

TRANSCRIPT OF Virgin HY26

Operator: Thank you for standing by and welcome to the Virgin Australia HY26 result market briefing. All participants are in listen only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Dave Emerson, Chief Executive Officer and Managing Director. Please go ahead.

Mr Emerson: Good morning, everyone. Thanks for joining us for Virgin Australia's results for the first half of FY26. Joining me today for our presentation is Race Strauss, our CFO and we also have other members of the ELT in the room to answer your questions. I'd like to begin by acknowledging the Traditional Owners of the land in which we live, work and fly and pay my respects to Elders past and present. I'd also like to extend acknowledgement and respects to any Aboriginal and/or Torres Strait Islanders people joining today's call.

Moving to slide 4 and our ambition. I presented this slide in August and it's important to reinforce that our ambition remains clear, to be Australia's most loved airline by our people, our guests and our owners. We believe our first half results demonstrate we've continued to strengthen the four strategic pillars that underpin the delivery of this ambition. We're now operating a simpler, more focused business, we're delivering experiences our guests value, we're improving operational performance and we're converting that into strong and consistent financial outcomes.

This is visible in our fleet investment as we continue to scale in new 737 Max 8 and Embraer E190-E2 aircraft, our strong completion rate and NPS scores and our EBIT growth and margin accretion as we continue to position the Company for long-term success. It's also visible in the evolution of our leadership structure, with recently announced creation of the role of Chief Customer Officer and CEO Loyalty, combining customer experience, marketing and loyalty under the unified leadership of Andrew Cleary when he joins us next month.

Moving to slide 5, there are three messages I want you to take away today. First, we delivered strong RASK growth of 6.4% driven by strong demand and revenue transformation. Second, our EBIT grew by 11.7% with further margin expansion despite high-cost inflation. Third, we exited the half with a very strong balance sheet with leverage at just 0.9x net debt to EBITDA, giving us real flexibility headed into the second half and beyond. Taken together, these results demonstrate our ability to deliver on our commitments.

In addition to the strong financial results, we achieved several milestones in the first half. Through our partnership with Qatar Airways, we launched new long-haul services between Melbourne and Doha, adding to Sydney,

Brisbane and Perth routes. Virgin Australia Regional Airlines, or VARA, introduced the Embraer E190-E2, the first new aircraft in the WA charter market this century. We became the first airline to launch Pets in the Cabin services with a successful trial between Melbourne and the Gold and Sunshine Coasts. We formed new partnerships including an Australian-first collaboration with OpenAI. Finally and importantly, we set new passenger records, including our busiest day ever and our busiest December on record.

Moving to slide 6, before we look at our first half yearly results, it's important to reflect on how far we've come over the past few years. These charts also serve as a useful reminder for investors about the seasonality of our business which delivers a greater portion of EBIT and stronger margins in the first half. Underlying EBIT increased more than 50% between FY23 and FY25, with double-digit growth this half, is poised to increase even further by year end. Importantly this growth has not come at the expense of margins, with first half margins approaching 15% as customers continue to value the service we provide even as we become more efficient. This provides a platform for the Company to continue to grow from delivering strong shareholder returns over the long term.

Now turning to slide 7 and our headline numbers, we're very pleased with the outcome of the first half with strong financial results and importantly, we've improved or maintained our strong operational performance. Results were ahead of both the market's and our own expectations, despite inflationary headwinds due to strong customer demand, continued benefits from the transformation program with over \$200 million in gross benefits delivered and the delivery of further growth from our Velocity loyalty business.

Revenue increased 9.3% which drove underlying EBIT up 11.7% to \$490 million. The underlying EBIT margin was 14.8% increasing 40 basis points compared to last year. Underlying NPAT increased 21% to \$279 million with the growth of EBIT and a 30% effective tax rate. Underlying earnings per share was \$0.0351, an increase of 11% which includes the dilutionary impact of all shares associated with the IPO. Statutory NPAT decreased 28%, reflecting the benefits in the prior period from accounting recognition of deferred tax assets. Finally, our strong balance sheet is evident with our leverage being 0.9x net debt to EBITDA, which is slightly below our target range, ahead of planned aircraft purchases in the second half. Race will provide more details on this shortly.

Turning to slide 8 and our airline segment, which includes our domestic, international and charter businesses, we remain focused on our customers and our operations with improvements in our OTP and NPS while maintaining industry-leading completion rates. We've done this with improved financial performance, with underlying EBIT increasing 13.5% to \$419 million, which represents a margin of 13.1%. RASK growth was 6.4%

ahead of our guidance of 3% to 5%, with December particularly strong. Market demand was strong, especially in the leisure customers due to event-driven travel such as the Lions and Ashes sporting tours. This demand, together with Virgin Australia's own revenue transformation, drove yields higher which ultimately led to the strong RASK outcome.

Even though market demand is strong we've been disciplined in our approach to capacity investment with overall ASK growth of 2.3% including domestic growth of 4.2%. International ASKs decreased 6.7% which reflects the end of our Cairns to Tokyo Haneda route last year. Transformation remains a critical component in the fight against cost headwinds with many operational costs, such as airport charges, escalating well ahead of inflation. These cost headwinds are reflected in our CASK, which increased 5.7%.

Our completion rate was 98.5%, which is market leading and critical to meeting our customers' needs, with load factors above 86%. While our on-time performance increased, there's room to further improve there to ensure we continue to deliver for our customers. Pleasingly, we've had a strong start to the second half, leading the major Australian airlines in on-time performance in January. Importantly, our NPS also showed continued momentum, improving to 28.

Moving to slide 9, Velocity delivered another record half and continues to be a key growth driver for the Group. Underlying EBIT grew 14.8% with margins expanding to over 30%. External billings were a record for the half and increased nearly 19% with underlying revenue growing 9.5%. We added more than 700,000 new members and grew our active member base by 11%. New partners were also added. We saw strength across existing portfolio partners and products as well, including strong growth in new credit cards with points regularly transferred from bank and non-bank partners. Pay with Points was launched for use on board and with partners and our partnership with Qatar Airways continues to improve member engagement.

As we look to the second half, we're delivering increasing investments in partners, data and personalisation to provide further long-term value creation. This investment, together with an expectation that redemption levels will increase, means we expect second half margins to modestly reduce from our first half levels.

Moving to slide 10, transformation remains central to our strategy. In the first half, we delivered over \$200 million in gross transformation benefits, keeping us on track to exceed \$400 million in FY26 and more than \$1 billion since FY24. These benefits are coming from a mix of commercial initiatives like revenue management optimisation and operational and fleet initiatives such as our cabin renewal and seat densification for our mainline aircraft and the renewal of our fleet for VARA as we take delivery of the Embraers. Importantly, transformation is no longer about fixing the

business. It's now about continuously improving it and investing selectively to sustain benefits in FY27 and beyond. Our recent announcement of the transformation function reporting directly to me demonstrates how important this work will remain over the coming years.

I'll now hand it over to Race who will run through the numbers in more detail.

Mr Strauss: Thanks Dave and good morning everyone. I want to reinforce that this was a very strong half, which shows that the strategy is on track. Both the airline and Velocity have grown EBIT and improved margins and we have generated more than \$200 million of cash, which further strengthens the balance sheet and provides a platform for future growth. At the Group levels, margins continue to expand, with EBIT margin increasing 40 basis points to 14.8%. Lower fuel costs and transformation benefits helped offset ongoing inflationary pressures and the cost of fleet investment.

The FY25 tax position is now finalised. Given the business has delivered a consistent and profitable performance over the past three years, we have been able to recognise and utilise all of our deferred tax assets and have begun paying cash taxes in the half. I suppose this is a reward for success. Therefore, for the first half, the effective tax rate is 30%, which is reflected in our 21% underlying NPAT growth and you should assume a rate of 30% for your future modelling. Given we have started paying cash taxes, we have accumulated \$94 million of franking credits available as at the 31st of December.

Turning to slide 13, which shows line-by-line detail of our operating expenses, total underlying expenses increased 8.4%, as lower fuel costs and growth transformation benefits were more than offset by increases in other costs. Much of this cost increase can be attributed to the growth in the business, with revenue up 9%. To support this growth, we are investing in the fleet and increasing our flying activity. However, outside of this, we are seeing above inflation cost increases in certain areas.

Transformation costs are mainly allocated to the labour and comms and tech cost lines and this investment is therefore part of the increase. Labour costs increasing 8% included this transformation investment, EBA increases and the transition to a public company remuneration structure, with STI and LTI replacing the costs of the IPO-related management equity plan. Comms and tech increased 24% due to transformation investments, noting that we have moved a lot of costs from below the line to now be above the line, given some of the work is now moving towards continuous improvement.

Maintenance costs increased 30%, which partly reflects the growth in the business, but is also due to the higher rates from global supply chain pressures and a one-time increase in end-of-lease provisions for some aircraft. This one-time increase reflects the transition of our fleet as we

return leased air and increase the amount of owned aircraft. As it is one-off, it will not repeat and combined with some lease extensions we are planning for the second half, this will result in our maintenance costs being significantly lower in the second half.

Airport charges increased 14% which reflects the continued capital investment by airport owners and operators. This is an industry-wide issue and is set to continue into the second half and beyond, as monopoly airports continue to invest a significant amount of money in capital works, which drives up costs for airlines. As an industry, we must remain vigilant on costs to ensure aviation doesn't become unaffordable for Australians. Despite these headwinds, we continue to see benefits from transformation and it's playing a critical role in protecting and expanding margins.

Moving to slide 14, this bridge shows our EBIT growth through another lens, which highlights the strong RASK growth and also the cost increases we are facing. RASK increased 6.4% and activity reflects the 2.3% growth in ASKs, with incremental revenue and direct costs associated with the additional flying. There was a benefit from lower fuel prices, but we have also achieved favourable fuel burn rates as we increase the number of Max aircraft, which are at least 19% more fuel efficient than our current 737 fleet.

When looking at non-fuel costs, this represents rate increases only and mirrors the detailed cost information I just showed you. The major contributors are airport charges, maintenance and labour costs, as well as depreciation from our investment in fleet renewal. Higher depreciation is partly offset by the fuel burn benefits from the Max aircraft. Velocity EBIT increased \$9 million, with another strong half of external billings growth and continued success in financial services. Overall, the Group increased underlying EBIT by 11.7%, while improving margins by 40 basis points to 14.8%.

Moving to slide 15, a very strong outcome this half as the business generated \$223 million of cash, reducing our net debt levels. Operating cash flow was \$644 million, which included \$90 million of tax payments. Total CapEx was \$235 million, which was principally comprised of maintenance spend, with a further \$59 million of engine and aircraft CapEx. CapEx was lower than expected due to the timing of maintenance events and lower aircraft PDPs, which defers more of the CapEx until delivery. CapEx will be higher in the second half and in future years as we look to directly purchase more aircraft.

Asset proceeds of \$253 million relates to a sale and leaseback transaction for some Max aircraft that were delivered during the half. As these aircraft were funded in prior years, these funds were used to pay down debt. Interest on bank debt and leases was \$45 million each, or \$90 million in total and lease principal payments were \$133 million.

Moving to slide 16, the strong cash flow is reflected in our leverage, with net debt reducing to 0.9x EBITDA, which is slightly below our target range. Total debt was flat, with higher leases from the delivery of new aircraft, offset by lower interest-bearing liabilities. We repaid an unsecured QIC loan using proceeds from our new corporate facility and we repaid a secured aircraft facility from the sale and leaseback proceeds. Liquidity was \$1.4 billion including an undrawn debt facility. This excludes \$200 million in restricted cash we are also holding. We expect net debt to increase in the second half as we purchase four Max 8 aircraft, but we'll still be at the bottom end of the range at the end of FY26.

Moving to slide 17, importantly our capital allocation framework is unchanged. We've prioritised balance sheet strength and business-as-usual investment and invest excess cash in value-accretive growth with surplus capital returned to shareholders. This framework underpins all our capital allocation decisions.

Moving to slide 18, our fleet simplification journey continues. We're transitioning towards a younger, more efficient fleet of Boeing 737 Maxs and Embraer E190-E2s, with an average fleet age of 12.6 years and falling. Fleet growth remains aligned with long-term demand growth of around 3%. Aircraft deliveries and retirements remain on track and the F100s recently ceased operations in the VARA business. As we start to purchase more aircraft, you can see that our leased fleet percentage is expected to fall from the current 70% to 64% by the end of FY27.

Finally, before I hand back to Dave, I'm going to touch on an important investment decision for the Company. As noted last year, we had 12 Max 8 aircraft still to be delivered, with a funding decision to be made on nine aircraft: would they be leased or purchased outright? In line with our capital allocation framework, we have made the decision to purchase these nine aircraft. Four will be purchased in the second half of FY26 and the remaining five in the first half of FY27.

With the aviation cycle strong, purchasing these nine Max aircraft delivers a favourable outcome through lower maintenance and depreciation costs, which improves EBIT margins, lower cost of debt financing relative to leasing, with high loan-to-value ratios resulting in minimal cash outlay required, it reduces our FX risk, given we are funding an Australian denominated debt as opposed to US dollar leases, enhances our fleet and operational flexibility and purchasing provides a potential source of future liquidity. Importantly, we have the flexibility to convert to leases in the future if circumstances change.

Our fleet is currently 70% leased and we have an ambition to move towards 50% over time. Our leverage is currently below the target range in advance of this CapEx outlay across the next 12 months and we expect to be towards the low end of the range at the end of June. We have not yet made a decision on whether we buy or lease the four remaining firm

Embraer orders, but we will follow the same approach and be consistent with our capital allocation framework.

With that, I'll hand back to Dave.

Mr Emerson: Thanks Race. So moving to slide 21 and our outlook for FY26, which reflects the strong start to the year, we expect demand to remain strong and we will remain disciplined with our capacity growth, increasing domestic ASKs by 2% to 3% in the second half and by 3% in the first quarter of FY27. Specifically for the second half, both EBIT and EBIT margins are expected to be higher than the second half of FY25 despite continued increases in airport charges. We expect the RASK growth of 3% to 4% in the second half will contribute to this earnings growth and margin accretion.

Gross transformation benefits of more than \$400 million are expected in FY26, with investment being brought forward into the second half to accelerate FY27 benefits. We remain well hedged on fuel and FX and Velocity is expected to continue growing external billings by more than 10% with no impact from the proposed RBA decision on interchange fees, albeit at modestly lower margins than in the first half, as mentioned earlier.

As Race mentioned, our CapEx spending steps up in the second half as we purchase four Max aircraft and will total \$850 million to \$950 million for FY26, but we expect leverage to remain at the low end of our target range at the end of FY26, which provides optionality for future shareholder distributions. We've also provided our updated guidance on significant items, with the only change being a slight increase in non-cash, share-based payments associated with the IPO.

Moving to slide 22, before we start the Q&A, I want to finish where I started. Virgin Australia has a clear plan to deliver continued earnings and margin growth through disciplined segment growth, revenue initiatives, cost initiatives and the continued expansion of Velocity. The first half demonstrates this model works. The focus is now on sustaining momentum, making disciplined choices, continuing to deliver strong operational performance and exceptional customer experiences and, of course, creating long-term value for shareholders. Our more than 8,000 people are the driving force behind our success and I want to thank each of them for the vital role they play every day.

Thank you for your time this morning and operator, we're now ready to take your questions.

Operator: Thank you. If you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star/two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Andre Fromyhr with UBS.

Mr Fromyhr: (UBS, Analyst) Thank you. Just want to first ask about the RASK growth that you saw in the first half, just to come in above guidance that you reiterated at the AGM, so what was that exit momentum like late in the period? You mentioned the events that helped drive that, but has provided a good start to the beginning of the second half? I'm curious as to the role that the Haneda exit has had on the mix of that RASK.

Mr Emerson: Yes, look, we've got Paul, our Chief Commercial Officer here, so I'll let him answer that one.

Mr Jones: Good morning. So just to answer the last question first, so the RASK performance both overall as a business and in domestic, both were around that 6.4%, so Haneda has not really provided any impact on the RASK number that we've given you. In terms of the momentum, yes, we saw some really strong event-driven demand and certainly December overperformed for us versus what we were forecasting. We also saw some overperformance late November. That has translated to a good start to the year and that's why we are forecasting a RASK growth of three to four percentage points on top of ASK growth of two to three points for this half.

Mr Fromyhr: (UBS, Analyst) Okay and then I just had another question about transformation. Dave, you mentioned that you've accelerated some investment in transformation to support FY27. If I recall, the prospectus information suggested that in addition to the \$400 million you were targeting for this year, you'd flagged another \$150 million for first half '27 that was sized and costed. Just curious, is that still the right number or did the acceleration lift that, or is there anything more you could say about the depth of the transformation pipeline beyond this year?

Mr Emerson: Yes, I guess we obviously aren't giving any specific guidance yet on FY27 transformation, but what I will say is that we are investing now to accelerate that transformation and we're certainly not walking away from that number. I think what we will give guidance on the expected FY27 number at our full year results, but yes, it'll certainly be north of that, the number that we previously gave.

Mr Fromyhr: (UBS, Analyst) Okay and then last one from me which I think is just an easy definitional question about the new CapEx guidance, so should we interpret this as \$850 million to \$950 million total, less than \$200 million sale and leaseback proceeds, is \$650 million to \$750 million level net and that compares with previous guidance of \$900 million net? Is that the right way to think about it?

Mr Strauss: Yes, that's right, Andre. We tried to simplify it for you by separating out anything to do with sale and leaseback proceeds. So the \$850 million to \$950 million is what we expect to spend and then we will get sale and leaseback proceeds on top of that.

Mr Fromyhr: (UBS, Analyst) Great. Thank you very much.

Operator: Your next question comes from Matt Ryan with Barrenjoey.

Mr Ryan: (Barrenjoey, Analyst) Thank you. I was just interested in your capacity growth into the second half of the Haneda cabin configuration that's been adding a little bit of capacity over the last 12 months, so just wanting to know whether that has fully cycled through and just whether you can call out anything else in regard to where you're placing capacity or whether that lower international capacity is still feeding into that guidance.

Mr Emerson: Yes, we are towards the back end of our cabin refresh program. I think we're about 81% through, yes, as the team corrects me. We should be done with that completely by the end of the fiscal and so most of the benefits of that has already flown through. Just as a note for those following along at home, it's hard to see that in the data because the way some of the external providers measure and capture the data doesn't always capture the cabin reconfigurations. So I think it's always a little tricky to see externally exactly how that's flowing through, but we will be done with the higher density configuration by the end of this year.

I'm sorry, the second part of that question?

Mr Ryan: (Barrenjoey, Analyst) Just there was a comment earlier about Haneda perhaps influencing capacity in the half, just any colour on whether that continues. I'm just not sure of the timing around those international capacity reductions.

Mr Emerson: No, we'll have fully lapped Haneda with this result, so you won't see anything in the next result on that.

Mr Ryan: (Barrenjoey, Analyst) Okay, great. Then just non-fuel cost inflation, obviously, you guys called that out. Interested in airport charges and labour costs, because there are two things that I think, Race, you said probably continue into the second half. I guess the question is, a bit more high level as to whether these sorts of things that you're seeing are more temporary in nature, or you're seeing pretty elevated inflation as perhaps a more medium-term issue that you're going to have to continue to offset?

Mr Strauss: Yes, Matt, the airports are likely to be a continuing cost. I mean what's important for us is we support investment in airports but we need to make sure that it creates value for our customers. But there is a lot of capital investment planned across the entire airport network, so I would expect that to be an ongoing cost. With regards to things like our labour costs, a lot of that labour cost is linked to the transformation, so we've invested a lot to ensure we can deliver the transformation. I don't expect that cost to continue.

It's very important that when we look at our costs, whilst they are high this half, one of the reasons was maintenance. The maintenance, we do have some global supply chain issues, obviously with the delay in the new aircraft that is pushing all airlines around the world to use older aircraft,

which creates more maintenance demand with no change in supply, pushing up prices. But we did have a one-off increase in our maintenance this half as we return a number of aircraft. That won't repeat. Therefore, I'm not expecting the sort of increases we've had in maintenance to continue in the second half. That's one of the reasons that we are confident in delivering margin accretion in the second half.

Mr Ryan: (Barrenjoey, Analyst) That's helpful. Thank you.

Operator: Your next question comes from Jakob Cakarnis with Jarden Australia.

Mr Cakarnis: (Jarden, Analyst) Hi Dave, hi race, just three if I may please. This might be best orientated towards Paul, but if we just unpack the RASK growth a little bit, I think you've said that in the airlines, the load factors went backwards by 30 basis points in the half. That implies pretty strong yield growth on the 6.4% reported RASK growth. Can you just unpack for me how much revenue transformation is in there and then if there's ancillary and how the ancillary is performing please?

Mr Emerson: Go ahead, Paul.

Mr Jones: Yes, good morning. So we don't provide a breakdown, but what I can say is absolutely you're right in terms of it is really yield growth. The load factors were where we were to expect for our business model at 86%. We have gained share from a B2B point of view and so that's been an important dimension. We have also had some significant revenue transformation that we're seeing this half into next half, which is really a mix of fares. It's an extraction of willingness to pay from consumers who want more choice and flexibility.

An example of that is we now price our flex fares much lower in the ladder and we're seeing more people take that flex fare up in terms of purchase choice and that's part of our transformation. But we're also seeing ancillary revenue growth year on year and we've got a strong pipeline of ancils, as Dave outlined in the opening. We don't provide a breakdown of the individual components of that. It's commercially quite sensitive in this market, I think, given the market and so that's why we don't provide that breakdown.

Mr Cakarnis: (Jarden, Analyst) Thanks Paul, any way that you could kind of size that for us versus where you were as the airline was recovering through COVID as a proportion of revenue? I mean, you don't have to tell me what it is, but just give us a sense of where you are and maybe the size of the price that you see mid-term.

Mr Jones: Yes, so as Dave said on the transformation, we're not guiding transformation beyond this financial year at this point. What I will say is that we see continued strong upside momentum from a revenue transformation point of view. Our business model is very well suited to the areas that we

are growing from a revenue point of view and I think there's still a longer road to travel on those set of transformation levers.

Mr Emerson: Yes, look I'll just say, without giving specific numbers, in order to achieve our ambitions in FY27 and beyond, we'll have to make big delivery of transformation on both cost and revenue, as well as continuing the momentum and Velocity. That's the only way we can deliver the commitments we've made. So you can be sure that we have targets that allow that and those are the targets we're going after.

Mr Cakarnis: (Jarden, Analyst) Thanks, Dave. Just one for Race. I think you mentioned that there was some end-of-lease costs that have come in, in the half. If I look at the change to the provisioning on the maintenance side, it's about \$100 million. Could you just help me work versus the June balance date in that \$100 million change of those maintenance provisions on the balance sheet? How much of that would be those end-of-lease, please?

Mr Strauss: So we're forever taking end-of-lease provisions, that's just part of the normal operations. Every time we fly, we take the provisions. What I'm referring to is in addition to our normal provisions, we had some additional one-off costs. Effectively, it's close to \$40 million that we have taken, so that's in addition to the normal heavy maintenance provision costs that we take.

Mr Cakarnis: (Jarden, Analyst) That's helpful. Thank you, Race. Then just the final one, just on fuel, it seems like better burn rates helped you guys better versus our expectations in the first half. How do we think about the hedging profile? Appreciate you've given us good guidance for this year, but how do we think about you guys starting to shape the profile for '27? Are you actively in the market at the moment and over the last six months and then, I guess, how do we balance between a refining margin, objective, FX and fuel please?

Mr Strauss: Yes, so we are, of course, very active. If you come back to our policy, we can hedge out to two years but usually most of our hedging is in the zero- to three- and then the three- to six-month. We've already started hedging out FY27. Quite actively at this point, we are about 50% hedged for the full FY27. Of course, most of that would be in the first half. With regards to refining margins, in FY26, we took a decision as we went through the IPO to be more active in our refining margin hedging, because it is quite an expensive thing to do. For FY27, at the moment we are less than 10% hedged for refining margin and we would expect that to continue because of the cost of the refining margin.

Mr Cakarnis: (Jarden, Analyst) Understood, very helpful. Thanks, Race.

Operator: Your next question comes from Justin Barrett with CLSA.

Mr Barrett: (CLSA, Analyst) Hey, I might just try and continue on with the previous line of questioning. I was just keen to try and understand, I guess, not specific

numbers, but the drivers of the RASK growth in the second half. Is it fair to say that, again, you're relatively comfortable with where your load factors are and so that again it'll be driven by fares? Then within fares, are you willing to make any comments around is the driver more, I guess, base fares versus ancillaries or vice versa?

Mr Emerson: Yes, I'll hand it over to Paul, but I would emphasise the other element, base fares versus ancillary is the mix of business versus leisure. That's one of the key drivers that we don't want to understate. Our core strategy is to grow in small business and premium leisure and value corporates. Those customers all pay premiums above the average customer, so as we gain share there, our average fare naturally goes up. So that's one of the key drivers. I'll let Paul comment more.

Mr Jones: Yes and in addition to what Dave said, as I mentioned earlier, it's not just base fares, it's the mix of fares, so we offer now fares in the market which are full of value and choice where people can select different attributes depending on what it is that they want in a product. So we obviously have a lite fare, where that's without bags, we have a flex fare that's fully flexible and has lots of options which is normally more expensive, so what we're doing, part of the revenue transformation program is better matching customers' willingness to pay to what are the right fares for that customer.

So the transformation we expect will continue strongly from a revenue transformation point of view in half 2 and as Dave said, it's partly a customer mix, partly a mix of the fares that we're selling, partly ancillary revenue growth and all of those factors are playing into a continued RASK increase with a continued ASK growth trajectory for half 2.

Mr Emerson: Just to illustrate that, for those who won't spend a lot of time studying fair ladders and fair structures and fair families, but traditionally, if you wanted to buy a flexible fare, you'd pay hundreds of dollars of a premium and so therefore, very few people bought it. We made a decision about a year ago to offer a different set of choice and value in the market, where we have flexible fares priced plus or minus \$50 above our non-flexible fares and available throughout the booking window. So now more people are buying them, because they're a much better deal and so that they're voluntarily choosing to pay a higher fare in exchange for more value. So these are the kind of things that drive our revenue up.

Mr Barrett: (CLSA, Analyst) Great, thanks very much for that. Maybe a question for Race. Just in terms of your gross CapEx guidance for FY26, Race, I was just wondering, could you break that out for us between, I guess, new aircraft purchases and non-aircraft related CapEx for us?

Mr Strauss: Yes, but we need to be slightly careful here because we aren't allowed to publicly disclose the cost we pay per aircraft. But what I will say is that we roughly spend just over \$100 million on non-aircraft CapEx and we are

spending about \$400 million on maintenance type CapEx and the remaining amount is therefore on the aircraft.

Mr Barrett: (CLSA, Analyst) Thank you very much for that, really appreciate it.

Operator: Your next question comes from Cameron McDonald with E&P.

Mr McDonald: (E&P, Analyst) Good morning. Just wanted to delve into the ASK growth into the second half. It's running a little bit softer than your main competitor's guiding to. I'm just wanting to understand, is that due to the availability of the aircraft being delayed? You've indicated demand is strong, so potentially it's not demand, but is it a reaction to the pricing strategy that you're also employing, which you've just spoken about?

Mr Emerson: Yes, look, I think when we talk about ASK growth, it's important that we step back a little bit because it's been a story of two years. If you remember, it was July the previous year when Rex went into administration and withdrew a significant amount of capacity from the capital cities market. I think that if you looked in the last fiscal, we grew at well above inflation, in the ASK basis, well above GDP to replace, what we would see as our natural share of that capacity going after our core customers. I think over that same period, the Qantas Group's domestic growth was flat in the ASK basis.

So this year we're growing more in line with GDP and they're growing faster than us. But if you look at over a two-year basis, I think our growth rates would be quite similar. So I think that's the context around which this sits and so now you see our growth rate is going to be more around GDP for the year and we think that's roughly what we would guide as an expectation.

Mr McDonald: (E&P, Analyst) Thank you, that's great. Just to be clear, I'm not advocating that you go into a capacity war by any stretch of the imagination. Just in terms of how we should think about the capital structure framework and maybe this is a question for both you, Race and Dave, in terms of how – what more were you or the Board looking for in the decision around the distribution, given that capital structure framework, you're at the below the bottom end of the gearing range, you're saying that you still will be for the full year, what was the missing component there?

Mr Emerson: Yes, look I think obviously this is a decision for the Board and what we what we've said, of course, is that we'll be spending significant capital in the second half purchasing aircraft. But despite that, we expect to be at the low end of the range. That creates a lot of flexibility and the Board will look at the overall picture and make a decision on the best use of that capital.

Mr McDonald: (E&P, Analyst) Yes, okay. Then just the final question is just in terms of the margin performance. What's the benchmark that you think is achievable in terms of where you can get to for the margin, please?

Mr Emerson: Yes, look what I'll say is that while we're not giving a specific number of guidance, I think when we think about our domestic margins, of course, as you would know, we report on a different basis than our key competitor as far as what's in and out of segment margins. So you can't compare them directly apples to apples the domestic segment margins. But if you do your underlying math, our view is that while we're pleased with our performance, that we still have a margin gap to our key competitor in the domestic market. Our ambition is to continue to close that gap and so we don't believe our business model structurally should deliver lower margins than our key competitor and so that's the target that I guide to over time.

Mr McDonald: (E&P, Analyst) Okay, that's really helpful. Thank you.

Operator: Once again, if you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. Your next question comes from Scott Ryall with Rimor Equity Research.

Mr Ryall: (Rimor Equity Research, Analyst) Thank you so much. I just hand a quick one on Velocity and loyalty more broadly. This week obviously Qantas announced a bunch of loyalty changes, so I don't know if I'm allowed to say their name on the line, but they announced a bunch of loyalty changes. Your aspirations, clearly from slide 22, is that is one of the key transformation leaders for you. I'm just wondering what you can say about current plans that you have to grow, I guess, particularly that middle one, grow active members and deepen engagement, you might not want to give away trade secrets, but do your current plans suffice in terms of what you're trying to do for your business or do you need to react to this week? Is there anything you can give us some clarity on that?

Mr Emerson: Yes, look we've got Nick Rohrlach here, who leads our loyalty and Velocity program. So I'll let him answer that one.

Mr Rohrlach: Good morning, yes, thanks for the question. Look, you've seen today's results, obviously, we've had really strong active member growth and we're pretty confident that we can continue to do that. We've seen both our existing flyers, for people who are in the plane already on VA, the percentage of those choosing to also then earn Velocity points has really grown over the last few years and including in this half. We can see that there's still headroom there. Then we've also been really focused on making sure that non-flyers who still like to earn points to get free travel, we've seen also really strong growth in that.

So we see headroom in both of those going forward. That gives us confidence to continue to see strong growth in active members. Then within that too, is the people who are already in our program, just using data and personalisation to keep cross-selling into products, especially financial services, that's what gives us a lot of confidence to keep this level of growth over the next few years, double digit external billings growth as well.

You referenced obviously other changes that happened in other programs yesterday. Look, we've always had a level of on-the-ground earn. You can earn status credits from your AMEX Velocity cards with Flybuys, so we think that's a great idea and we'll continue to do those things. That goes, part of that, as I said, we're constantly trying to grow both our flyers and non-flyers and we'll look at changes keeping on going in the future. So, yes, we're very confident about the growth potential over the next few years.

Mr Ryall: (Rimor Equity Research, Analyst) Okay, thank you.

Operator: Your next question comes from Naraj Shah with Goldman Sachs.

Mr Shah: (Goldman Sachs, Analyst) Hi guys, just coming back to the demand picture for a moment, would it be reasonable to assume that the unit revenue guidance you've provided for the second half lines up with what you're seeing in terms of intakes? Then you've called out leisure as being particularly strong exiting the last half, if you could just comment on SME and value corporate a little bit more specifically as well, that'd be great.

Mr Emerson: Yes, so look, first of all, the guidance is absolutely in line with the intakes we're seeing. As you can imagine, we look at that quite closely. Then as far as how we're seeing the segments, yes, look I think that we called out that leisure, particularly event-driven leisure, is particularly strong. I think we'd characterise the overall B2B market as stable. But we've had a very clear strategy of growing our share in that space. So our revenue is still growing in that space, even if the passenger numbers aren't growing as quickly as in the leisure space.

Mr Shah: (Goldman Sachs, Analyst) Got it, thank you.

Operator: Your next question comes from Sam Seow with Citi.

Mr Seow: (Citi, Analyst) Thanks, morning all. Just though I'd mix things up and ask on Velocity, just your redemption there at 4%, just wondering, does that include Qatar? Is that the kind of level that you were planning? I mean, yes, just any kind of colour or what kind of level you would have thought is a good number for redemption with Qatar. Thanks.

Mr Rohrlach: Sure, yes. Thanks, Sam, for the question. Look what you'll see is we've had really, really strong active member growth in the last few years, including particularly this half, the 11%. That creates a bit of a lifecycle sort of aspect for us. We've done a great job at convincing existing flyers and non-flyers to actively engage with Velocity. It takes a few years for people to build up points, especially when you're talking about international redemptions, like you mentioned, Qatar.

So what that means is you'll see that we've brought a whole lot of people into the program, it takes a while for them to earn those points, on average, it's about four years to your first long-haul redemption, two years to short-

haul redemptions, so what you should think is this redemption growth has just been a little bit slower than our overall growth because people are basically building up the points balances.

We saw a massive rush in redemptions a few years ago when everything reopened and so in some ways those perhaps points balances were depleted a bit, but also we brought in all these new existing flyers. So you'll see that redemption revenue growth really continue in the next few years and catch back up. Long-term, over a five- or 10-year period, earn and burn rates should absolutely match out, so just think of that as a point in time thing.

You mentioned then specifically Qatar. We've just seen great – I mean, it's really, really helped boost awareness of the program, we saw a significant increase and I'm sure part of that 11% active member growth is quite down to the boost we got from awareness around our international partner network. We've always had great partners, including Qatar, but it really transformed and boosted the perceptions around that and so I think that's part of that 11% growth. Going forward, I'm quite sure that, as I said, it will moderate, but Qatar is a really key one, great part of that redemption growth going forward.

Mr Seow: (Citi, Analyst) Got it. Maybe just to follow up on the external billing, obviously quite strong there, 19% and the gap to revenue growth closer to 10, is there anything, as you think about the second half, about that gap and I guess in context to your guidance, where you talk to external billings greater than 10, just how we should think about, I guess, the difference in growth rate there, thanks.

Mr Rohrlach: Yes, thanks for the question, Sam. Yes, so look, as we've talked about before, to there is always a level of complexity in loyalty accounting. So that's why we try to give the external billings view, because it's really the cash that comes in the door. So we saw that 19% growth, which is obviously a combination of both the earn active member growth, but also people attaching more, especially around financial services products.

So as we go forward, that should continue too, so we're certainly guiding to double digit billings growth and we're definitely on track for that halfway or partway through this half and it's a combination of member growth and, as I said, particularly financial services, but actually just generally across all of our products. We'll see new partnerships also be announced over the next few months as well too, which is the other driver of that. So that's, I think, why we're confident going forward.

The difference between the billing's growth and the revenue, there's really a series of factors. It's a little bit to do with that lifecycle thing I mentioned before. We've seen this rush of new people come in, they on average earn slightly less in the first few years. It takes them a while to sign up for their first credit card, those sorts of things. There's also accounting differences,

but there's also, frankly, the external versus internal. Paul mentioned before the growth in internal or growth in VA side of things. It's the external match with the VA growth gets you the net revenue number, so it's a combination of all those and I apologise, it's quite complex.

Mr Seow: (Citi, Analyst) Okay, appreciate it. Thanks for the colour.

Operator: There are no further questions at this time. I'll now hand back to Mr Emerson for closing remarks.

Mr Emerson: Yes, thanks for that. Look, I think I just come back to we're really pleased with what we delivered in the half. It is in line with what we had said and in line with the commitments we've made. I think that's the core point that I want to make, is that it is absolutely our intention to deliver a clear reputation to the market that we make commitments and we deliver them. This is the second result we've had as a public company and we look forward to many more of these where we deliver our commitments.

That's really what we have. The business has got great momentum. We're guiding to continued strong results at the year end and that's where we're expecting to be. So probably with that, I'll sign off.

END OF RECORDING (54:58)