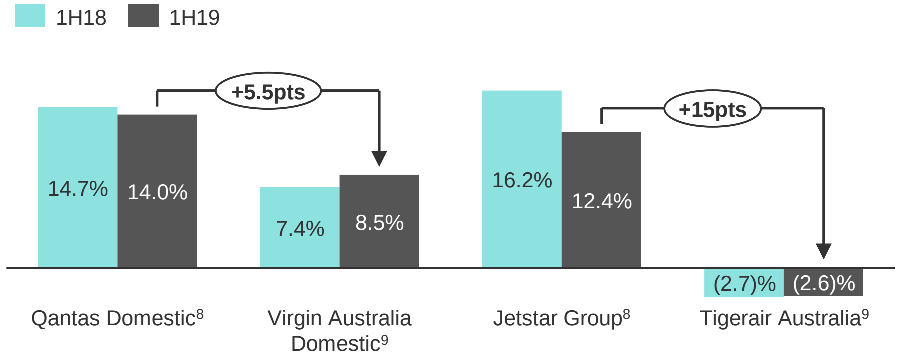
>5pts — **5.5pts margin advantage at Qantas Domestic compared to competitor[5]**

15pts — **15pts margin advantage at Jetstar Group compared to competitor[5]**

Group Domestic Unit Revenue Growth[6]



Domestic Margins



THE DUAL BRAND STRATEGY CONTINUES TO DELIVER SUPERIOR MARGINS

1. Includes Qantas Domestic and Jetstar Domestic business. 2. Domestic market includes Qantas Domestic, Jetstar Domestic business, Virgin Australia Domestic and Tiger Australia. 3. Calculated as ROIC EBIT for the 12 months ended 31 December 2018, divided by the 12-months Average Invested Capital. 4. Compared to 1H18 restated for changes associated with the first time adoption of AASB 15. 5. Competitor refers to Virgin Australia Domestic for Qantas Domestic and Tiger Australia for Jetstar Group. 6. Compared to prior corresponding period. 7. Compared to prior corresponding period. Market capacity growth source: BITRE capacity data and published schedules. 8. Calculated as Underlying segment EBIT divided by total segment revenue. 1H18 restated for changes associated with the first time adoption of AASB 15. 9. Competitor operating margins calculated using published data. Calculated as Underlying segment EBIT divided by total segment revenue.

Building a Resilient Qantas International

$90m — **Qantas International Underlying EBIT in 1H19 reduced by a $219m fuel cost increase[1]. Fleet and network transition building resilience**

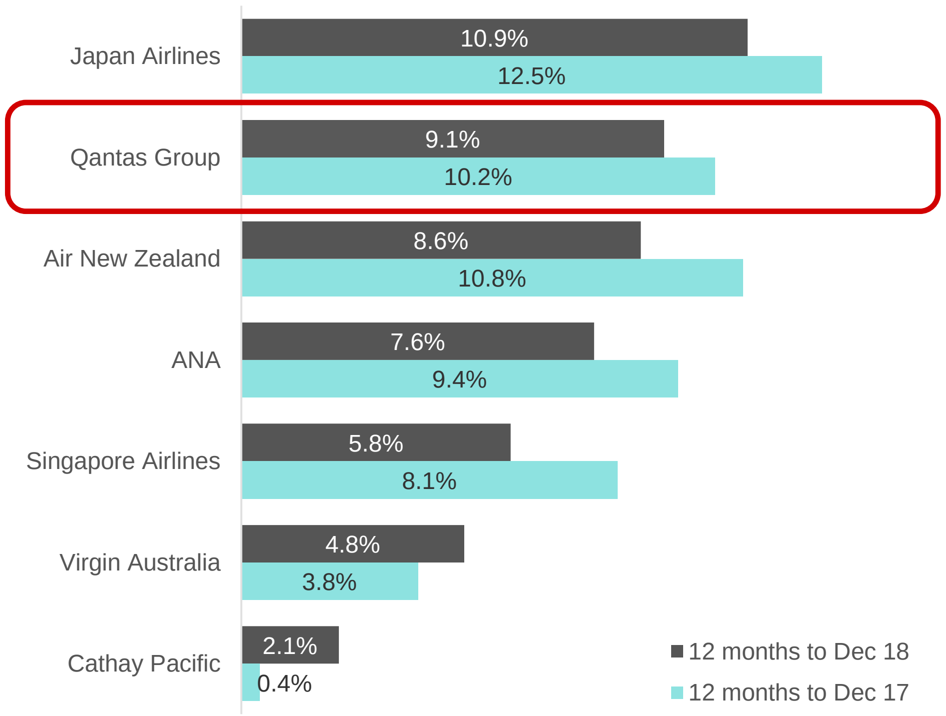
5% — **Increase in Qantas International Unit Revenue compared to 1H18[2]**

8 — **787-9 Dreamliner fleet expanded from 5 to 8, fleet to grow to 14 by the end of calendar year 2020**

30% — **Premium seat mix on 787-9 Dreamliner, contributing to Qantas International Unit Revenue growth**

92% — **Seat factor on Perth – London route, achieving highest NPS in the Qantas network**

Rolling 12 Months Airline Group Operating Margin[3]



STRONG GROUP MARGIN RELATIVE TO REGIONAL PEERS

1. Compared to 1H18. 2. 1H18 restated for changes associated with the first time adoption of AASB 15. 3. Calculated as EBIT (or equivalent) divided by Total Revenue. Regional peer margins calculated using published Group level data. Air New Zealand and Cathay Pacific based on Bloomberg estimates as at February 2019. For all airlines, the rolling 12 months Airline Group Operating Margin represents the period 1 January to 31 December for the corresponding year. These figures have been restated for AASB 15 where available.

Segment Results

Qantas Domestic

- Record[1] first half Underlying EBIT, Unit Revenue up 7.5%
  - Recovered increased fuel costs
  - Disciplined capacity management; includes impact of increased pilot training
  - Continued leadership in corporate market share; growing SME[2] share
  - Resource market revenue growth[3] continues; a ~$28m increase in 1H19
- Investment in customer experience
  - Almost two-thirds of 737-800 and half of A330 fleets Wi-Fi equipped
  - >15pts customer advocacy advantage to competitor[4]
  - Achieved highest on time performance in domestic market 5 out of 6 months during the first half[5]
  - Resident fares expanded to selected regional markets
  - Melbourne Domestic Lounges upgrade and Tamworth Lounge refresh completed

		1H18 (Reported)	1H18 (Restated)	1H19	VLY %[8]
Revenue	$M	3,070	3,057	3,230	5.7
Underlying EBIT	$M	447	449	453	0.9
Operating Margin[6]	%	14.6	14.7	14.0	(0.7)pts
ASKs	M	17,681	17,681	17,314	(2.1)
Seat factor[7]	%	78.7	78.7	79.6	0.9pts

MAINTAINING OUR LEADING POSITION IN THE DOMESTIC MARKET

1. For Qantas Domestic segment, reported as an operating segment since FY13. 2. Small to Medium Enterprise. 3. Resource market ticketed passenger revenue compared to 1H18. Based on Qantas internal reporting. 4. Customer advocacy measured as Net Promoter Score (NPS). Competitor refers to Virgin Australia. Based on Qantas internal reporting. 5. On time performance (OTP) of Qantas Domestic operations, measured as departures within 15 minutes of scheduled departure time. Source: BITRE. 6. Operating Margin calculated as Underlying segment EBIT divided by total segment revenue. 7. RPKs divided by ASKs. Record first half seat factor of 83% achieved in 1H10. 8. Variance to 1H18 restated for changes associated with the first time adoption of AASB 15.

Qantas International

- Strong Unit Revenue growth of 5.0% offset by a $219m increase in fuel cost and increase in other costs including:
  - FX on non-fuel costs, cost of increased activity, commissions and selling costs
  - Continued operation of 747 fleet; 1 aircraft retired during 1H19
- Strong competition on the USA market, London performing well
- New network structure and 787-9 Dreamliner fleet building resilience
  - 787-9 Dreamliner fleet expanded from 5 to 8 aircraft; benefits to flow in 2H19
  - Perth – London service achieving highest NPS in the Qantas network
- Competitor capacity growth moderated to 3.8%[1] in 1H19
- Strengthening core airline partnerships, including Emirates and China Eastern; Additional codeshare partners, including KLM and Cathay Pacific
- Continuing investment in customer experience
  - New Singapore First lounge set to open towards the end of 2019
  - A380 cabin upgrade to commence mid 2019

		1H18 (Reported)	1H18 (Restated)	1H19	VLY %[2]
Revenue	$M	3,439	3,460	3,693	6.7
Underlying EBIT	$M	222	224	90	(60)
Operating Margin	%	6.5	6.5	2.4	(4.0)pts
ASKs	M	34,714	34,714	35,151	1.3
Seat factor	%	84.4	84.4	85.5	1.1pts

FLEET AND NETWORK TRANSITION TO BUILD EARNINGS RESILIENCE

1. 1H19 International competitor market capacity growth compared to 1H18. 2. Variance to 1H18 restated for changes associated with the first time adoption of AASB 15.

Jetstar Group

- Jetstar Group solid earnings performance with revenue up 5.1%
  - Record Domestic result[1] with Unit Revenue up 3.7%, improved seat factor and 11% increase in Ancillary revenue per passenger offsetting higher fuel
  - International[2] achieved strong Unit Revenue growth offset by increased fuel and FX[3] impact
  - Jetstar's Asian airlines portfolio[4] profitability also impacted by higher fuel costs, FX[3] and airport charges and taxes
- Strong demand continuing for key long-haul markets, including Bali, Japan, Thailand and Vietnam
- Almost two-thirds of fares sold[5] for under $100, maintaining affordability
- Continuing investment in customer experience, digital transformation and operational improvements
  - Ancillary strength driven by successful launch of 'Plus 3kg' carry on, increased catering and bundles, and Club Jetstar growth to more than 300,000 members[6]
  - More than 80% of Cabin Enhancement Program for A320/321 retrofit complete, remaining aircraft on track for completion in 2019

		1H18 (Reported)	1H18 (Restated)	1H19	VLY %[8]
Revenue[7]	$M	1,936	1,949	2,048	5.1
Underlying EBIT	$M	318	315	253	(20)
Operating Margin	%	16.4	16.2	12.4	(3.8)pts
ASKs	M	24,845	24,845	24,389	(1.8)
Seat factor	%	85.7	85.7	86.6	0.9pts

STRONG FUNDAMENTALS DRIVE SOLID JETSTAR GROUP PERFORMANCE

1. Underlying EBIT. 2. Includes Jetstar International Australian operations and Jetstar New Zealand (including Jetstar Regionals). 3. Jetstar Group, excluding affiliates, impacted by $27m FX increase on non-fuel costs. 4. Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific (Vietnam). 5. Airfares sold within the Jetstar Group including Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific (Vietnam) for the 12 months to December 2018. 6. Members as at January 2019. 7. Revenue consolidated by the Qantas Group, does not include Jetstar Japan and Jetstar Pacific. 8. Variance to 1H18 restated for changes associated with the first time adoption of AASB 15.

Qantas Loyalty

- Record[1] first half Underlying EBIT result up 4.2%
  - EBIT growth in Coalition and New Businesses
- Coalition Business fundamentals remain strong with positive momentum
  - Qantas Points earning credit card growth outpacing market[2], 4% growth versus 1% decline in the market
  - New earn partners launched – AustralianSuper; >90 new earn partners
  - Expanding member redemption options; total points redeemed up 12%; further program enhancements to drive member advocacy underway
  - Qantas Business Rewards membership growth of 9%[3] supporting SME strategy
- Continued strong growth in New Businesses
  - Qantas Insurance #2 in Health Insurance market for growth[4] with one of the lowest average premium increases[5]
  - Qantas Premier Titanium card launched[6]; strong take up of Qantas Premier Platinum and Everyday cards

		1H18 (Reported)	1H18 (Restated)	1H19	VLY %[7]
Revenue	$M	763	747	809	8.3
Underlying EBIT	$M	184	168	175	4.2
Operating Margin	%	24.1	22.5	21.6	(0.9)pts
QFF Members	M	12.0	12.0	12.6	4.4%[8]

ON TRACK TO ACHIEVE TARGET OF $500-600M UNDERLYING EBIT BY 2022

1. For periods reported on a post AASB 15 basis. 2. Qantas Points earning credit cards includes co-branded credit cards and Qantas Premier cards. Based on RBA credit and charge card statistics at December 2018 and Qantas internal analysis. 3. Members at December 2018 compared to June 2018. 4. Based on 12 months to June 2018 growth in net persons insured compared to all Australian Private Health Insurance funds. Source: APRA Operations of Private Health Insurers Annual Reports 2016-2017 and 2017-2018. 5. Qantas Health Insurance average premium increase of 1.76%, effective 1 April 2019. One of the lowest when compared to 37 private health funds' average premium increases. Source: Australian Government Department of Health, excludes the Australian Government Rebate. 6. Qantas Premier Titanium card launched in February 2019. 7. Variance to 1H18 restated for changes associated with the first time adoption of AASB 15. 8. Adjusted to remove the impact of rounding of member numbers.

Financial Framework

QANTAS GROUP

Financial Framework Aligned with Shareholder Objectives

1. Maintaining an Optimal Capital Structure

Minimise cost of capital by targeting a Net Debt range of $5.2b to $6.5b[1]

(See slide 16)

2. ROIC > WACC[2] Through the Cycle

Deliver ROIC > 10%[3] through the cycle

(See slides 17 to 18)

3. Disciplined Allocation of Capital

Grow invested capital with disciplined investment, return surplus capital

(See slide 19 to 20)

↓

MAINTAINABLE EPS[4] GROWTH OVER THE CYCLE

↓

TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE[5]

1. Based on current Average Invested Capital of ~$8.9b. 2. Weighted Average Cost of Capital, calculated on a pre-tax basis. 3. Target of 10% ROIC allows ROIC to be greater than pre-tax WACC through the cycle. 4. Earnings per Share. 5. Target Total Shareholder Returns within the top quartile of the ASX100 and global listed airline peer group as stated in the 2018 Annual Report, with reference to the 2018-2020 LTIP.

Maintaining an Optimal Capital Structure
Leverage and liquidity

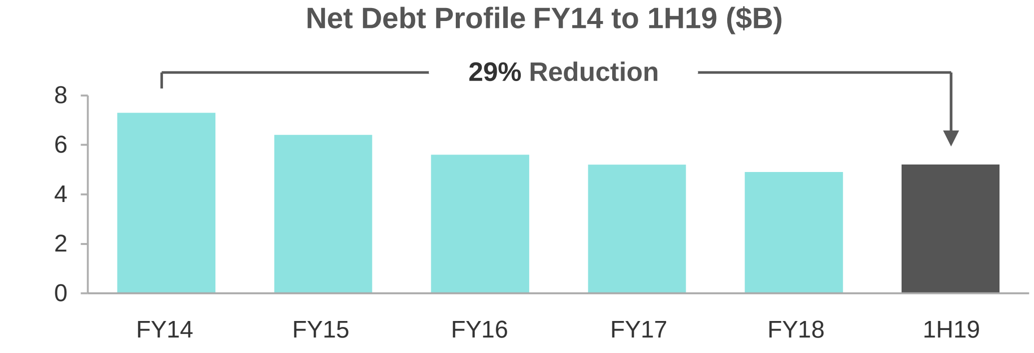
Optimal capital structure

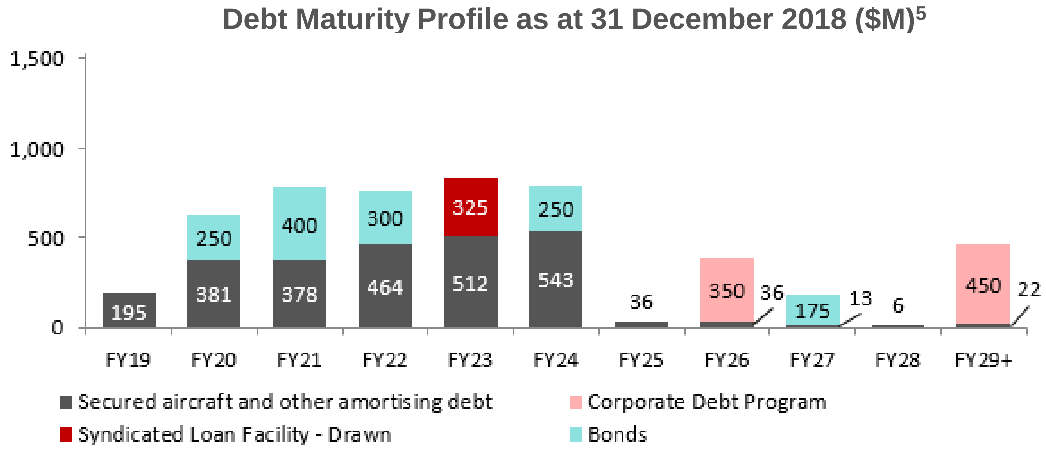
- Net Debt[1] at $5.2b, at the bottom of the target range
- Extended innovative A$ Corporate Debt Program; refinancing FY19 maturities
  - Second issuance – 10 year tenor; $450m
  - Debt secured by portfolio of 24 mid-life aircraft
- Unencumbered aircraft valued at ~US$3.7b[2]
  - 55% of Group fleet[3]
  - 3 new 787-9s added to the unencumbered pool in 1H19
- Investment Grade credit rating with no financial covenants

Strong short term liquidity

- Cash $1.5b[4]; Undrawn facilities $1b

Lowers cost of debt





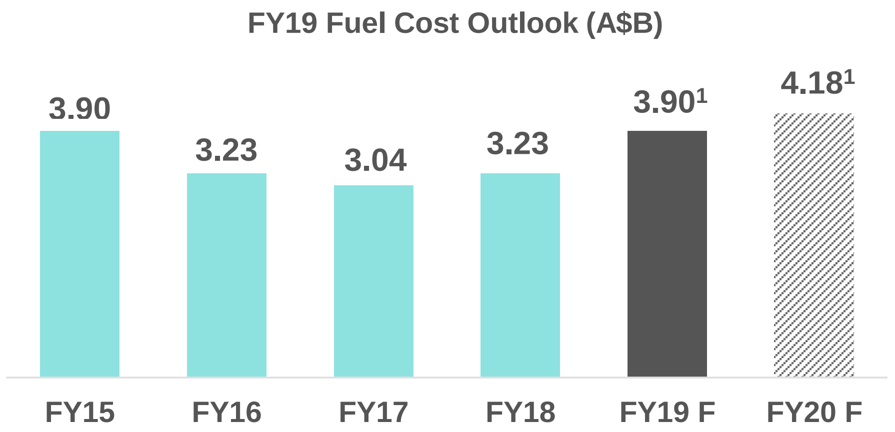
DE-RISKING SHORT AND MEDIUM TERM REFINANCING AND MAXIMISING TENOR

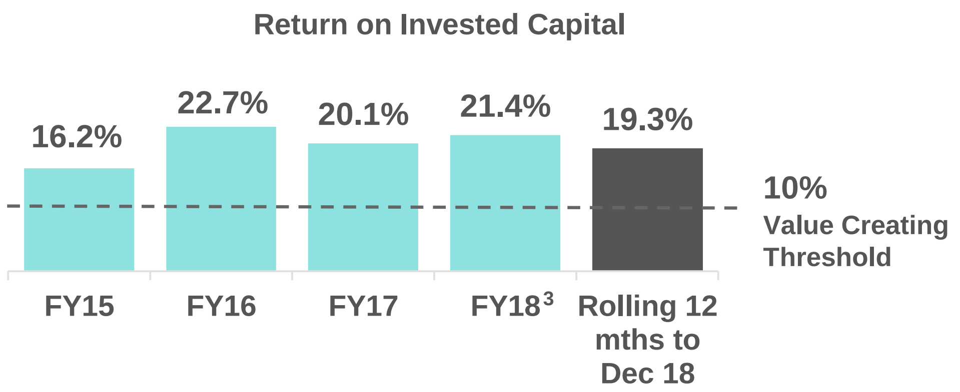
1. Net Debt includes on balance sheet debt and aircraft operating lease liabilities under the Group's Financial Framework. Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate. 2. Based on Aircraft Value Analysis Company Limited (AVAC) market values. 3. Based on number of aircraft as at 31 December 2018. The Group fleet totalled 315 aircraft. 24 Aircraft entered the Corporate Debt Program, 3 new 787-9s added to the unencumbered pool and 2 leased aircraft were refinanced to unencumbered aircraft in 1H19. 4. Includes cash and cash equivalents as at 31 December 2018. 5. Cash debt maturity profile excluding operating leases.

Delivering ROIC >10% Through the Cycle

Protecting ROIC through the disciplined hedging program

- At current pricing FY19 fuel cost is expected to be ~A$3.90b[1]
  - Expected fuel cost is 90% hedged for the remainder of FY19
  - An average of ~73% participation[2] to declines in USD Brent prices for the remainder of the financial year
- Opportunistically extended FY20 hedge profile
- FY20 expected fuel cost of ~A$4.18b[1] is fully hedged with protection in place against adverse movements
  - 73% participation[2] to favourable price movements
- Operational flexibility to mitigate rising fuel costs over the medium to longer term





MAINTAINED STRONG ROIC IN RISING FUEL ENVIRONMENT

1. As at 18 February 2019. FY19 assumes forward market rates of Jet Fuel USD 81.70/bbl and AUDUSD 0.7135. FY20 assumes forward market rates of Jet Fuel USD 82.90/bbl and AUDUSD 0.7135. Actual fuel costs in FY19 and FY20 could also be impacted by changes in refiner margins. 2. Participation from current market Brent prices down USD 10/bbl for remainder of FY19 and FY20. 3. FY18 restated for the first time adoption of AASB 15.

Delivering ROIC >10% Through the Cycle

Transformation status

Achieved $206m Transformation benefits in 1H19[1]

- **Continuous improvement resulting in cost benefits of $109m**
  - Group wide efficiencies, including warehousing, supply chain, procurement and IT
  - IT demand management
  - Supplier reviews – e.g. warranties, unclaimed benefits
- **Fuel efficiency benefits[2] of $18m**
  - New Flight Planning System
  - Increased access to lower fuel burn options – e.g. single engine taxi
- **Net revenue benefits[3] of $79m**
  - Additional 787-9 Dreamliners, retirement of 747s, Jetstar A320 cabin enhancement
  - Network restructures including Perth and London hub restructure
  - Products to customers - Qantas Business Rewards; Personalisation

57% of FY19 pipeline completed[4]

Additional initiatives for the remainder of FY19

- Telemetry technology on ground equipment to improve tracking and efficiency
- Flight pulse pilot application (fuel usage)
- Third party management – e.g. analytics, sourcing, disruption hotel bookings, billing & reconciliations
- Expansion of digital channels for servicing and disruption providing more choice for our customers

Five years of Transformation

- Embedded throughout the business processes
- Constant prioritisation of ideas and opportunities
- Continuous improvement mentality

ON TRACK TO DELIVER BENEFITS OF AT LEAST $400M IN FY19

1. See Supplementary slide 5 for details of Transformation costs treated as items not included in Underlying PBT for 1H19. 2. Includes reduction in consumption from fuel efficiency and reduction in into-plane costs following Transformation initiatives. 3. Revenue benefits less incremental costs associated with that benefit including costs of increased activity where related to a Transformation initiative. 4. Initiative milestones completed to unlock benefits towards the annual target.

Disciplined Capital Allocation
Disciplined capital expenditure

- Net capital expenditure[1] of $1.0b in 1H19, excluding aircraft operating lease refinancing
  - 3 new 787-9 Dreamliners delivered
  - Reconfiguration and refresh programs for A321, A380 and Turboprop aircraft
  - Lounges upgraded
  - Continued investment in Transformation
- FY19 net capital expenditure[1] forecast of $1.6b, up from previous guidance of $1.0b. The movement is attributed to:
  - Exclusion of proceeds for the sale of the Perth Domestic Terminal Lease, now not expected in FY19
  - Brought forward aircraft payments; disciplined use of surplus capital for commercial advantage
  - Previous guidance excluded purchase of stake in Alliance Aviation Services

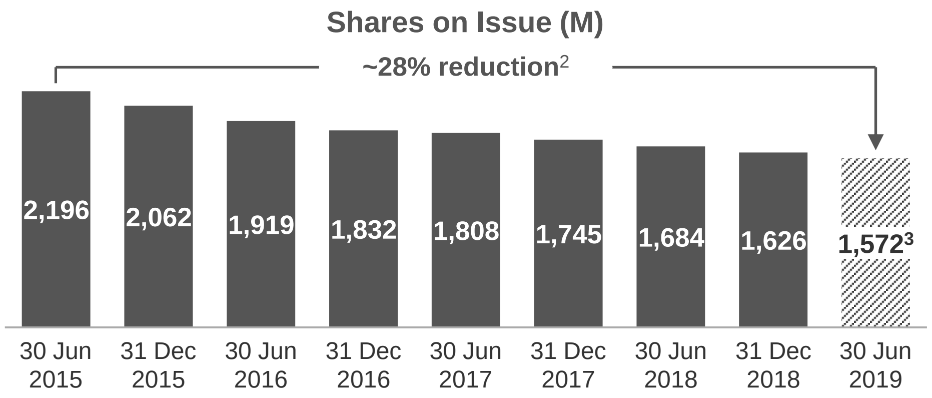
FINANCIAL FRAMEWORK GUIDES DISCIPLINED ALLOCATION OF SURPLUS CAPITAL

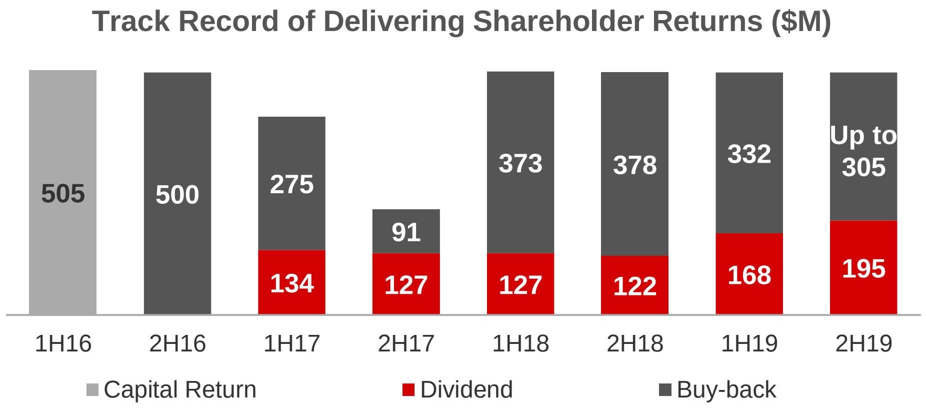
1. Equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) and the impact to Invested Capital from the disposals/acquisitions of operating leased aircraft.

Disciplined Capital Allocation

Shareholder distributions

- Completed on-market share buy-back of $332m in 1H19
  - 3.4% of issued capital purchased
  - 26%[1] reduction in shares on issue since October 2015 at an average price of $4.46
- On-market share buy-back of up to $305m announced
  - ~28%[2] reduction in shares on issue at completion of this buy-back
- Base interim dividend of 12 cents per share declared, fully franked, totalling $195m





>$3.6B OF CAPITAL RETURNS[4] TO SHAREHOLDERS SINCE OCTOBER 2015

1. Reduction in shares calculated against balance as at 1 July 2015. 2. Reduction in shares calculated against balance as at 1 July 2015. Represents indicative reduction in shares where announced buy-back is calculated based on closing share price on 15 February of $5.73. 3. Represents indicative number of shares where announced buy-back is calculated based on closing share price on 15 February of $5.73. 4. Subject to completion of announced on-market share buy-back of up to $305m.

Outlook

Outlook

2H19 – Domestic and International Operating Environment

- We believe the Group is well positioned for a strong second half and to completely recover our increased fuel cost by the end of this financial year
  - Forward bookings, up 6.8% as at 31 December 2018[1], includes impact of Easter falling in Quarter 4, reducing RASK growth for Quarter 3
  - Quarter 4 includes more favourable alignment of Easter, school holidays and ANZAC Day, expected to more than offset the negative impact of the Federal Election
- Group capacity expected to be flat[2] for 2H19
  - Group Domestic capacity expected to be flat[2] for 2H19. Expecting continued Unit Revenue growth; albeit at a lower rate than 1H19
  - Group International capacity expected to be flat[2] for 2H19. Expecting higher Unit Revenue growth than 1H19 as competitor capacity additions moderate. Expecting competitor capacity addition of 0.3% for second half[2], including a 0.5% reduction in the Northern Summer schedules[3]
  - Expecting to generate significant net free cash flow

FY19 Group Outlook

- Current Group operating expectations:
  - FY19 fuel cost expected to be $3.90b[4]; ~$250m higher in 2H19[2]
  - FY19 net depreciation and non-cancellable aircraft operating lease rentals expected to be ~$120m higher than FY18
    - ➢ Excluding accelerated depreciation and amortisation expenses which is held in Items Outside of Underlying
  - FY19 Transformation benefits (cost, fuel efficiency and net revenue) expected to be at least $400m
  - FY19 inflation impact on expenditure forecast to be ~$250m (including wage growth)
  - Qantas retains significant flexibility to respond to market conditions

1. Compared to the balance as at 31 December 2017. 2. Compared to 2H18. 3. Compared to prior corresponding period. Northern Summer schedule represents 31 March 2019 to 27 October 2019 in 2019, and 25 March 2018 to 28 October 2018 in 2018. 4. As at 18 February 2019. FY19 assumes forward market rates of Jet Fuel USD 81.70/bbl and AUDUSD 0.7135. Expected fuel costs for the remainder of FY19 assume that the long term correlation between oil prices and the AUD/USD exchange rate holds. Actual fuel costs for FY19 could be impacted by a breakdown in this assumed correlation or by increases in refiner margins.

Questions?

QANTAS GROUP

Disclaimer & ASIC Guidance

This Presentation has been prepared by Qantas Airways Limited (ABN 16 009 661 901) (Qantas).

Summary information
This Presentation contains summary information about Qantas and its subsidiaries (Qantas Group) and their activities current as at 21 February 2019, unless otherwise stated. The information in this Presentation does not purport to be complete. It should be read in conjunction with the Qantas Group's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange, which are available at www.asx.com.au.

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Financial data
All dollar values are in Australian dollars (A$) and financial data is presented within the six months ended 31 December 2018 unless otherwise stated.

Future performance
Forward looking statements, opinions and estimates provided in this Presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.

An investment in Qantas shares is subject to investment and other known and unknown risks, some of which are beyond the control of the Qantas Group, including possible delays in repayment and loss of income and principal invested. Qantas does not guarantee any particular rate of return or the performance of the Qantas Group nor does it guarantee the repayment of capital from Qantas or any particular tax treatment. Persons should have regard to the risks outlined in this Presentation.

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ASIC GUIDANCE
In December 2011 ASIC issued Regulatory Guide 230. To comply with this Guide, Qantas is required to make a clear statement about whether information disclosed in documents other than the financial report has been audited or reviewed in accordance with Australian Auditing Standards. In line with previous years, this Presentation is unaudited. Notwithstanding this, the Presentation contains disclosures which are extracted or derived from the Consolidated Interim Financial Report for the half year ended 31 December 2018 which has been reviewed by the Group's Independent Auditor.

Attachment E – Correspondence to the Minister for Infrastructure, Transport, Regional Development and Local Government

SB:mk
Our ref:GOV:CTH

14 November 2008

The Hon Anthony Albanese, MP
Minister for Infrastructure, Transport,
Regional Development and Local Government
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Minister

Update on New Terminal and Finance Issues

I am writing to update you on the status of our new Southern Terminal Concourse Extension project and our efforts to commence that project, given the current instability in world financial markets.

Background

In November 2007, we signed a commercial agreement with Qantas Airways to build a new Southern Terminal Concourse at Canberra Airport. After subsequent planning and design work, construction was expected to commence September 2008.

Under the 15 year agreement, Qantas agreed to pay a per passenger charge for use of the terminal facilities and this charge has been set for the whole 15 years. This charge cannot be increased outside of the scope of the agreement by Canberra Airport, nor can Qantas decrease the charge. The same charge, neither higher nor lower, must also be applied to other airlines for the provision of terminal facilities. Charges for lounge rents, office rents and all other terminal facilities have also been agreed and have been set for the 15 year term of the agreement. Finally, there is a specific provision which totally excludes the introduction of any new charges for whatever reason (other than for Government mandated security requirements).

Under the agreement between Canberra Airport and Qantas, the Airport takes a number of risks, all of which were much less significant issues when the pricing terms were being negotiated throughout 2006 and the first half of 2007. In that regard it is relevant that:

- The airport takes the construction risk – any increase in construction costs cannot result in a higher passenger charge. Since signing this agreement last November, this has become a significant concern with a massive escalation in steel and copper prices, together with the skills and the labour shortage in the construction industry. Notwithstanding recent falls in commodity prices, these have not yet flowed through into construction prices.

- The airport takes the passenger volume risk – if passenger numbers do not achieve the forecast 4-5% annual growth, which was assumed in setting the passenger charge over the 15 years, there is no capacity to increase the price. As such, the airport is also taking a significant share of the risk in relation to the world oil price which was in the order of $40-$60 per barrel when the prices under the agreement were set. It was due to the high oil price in May 2008 that design development stopped for 2 – 3 months. In addition, since the agreement was signed, Qantas passenger numbers have in fact deteriorated markedly.

- The airport takes the interest rate and financing risk. Obviously as the contractual party responsible for the capital spend to deliver the infrastructure, the airport is responsible for financing and consequently interest rate risk.

- Inflation – given that the passenger charge under the agreement has been fixed, once again at a time when there was long term inflation stability, there is no capacity to change the price for changes in inflation. As such, because the airport is spending all of the capital expenditure at the beginning of the 15 year period, it is subject to the risk of changes in inflation over the 15 years.

The Global Financial Crisis and Putting the Terminal Construction on Hold

In early October, with American and European banks collapsing at the rate of 2 to 4 per week and the TARP package not yet approved, the decision was taken by the Canberra Airport Board to delay commencement of the terminal construction. The decision was taken because whilst the terminal construction project had in place a signed and agreed arrangement with its three banks, Commonwealth, Westpac and the German bank WestLB, to finance the construction (this was completed 28 May 2008), part of the airport's general financing facility with the three banks is due to rollover (although contractually it is due to expire) in mid December 2009.

Prior to the coordinated global action to guarantee bank deposits, the primary risk of the global financial crisis and its massive deleveraging was on the capacity of the Australian banks to be able to fund or finance its current level of borrowings from the global financial markets. Unless conditions improved, the Australian banks would have been forced to substantially reduce their lending levels and the Airport was concerned that this would include a forced reduction in the amount that was due for rollover in December 2009. This would have stopped the terminal construction two thirds through the project.

Global Financial Crisis Now Following the Bank Guarantees by Governments

The decision by the Australian Government to guarantee bank deposits has significantly improved the short and long term financial situation insofar as the capacity of the Australian banks to lend to the Australian market. We have been advised in our ongoing discussions with each of our three banks that the capability of the banks to obtain funding to enable them to continue to lend in the Australian market has been substantially improved by the government bank guarantee and the flight of depositors to the top four Australian banks. However, three issues still remain:

1. The story now for the banks is one of capital (rather than the ability to get funding), and it is for this reason that they will be very conservative and prudent in terms of the use of their limited capital on their balance sheet. In short, borrowing will not be easy.

2. By and large the foreign banks will be absent from the local market and will not be lending money for some time to come. This increases the load on the Australian banks as does the fact that the credit markets remain either closed or with very limited liquidity. The Australian banks will be required to pick up the slack from the absence of foreign banks and expiry of market debt instruments which will need to be refinanced by banking debt.

3. The question of price – for ourselves, our margin payable to the bank has increased by 5 times (i.e 500%) and it is unlikely that this will improve and indeed the risk is that this may continue to deteriorate.

4. The other challenge for the foreign banks is that notwithstanding the Government's guarantee on interbank lending, by and large the Australian banks continue to be highly reluctant to lend to foreign banks.

Notwithstanding the above continuing challenges and concerns, the overriding advice from our banks is that some level of funding capability has returned and good quality businesses with low levels of gearing should be able to obtain a rollover of existing levels of debt, whilst obtaining new levels of expansionary debt, will be very difficult. It is fortunate that we secured our debt facilities for the new terminal in May this year.

Where to from Here?

We have worked intensively over the last six weeks on revising our own financial plans, our levels of capital expenditure and engaged our banks to determine how we are able to proceed with the new Southern Terminal Concourse Extension. We are fortunate to have a significant amount of long term lease revenue which is not exposed to the airline business, nor to the risk of the revenue reducing in the next 18 – 24 months as we face the significant risk of a major financial downturn. Our banks are placing great reliance upon this more certain income stream. As well, we have significantly reduced our capital expenditure program over the next three years but I am pleased that we have retained a commitment to build the Southern Terminal Concourse Extension. We are currently reviewing other major aviation projects including substantial new apron works, a blast fence at the end of the main runway, the Australian Air Express freight facility and the Taxiway Bravo extension.

Following our latest round of meetings with each of our three banks last Friday, our Board has met this week and resolved to make a commencement on the first package of works for the Southern Terminal Concourse Extension (approx $10million). We will monitor the status of the financial markets and continue to work closely with our banks over the period between now and early March, as those works are undertaken. At that point we will make a further decision as to the ability for the project to continue through to completion.

In these uncertain times, there are not many businesses willing to embark on such a significant infrastructure project, but we are at a point where we need to move ahead one way or the other. We believe the Australian Government has done its job in assisting the banking system through the deposit guarantee and it is time for business to also play its role in continuing to invest and grow our economy. However, nothing is certain and we do not know what the financial state of the world or Australia will be in February / March next year. We will continue to keep you and your department updated on our ability to proceed with this project as events unfold.

Finally, I would be grateful for an opportunity to brief you on the new Southern Concourse Terminal project at a time that it suitable to your very busy work commitments, noting that this could either be in Sydney or Canberra.

Yours sincerely

Stephen Byron
Managing Director

CANBERRA AIRPORT

AL:mm
Our ref: LEG:GEN

Commercial in confidence

25 January 2012

The Hon Anthony Albanese MP
Minister for Infrastructure and Transport
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Minister,

Update on Terminal and Passenger Volumes

In December 2008 I wrote to you to update you on the progress of the Southern Concourse Terminal development at Canberra Airport, and to highlight a number of financial issues that we were then facing with the Global Financial Crisis (GFC I).

In that letter I noted that while we had agreed and executed commercial arrangements with Qantas to facilitate the development of the Southern Concourse Terminal, due to the economic uncertainty of the time we had to take a prudent approach to the commencement of any works. We also noted that under those commercial arrangements with Qantas:

- The charges to be paid by Qantas were set for 15 years (with a fixed 3.5% annual escalation) and can not be changed without the consent of both parties.

- Canberra Airport took the construction risk on the Terminal works – if there was any increase in construction costs, those costs could not be recovered from the airlines.

- Canberra Airport took the passenger volume risk – we based our financial model for the Terminal development on passenger growth of 4.2% per annum. If we didn't achieve that growth, there was no capacity to increase the price per passenger to make up any shortfall, and similarly, if that growth rate was exceeded, the price would not decrease – thus compensating the Airport for assuming the volume and other risks.

- Canberra Airport took the interest rate and financing risk.

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As it turned out, in April 2009 we committed to pushing on with the new terminal works, you turned the first sod for the Southern Concourse Terminal (on the same day the NBN was announced), and the Southern Concourse Terminal was opened to the travelling public on 14 November 2010.

In October 2010, we executed similar (at their insistence) commercial agreements with Virgin Australia, including in relation to the term of the agreement and assumption of risks (including passenger volume risk). We commenced construction of the Western Concourse Terminal in February 2011 and we are hopeful this terminal will be completed and open in March 2013 as part of the celebration of Canberra's Centenary.

Against this background, please see below a table outlining our passenger numbers for each month of 2011 and the percentage change from the same month in 2010:

Month	**PAX Numbers**	**% Change 10**
January	213,581	-4.1%
February	238,842	-5.2%
March	292,229	-7.7%
April	267,678	-3.2%
May	272,102	0.5%
June	254,311	-8.0%
July	276,965	-0.8%
August	279,467	2.5%
September	281,794	1.4%
October	270,166	-7.0%
November	274,499	-4.2%
December	250,858	-3.8%
TOTAL	**3,172,492**	**-3.4%**

While it is obvious that there has been a significant reduction in passenger numbers, the key points to note are as follows:

- Since September 2002 (the date that our passenger numbers started to recover after the collapse of Ansett and 9/11) we have had only 14 months of negative growth – but **9** of these months occurred in 2011 with only minimal growth occurring in the other 3 months of last year.

- Overall for 2011 our passenger numbers reduced by 3.4% as compared to 2010.

- The pax numbers for 2011 were 0.1% less than for 2009.

- However, the situation is worse than that as we actually budgeted for growth of 4.2% under our agreements with the airlines as noted above. Given the drop in numbers from the previous year compounded with the fact that we budgeted for growth, on a monthly basis we are now actually tracking 8.5% below budget on our terminal and other aeronautical recoveries.

Put bluntly, in 2011 we had approximately 250,000 less passengers than we were expecting with a very significant revenue shortfall. As noted earlier in this letter, and in our letter to you of 2008, there is no way to recover this shortfall off any of the airlines, nor are we in a position to change agreements already entered into with terminal operators.

Furthermore, while the financial markets have steadied somewhat since the height of GFC I, there has been no great reduction in our financing costs from the GFC I highs – especially given the real fear of an impending GFC II. During the height of GFC I the margin payable to the banks increased from between 40-50 basis points to in excess of 200 basis points. In June of last year we undertook a refinance and the margins were still between 160-170 basis points and they have again jumped sharply in the last six weeks.

Notwithstanding these challenges, we are not asking for any assistance or complaining about any particular matter. We do, however, think it is important for the Government to appreciate the financial position in which we are operating and the overall state of the Canberra aviation market. Certainly we look forward to the Budget returning to the black and the Efficiency Dividend returning to more normalised levels and we appreciate the efforts of your Government in focussing on that significant task.

In the meantime, we will continue with the completion of the Western Concourse Terminal and car parks, as we seek to develop what we hope will be the Best Small Airport in the World.

Please do not hesitate to contact me if you have any queries.

Yours sincerely

Stephen Byron
Managing Director