Managing Director
and Chief Executive Officer
Alan Joyce AC

QANTAS

18 April 2018

Senator Chris Ketter
Chair of the Senate Economics References Committee
Parliament House
Canberra ACT 2600

Via email: senator.ketter@aph.gov.au / economics.sen@aph.gov.au

Dear Senator Ketter,

RE : INQUIRY INTO THE COMMITMENT TO THE SENATE ISSUED BY THE BUSINESS COUNCIL OF AUSTRALIA

Through the Committee Secretariat, thank you for the Written Questions on Notice.

As a signatory to the Commitment, the Qantas Group (the Group) supports the economic orthodoxy that sits behind the Business Council of Australia's (BCA) statement to the Senate in March.

"If the Senate passes this important legislation we, as some of the nation's largest employers, commit to invest more in Australia which will lead to employing more Australians and therefore stronger wage growth as the tax cut takes effect."

In short, the Group does well when Australia does well. Our ability to create jobs and increase wages depends on the health of the broader economy, and we firmly believe that a corporate tax cut will contribute significantly to that outcome.

A tax rate that is uncompetitive will have the opposite effect, reducing our ability to grow and create opportunity. The Group and its 30,000 people are exposed to and compete in a global aviation market. Australia's current company tax rate of 30 per cent is a drag on both the business' cost base as well its attractiveness for future domestic and international investment.

In addition to company tax, the Group is exposed to multiple Federal and State taxes, like the Passenger Movement Charge. In Financial Year 2017, the Group paid and collected a combined total of $3.2 billion in taxes, an increase of 14 per cent on the previous period.

The Group has a track record of sharing the benefits of its strong financial and operational performance with employees. Since 2015, we have set aside $220 million for bonuses to 25,000 non-executive employees and our recent wage increases of 3 per cent are higher than inflation. Our ability to continue doing this depends on a competitive tax regime.

Due to ASX listing rules and disclosure requirements the Group can only provide limited responses to Questions Two and Three.

I hope the following assists the Committee's understanding of our position.

Yours sincerely

[redacted]

ALAN JOYCE [redacted]

RESPONSES TO THE WRITTEN QUESTIONS ON NOTICE

Question One

Drawn from the Qantas Group's (the Group) financial returns and Annual Reports which are publicly available via investor.qantas.com and asx.com.au, the table below outlines the Group's Statutory Profit/Loss After Tax and company tax payments for the Financial Years (FY) 2013 through to 2017.

Financial Year	Statutory Profit/(Loss) After Tax ($m)	Carried forward tax losses ($m)	Company Tax Paid ($)
2013	2	(1,850)	Nil
2014	(2,843)	(3,240)	Nil
2015	560	(2,850)	Nil
2016	1,029	(1,474)	Nil
2017	853	(951)	Nil

Due to the statutory losses incurred during Global Financial Crisis and FY14 and carried forward, the Group has not been required to pay company tax for the period outlined. This stems from accumulated losses prior to FY13 and the $2.843 billion statutory loss recorded in FY14. Once these losses are exhausted (expected to be in FY19), the Group will return to paying company tax in addition to the multiple Federal and State taxes paid and collected ($3.2 billion in FY17).

Attached to this Submission are the Voluntary Tax Transparency Code Reports for FY16 (Attachment 1) and FY17 (Attachment 2).

Question Two

The Group provides continuous disclosure to the market – the most recent update referencing commercial and operational performance for the first half of FY18 (Attachment 3). Beyond the commentary provided in the section titled *Outlook*, the Group does not issue forward looking revenue or profit projections past three to six months.

Ongoing and new investment by the Group is contingent on the strength and competitiveness of the Australian economy, consumer sentiment and settings which support and stimulate investment.

In addition to the delivery of the eight Boeing 787-9 Dreamliner aircraft and the development of Perth's Western Hub, the Group has announced:

- Orders for 18 Airbus A321 NEO LRs for the Jetstar Group arriving from mid-2020;
- The establishment of the Qantas Group Pilot Academy in regional Australia;
- Continued rollout of inflight Wi-Fi across the Qantas Domestic network; and
- Upgrades to lounges and regional aircraft cabins.

These investments are contingent on Australia's economic strength and global competitiveness.

Question Three

As in Question Two, the Group cannot provide the Committee forecasts and modelling due to regulatory disclosure requirements. However, the economic orthodoxy dictates that competitive tax settings promote increased investment, stimulating employment and wages growth.

The Group is currently considering a number of major, long-term investments, including:

- Additional Boeing 787-9 Dreamliner aircraft to facilitate international network expansion for the Group; and
- Project Sunrise – investment in new ultra-long-range aircraft capable of flying nonstop from Australia's East Coast to London and New York.

These multibillion dollar investments are contingent on the Group operating in an economy that is supportive of investment and has globally competitive tax settings.

One example of the impact that flows from aircraft orders is the new daily Perth-London non-stop service will deliver $473 million in additional Gross Service Product for Western Australia over a ten-year period and will add 329 full time equivalent jobs each year over the same period (Deloitte Access Economics, 2016).

A cut in the company tax rate makes the business case for additional fleet and network investment considerably more favourable due to the reduced effective cost of investment as well as increased demand that flows from other sectors of the economy that benefit from the reduced company tax rate.

Qantas Group

Voluntary Tax Transparency Code Report

Part A

Reconciliation of statutory profit to income tax expense & income tax payable

RECONCILIATION BETWEEN STATUTORY PROFIT/(LOSS) BEFORE INCOME TAX & INCOME TAX EXPENSE/(BENEFIT)	Qantas Group	
	2015 $M	**2016 $M**
Statutory profit/(loss) before income tax expense/(benefit)	**789**	**1,424**
Income tax (expense)/benefit using the domestic corporate tax rate of 30 per cent	**(237)**	**(427)**
Adjusted for non-temporary differences:		
Non-assessable dividends from controlled entities	10	1
Non-deductible share of net loss for investments accounted for under the equity method	(14)	-
Non-deductible losses for foreign branches and controlled entities	(7)	(6)
Utilisation of previously unrecognised foreign branch and controlled entity losses	5	6
Recognition and utilisation of previously unbooked capital losses	-	8
Non-assessable gain on disposal of property, plant and equipment	-	30
Write-down of investments	(2)	-
Other net (non-deductible)/non-assessable items	(4)	7
Prior period differences	20	(14)
Income tax (expense)/benefit	**(229)**	**(395)**
Accounting effective company tax rate	***29.02%***	***27.74%***
Adjusted for temporary differences:		
Inventories	(1)	1
Property, plant and equipment and intangible assets	247	18
Payables	2	(28)
Revenue received in advance	(25)	(64)
Interest-bearing liabilities	(14)	(16)
Other financial assets/liabilities	(49)	40
Provisions	41	(26)
Other items	(97)	49
Prior period differences	8	8
Temporary differences	**112**	**(18)**
Tax losses utilised @30%	**117**	**413**
Income tax payable	**-**	**-**

Qantas Group Tax Losses:

	2015 $M	**2016 $M**
Tax loss brought forward	(3,240)	(2,850)
Current year taxable income/(loss)	390	1,376
Tax loss carried forward	(2,850)	(1,474)

QANTAS Spirit of Australia

Part B

The Qantas Group is committed to embedding risk management practices to support the achievement of compliance objectives and fulfil corporate governance obligations. Tax risk management is governed by both the Qantas Group Risk Management Policy and the Qantas Group Tax Risk Management Policy, ensuring corporate governance obligations with respect to tax risks are met.

The Qantas Group has paid all taxes that it owes and all tax compliance obligations are up to date. The Australian Taxation Office (ATO) has advised that the Qantas Group is a key taxpayer continuing to have a "low" likelihood of non-compliance. The ATO also acknowledged Qantas' continued commitment to engage cooperatively and transparently to mitigate tax risks, including obtaining tax certainty on key transactions through the use of binding Private Rulings and entering into a multi-tax Annual Compliance Arrangement (ACA).

Tax treaties

Due to the operation of income tax treaties and specific rules dealing with airlines, the Qantas Group appropriately reports the majority of its income in Australia with only a small component being reported in foreign jurisdictions (for the purpose of determining liability to company tax). This effectively results in more than 99% of the Qantas Group profit being subject to taxation in Australia.

Corporate Taxes Paid

Income tax payable was less than 30% of the Qantas Group's Statutory Profit Before Tax due to:

- Utilisation of carry forward tax losses that reduce taxable income; and
- Temporary differences which result in differences between taxable income which will reverse in future periods and Statutory Profit Before Tax, such as accelerated tax depreciation on aircraft (timing difference due to the Qantas Group making a significant investment in renewing its fleet in recent years that will reverse in future tax periods).

Contribution to Australia

While deductions for accelerated tax depreciation have lowered taxable income and consequently tax payments, the accelerated tax depreciation rules have operated as intended by encouraging significant capital and fleet investment by the Qantas Group over recent years. This has delivered substantial economic benefits to Australia through domestic and international tourism, employment, export facilitation and aviation's broader economic value.

Furthermore, focusing on corporate income tax in isolation is an overly narrow view to economic contribution. The Qantas Group contributes significantly to the Australian economy (representing approximately 1% of Australia's GDP) as highlighted in the Deloitte Access Economics report released in November 2016 relating to the economic contribution of the Qantas Group for the 2015/16 year by way of $11.5 billion ($6.8 billion direct and $4.7 billion indirect) while facilitating an additional $10.4 billion of tourism expenditure across Australia. The Qantas Group also collects and pays a range of taxes in Australia on its products and services totalling approximately $2.5 billion.

Taxes Paid/Collected – Tax Contribution Summary

The table below highlights the significant taxes paid/collected in both Australia and overseas:

	2015 $M	2016 $M
Australian Taxes		
Paid		
Corporate Tax – Australia	-	-
Payroll Tax	155	163
Fringe Benefits Tax	19	21
Other	4	4
Collected		
GST (collected and remitted)	1,270	1,251
GST (paid but reclaimed)	(1,036)	(1,002)
Personal Income Tax - Employees	712	787
Ticket Taxes, Fees and Charges [1]	1,157	1,243
Sub-total	**2,281**	**2,467**
Foreign Taxes		
Paid		
Corporate Tax - Foreign	2	3
Fringe Benefits Tax	1	1
Other	1	1
Collected		
VAT/GST (collected and remitted) [2]	28	29
VAT/GST (paid but reclaimed) [2]	(55)	(167)
Personal Income Tax - Employees	17	18
Ticket Taxes, Fees and Charges [1]	390	432
Sub-total	**384**	**317**
TOTAL	**2,665**	**2,784**

1 Passenger ticket taxes/fees/charges levied by domestic and international Government authorities and Airports
2 Overseas VAT/GST including New Zealand, United Kingdom, Singapore and Japan

ATTACHMENT 2

2017 QANTAS VOLUNTARY TAX TRANSPARENCY CODE REPORT

QANTAS

INTRODUCTION

The Qantas Group is committed to transparent corporate reporting, and is pleased to publish a summary of its tax affairs for 2016/17.

Qantas is a major part of the Australian economy, both in terms of our direct impact as an employer of 30,000 people and purchaser of local goods and services, as well as our broader impact on national trade and tourism. A study by Deloitte Access Economics estimated our total economic impact at 0.7 per cent of Australia's GDP, or $11.6 billion.

There is a tax component to virtually all of the millions of transactions that the Qantas Group undertakes every year – from GST, FBT, payroll tax and company tax through to sector-specific taxes like the passenger movement charge.

Our primary focus on all tax matters is compliance. We are committed to paying what we owe and have a robust governance framework to manage our tax affairs.

In total, the Qantas Group paid and collected a combined total of $3.2 billion in 2016/17. This was 14 per cent higher than the prior year. These figures are broken out in detail in the following pages.

Due to our carry forward tax losses, Qantas was not required to pay any company tax in 2016/17. This stems from almost $3 billion in accumulated tax losses from prior years, which now sit at $951 million due to the company's strong financial performance more recently. Once these losses are exhausted, Qantas will return to paying company tax among the other taxes we pay and collect.

This document forms part of Qantas' broader corporate reporting suite, and should be read in conjunction with our Annual Report and Annual Review for 2017 for a full picture of our activities.

Part A

Reconciliation of statutory profit to income tax expense & income tax payable

Reconciliation Between Statutory Profit/(Loss) Before Income Tax & Income Tax Expense/(Benefit)

	Qantas Group	
	2016 $M	2017 $M
Statutory profit/(loss) before income tax expense/(benefit)	**1,424**	**1,181**
Income tax (expense)/benefit using the domestic corporate tax rate of 30 per cent	(427)	(354)
Adjusted for non-temporary differences:		
Non-assessable dividends from controlled entities	1	2
Non-deductible share of net loss for investments accounted for under the equity method	–	(4)
Non-deductible losses for foreign branches and controlled entities	(6)	(1)
Utilisation of previously unrecognised foreign branch and controlled entity losses	6	4
Recognition and utilisation of previously unbooked capital losses	8	–
Non-assessable gain on disposal of property, plant and equipment	30	–
Write-down of investments	–	–
Other net (non-deductible)/non-assessable items	7	18
Prior period differences	(14)	7
Income tax (expense)/benefit	**(395)**	**(328)**
Accounting effective company tax rate	**27.74%**	**27.75%**
Adjusted for temporary differences:		
Inventories	1	15
Property, plant and equipment and intangible assets	18	92
Payables	(28)	19
Revenue received in advance	(64)	16
Interest-bearing liabilities	(16)	1
Other financial assets/(liabilities)	40	(6)
Provisions	(26)	(11)
Other items	49	35
Prior period differences	8	6
Temporary differences	**(18)**	**167**
Tax losses utilised @ 30%	**413**	**157**
Income tax payable – foreign	**–**	**(4)**

Qantas Group Tax Losses:

	2016 $M	2017 $M
Tax loss brought forward	(2,850)	(1,474)
Current year taxable income/(loss)	1,376	523
Tax loss carried forward	(1,474)	(951)

Part B

The Qantas Group is committed to embedding risk management practices to support the achievement of compliance objectives and fulfil corporate governance obligations. Tax risk management is governed by both the Qantas Group Risk Management Policy and the Qantas Group Tax Risk Management Policy, ensuring corporate governance obligations with respect to tax risks are met.

The Qantas Group has paid all taxes that it owes and all tax compliance obligations are up to date. The Australian Taxation Office (ATO) has advised that the Qantas Group is a key taxpayer continuing to have a "low" likelihood of non-compliance. The ATO also acknowledged Qantas' continued commitment to engage cooperatively and transparently to mitigate tax risks, including obtaining tax certainty on key transactions through the use of binding Private Rulings and entering into a multi-tax Annual Compliance Arrangement (ACA).

Tax treaties

Due to the operation of income tax treaties and specific rules dealing with airlines, the Qantas Group appropriately reports the majority of its income in Australia with only a small component being reported in foreign jurisdictions (for the purpose of determining liability to company tax). This effectively results in more than 99% of the Qantas Group profit being subject to taxation in Australia.

Corporate Taxes Paid

Income tax payable was less than 30% of the Qantas Group's Statutory Profit Before Tax due to:

- Utilisation of carry forward tax losses that reduce taxable income; and
- Temporary differences which result in differences between taxable income which will reverse in future periods and Statutory Profit Before Tax, such as accelerated tax depreciation on aircraft (timing difference due to the Qantas Group making a significant investment in renewing its fleet in recent years that will reverse in future tax periods).

Contribution to Australia

Focusing on corporate income tax in isolation is an overly narrow view to economic contribution.

Significant fleet investment by the Qantas Group has proven to deliver substantial economic benefits to Australia through domestic and international tourism, employment, export facilitation and aviation's broader economic value.

The Qantas Group contributes significantly to the Australian economy (representing approximately 0.7% of Australia's GDP) as highlighted in the Deloitte Access Economics report released in November 2017 relating to the economic contribution of the Qantas Group for the 2016/17 year by way of $11.624 billion ($6.976 billion direct and $4.648 billion indirect) while facilitating an additional $10.716 billion of tourism expenditure across Australia.

The Qantas Group also collects and pays a range of taxes in Australia on its products and services totalling approximately $2.7 billion.

Taxes Paid/Collected – Tax Contribution Summary

The table below highlights the significant taxes paid/collected in both Australia and overseas:

	2016 $M	2017 $M
Australian Taxes		
Paid		
Corporate Tax – Australia	–	–
Payroll Tax	163	173
Fringe Benefits Tax	21	22
Other [1]	66	69
Collected		
GST (collected and remitted)	1,251	1,107
GST (paid but reclaimed)	(1,002)	(919)
Personal Income Tax – Employees	787	838
Withholding taxes	–	2
Ticket Taxes, Fees and Charges [2]	1,243	1,366
Sub-total	2,529	2,658
Foreign Taxes		
Paid		
Corporate Tax – Foreign	3	4
Fringe Benefits Tax	1	1
Other	1	–
Collected		
VAT/GST (collected and remitted) [3]	29	31
VAT/GST (paid but reclaimed) [3]	(167)	(51)
Personal Income Tax – Employees	18	21
Ticket Taxes, Fees and Charges [2]	432	509
Sub-total	**317**	**515**
TOTAL	**2,846**	**3,173**

1 Comparative adjusted to reflect $62m of other taxes

2 Passenger ticket taxes/fees/charges levied by domestic and international Government authorities and Airports

3 Overseas VAT/GST including New Zealand, United Kingdom, Singapore and Japan

ASX and Media Release

QANTAS DELIVERS RECORD FIRST HALF PROFIT, INVESTS IN AIRCRAFT AND TRAINING

Sydney, 22 February 2018

- Underlying Profit Before Tax: $976 million (up 15%)
- Record results for Qantas Domestic, Jetstar Group and Qantas Loyalty
- Statutory Profit Before Tax: $857 million (up 20%)
- Statutory Earnings Per Share: 34.0c
- Return On Invested Capital: 20.9%
- Record level of operating cash flow; net free cash flow of $772 million (up 2.7 times)
- Up to $500 million shareholder return: 7 cents per share ordinary unfranked dividend, plus an on-market buyback of up to $378 million
- Delivery of 18 Airbus A321 NEO LRs confirmed for Jetstar from existing order of 99 aircraft
- Upgrade of Sydney International Business Lounge and QantasLink turboprop cabins
- Plans for Qantas Group Pilot Academy announced.

The Qantas Group has delivered its highest-ever first half Underlying Profit Before Tax of $976 million for the six months ending 31 December 2017.

The result surpasses the previous record of $921 million achieved in the first half of FY16 and comes despite recent increases in fuel costs and continued international capacity growth. Both Underlying and Statutory profit before tax were significantly higher (15 per cent and 20 per cent respectively) than the first half of FY17.

All targets of the Group's financial framework were met, enabling Qantas to keep rewarding shareholders, investing for customers and positioning for the future.

CEO COMMENTARY

Group CEO Alan Joyce said the record result showed Qantas' ability to keep delivering.

"After several years of consistent performance, we now have a lot of momentum behind us. We're vigilant about maintaining that momentum and we're confident about the future it allows us to build.

"Today's result comes from investing in areas that provide margin growth and a network strategy that makes sure we have the right aircraft on the right route.

"Our lounges, Frequent Flyer program and initiatives like free Wi-Fi all drive customer satisfaction, and so does the network strength across Qantas and Jetstar.

"We're seeing continued capacity discipline in the domestic market, coupled with a product advantage that's delivering a significant profit share to the Group.

“This is a transition year for Qantas International and it’s setting up a bright future. We have the Dreamliner joining the fleet and important network changes on flights to Europe and across the Tasman, which will unlock significant benefits from FY19.

“For international to largely hold its own ahead of those benefits flowing through, and in the face of rising fuel costs and market capacity, shows its resilience.

“Qantas Loyalty performed very well with the Frequent Flyer program at its core, but it’s also opening up fresh revenue growth by expanding directly into areas like financial services and health insurance.

“We operate in very competitive markets right across the Group, and we’re focused on continuous improvement.

“This result includes $181 million in benefits from ongoing transformation as part of an average annual target of $400 million. Ultimately, that discipline is key to our ability to keep delivering for our customers, shareholders and people,” said Mr Joyce.

GROUP DOMESTIC

Qantas and Jetstar’s domestic flying operations combined posted their highest ever first half Underlying EBIT of $652 million.

The result was driven by ongoing capacity discipline and growing margins of both airlines, achieved through product and network superiority.

Qantas Domestic posted Underlying EBIT of $447 million, up 20 per cent. Unit revenue was up 8.6 per cent and load factor increased by 1.4 points to 78.7 per cent. The resources sector posted modest revenue growth for the first time since 2014. Jetstar’s domestic operations achieved a 7 per cent increase in unit revenue.

GROUP INTERNATIONAL

Qantas and Jetstar’s international operations performed well in the face of higher fuel costs and increased competitor capacity.

Underlying EBIT for Qantas International was lower, down 5.5 per cent to $222 million, however unit revenue increased slightly by 0.3 per cent. A capacity increase together with load factor increasing by 3.1 percentage points to 84.4 per cent lifted overall revenue by 7.3 per cent.

Jetstar’s international operations generated strong earnings, helped by the operating costs of the 787-8 but impacted by around $10 million from the Bali ash cloud disruption. Jetstar’s portfolio of airlines in Asia was profitable, driven by Japan and Singapore operations as well as a significant improvement in Jetstar Pacific’s performance as excess market capacity in Vietnam moderated.

LOYALTY

Qantas Loyalty posted another record profit in the first half of $184 million, up 1.7 percent.

As previously flagged, the regulatory changes to interchange fees had some impact on revenue but this was offset by overall growth in other parts of the Frequent Flyer program to help deliver total revenue increase of 2.7 percent. This included continued growth of the revised Woolworths program, new retail partners including Rockpool Dining Group, Hoyts and Uber, and growth in Qantas Cash and Qantas epiQure.

Also contributing to revenue growth were Loyalty's new ventures, which are in-line with or outperforming their business cases. Qantas Assure had the highest rate of member growth in the health insurance sector[1] and is well placed to continue this momentum with premium increases significantly below the industry average[2].

Qantas' own Platinum credit card continues to have a rapid growth rate, with more than 1 billion points earned already, and a low fee card was introduced in December 2017 as part of the continued expansion into financial services. Overall growth of cards that earn Qantas Points was 5.3 per cent compared with 0.05 per cent growth in the rest of the market[3].

Qantas Business Rewards, which offers small business the ability to earn points on corporate expenses, continues to drive an increase in revenue from program partners and is also increasing market share for the airlines among small-to-medium enterprises.

Growth in these new ventures and the core Frequent Flyer program is expected to deliver a compound annual growth rate of 7–10 per cent for Qantas Loyalty in the five years to FY22.

FINANCIAL FRAMEWORK

All targets of the Group's financial framework were met or exceeded in the half.

Net debt continued to fall and remains towards the bottom of the range, at $5.1 billion. Sixty per cent of the Group fleet is unencumbered, including two new 787-9s purchased with cash. Debt maturity has been improved by an eight year, $350 million corporate debt program and short term liquidity remained strong at $2.8 billion.

Rolling 12-month return on invested capital was 20.9 per cent, with all operating segments delivering ROIC above their weighted average cost of capital. Net capital expenditure guidance for FY18 and FY19 is unchanged at a combined $3.0 billion, net of asset sales.

Operating cash flow increased by 48 per cent to reach a record $1.7 billion, providing excess capital for reinvestment and for returns to shareholders.

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[1] Source: Based on 12 months to June 2017. APRA Operations of Private Health Insurers Annual Report 2016-2017 and nib policyholder data.

[2] Average Qantas Assure premium increase from 1 April 2018 is 0.48% compared with an industry average of 3.95% Source: as reported by Australian Government Department of Health; excludes the Australian Government Rebate.

[3] December 2017 compared with December 2016. Source: RBA Credit and Card Charges Statistics.

SHAREHOLDER RETURNS

The Qantas Board has announced up to $500 million of capital to be returned to shareholders. This comprises an interim dividend of 7 cents per share (unfranked) to be paid on 12 April 2018 with a record date of 8 March 2018, as well as an on-market share buy-back of up to $378 million. This additional buy-back is expected to bring the total reduction of shares on issue to 24 per cent since October 2015.

INVESTING IN THE FUTURE

Jetstar A320 order

Jetstar will start taking delivery of aircraft from its existing order of 99 A320 aircraft, beginning with 18 A321LR NEOs from mid-2020.

These next generation, longer range aircraft can fly routes like Melbourne and Sydney to Bali, currently operated by the 787-8 Dreamliner. The arrival of the first four long range NEOs will add capacity on these routes with potential to also free up some 787-8 flying time for use on other leisure routes such as Vietnam, China, Thailand and Hawaii.

All 18 A321LR NEOs are expected to be delivered by the end of 2022 to replace Jetstar's oldest A320s for use on domestic and international routes, and will each deliver a fuel burn improvement of around 15 per cent.

The Qantas Group retains flexibility with the sequencing of the rest of its A320 NEO order, which is approximately an even split of 232-seat A321LR NEOs and 186-seat A320 NEOs. The order is primarily focused on aircraft replacement but with scope to allow for growth depending on market conditions.

Qantas Group Pilot Academy

With fleet renewal and network growth, the Qantas Group is undergoing the largest pilot recruitment and training initiative in its history.

Since 2016, the Group has hired almost 600 new pilots in Australia, with another 350 to be recruited by the end of this calendar year.

As part of creating an ongoing talent pipeline, the national carrier will establish the Qantas Group Pilot Academy in 2019. The academy will initially focus on training up to 100 new pilots per year for direct entry to the Group, but will explore the potential to become a major training centre to meet strong demand for pilots in the region. (See separate release.) It will represent an investment of up to $20 million of setup costs in FY19.

Investing in product

Qantas has also announced additional investments in customer experience, including:

- A complete redevelopment of its Sydney International Business Lounge, including reconfiguration of the existing floorplan to increase capacity by 30 per cent. (See separate release.)
- An upgrade to the cabins of QantasLink's 45 fleet of turboprop aircraft, used on regional routes. (See separate release.)
- Continued rollout of domestic Wi-Fi at a rate of approximately one aircraft per week, with 22 Boeing 737s already internet enabled.
- Ongoing development of Project Sunrise to achieve the goal of direct flights to London and New York from the east coast of Australia by 2022.

OUTLOOK

Looking forward, the Group expects healthy consumer demand growth consistent with an improved global outlook. The Group's current operating expectations[4] are:

- Total Qantas Group capacity is expected to increase by ~1% in 2H18[5].
  - Group Domestic capacity expected to decrease by ~1%. Continued growth in unit revenue is expected.
  - Group International capacity expected to increase by ~2-3% compared with competitor capacity growth of ~5%[6]. Unit revenue growth is expected to continue.
- FY18 fuel cost expected to be no more than $3.24b.
- FY18 transformation benefits expected to be greater than $400million.
- Capital expenditure net of asset sales expected to be $3.0b for FY18 and FY19 combined.

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[4] For detailed outlook statement, please refer to Investor Presentation.

[5] Compared to 2H17.

[6] Compared to 2H17.