ASX and Media Release

QANTAS GROUP REPORTS RECORD FULL YEAR PROFIT

- Underlying Profit Before Tax: $1.6 billion (up 14%)
- Statutory Profit Before Tax: $1.4 billion (up 18%)
- Statutory Earnings Per Share: 56c (up 21%)
- Return On Invested Capital: 22%
- Net free cash flow: $1,442 million (up 10%)
- Shareholder return of up to $500 million: 10 cents per share ordinary franked dividend, plus an on-market buyback of up to $332 million
- Bonus for 27,000 non-executive employees, worth a total of $67 million
- Extension of global lounge improvement program — six additional ports to be upgraded
- Commitment to create a second pilot academy facility in regional Australia.

SYDNEY, 23 August 2018 – The Qantas Group has reported an Underlying Profit Before Tax of $1.6 billion for the 2018 financial year – a record for the national carrier.

All parts of the business contributed to the result, helped by healthy levels of demand across key markets, higher revenue and a particularly strong performance in the domestic flying businesses of Qantas and Jetstar.

The result enables the Group to return further capital to shareholders, keep investing for customers and reward its employees with a cash bonus.

CEO COMMENTS

Chief Executive Officer Alan Joyce said the record profit reflected a strong market as well as the benefits of ongoing work to improve the business and build long-term shareholder value.

“These numbers show a company that’s delivering across the board,” said Mr Joyce.

“Our investment in free Wi-Fi and cabin improvements are delivering a better experience for customers as well as higher earnings for Qantas and Jetstar. The overall value for the travelling public remains extremely strong, with domestic sale fares almost 40 per cent lower in real terms than they were fifteen years ago[1].

“We’re seeing healthy demand across key sectors matched with improving levels of capacity discipline, which is a positive sign for the year ahead.

“This record result comes despite higher oil prices. We’re facing another increase to our fuel bill for FY19 and we’re confident that we will substantially recover this through a range of capacity, revenue and cost efficiency measures, in addition to our hedging program.

[1] BITRE Australian Domestic Best Discount Air Fare Index.

"Ultimately our success relies on the great service and dedication to safety from our people, which is supported by continuing to invest and innovate.

"We're very pleased to reward our people with a bonus for this fantastic result. It brings the total amount set aside for non-executive employees to over $300 million over the past four years for their part in the Group's exceptional performance," added Mr Joyce.

GROUP DOMESTIC

The Group's domestic flying operations delivered EBIT of $1.1 billion, which is 25 per cent higher than FY17 and represents a new record for the business.

This was achieved through the combination of Qantas and Jetstar's network, schedule and product strengths in key markets, and supported by capacity discipline driving higher seat factors and higher unit revenue.

Margin growth was helped through efficiency gains (such as Jetstar's A320 cabin refit program) and investing for a higher premium (such as new lounges and free inflight Wi-Fi on Qantas). Qantas Domestic achieved a 19 per cent increase in earnings from a 6 per cent increase in revenue.

The Group maintained its corporate share, increased its share of small to medium enterprises, and saw a continuation of growth in the resources sector that began in the first half of the year. Demand was also boosted by flows from international partner airlines on to domestic services. Leisure demand remains strong and Jetstar carried 24 million passengers domestically and internationally for under $100.

GROUP INTERNATIONAL

Qantas International increased its earnings by 7 per cent to $399 million and maintained its margin in the face of strong competition and higher fuel prices.

Qantas International made several important structural changes during the year, including the introduction of the 787, new routes like Perth–London and taking on additional Trans Tasman flying for partner Emirates. These changes started delivering cost and revenue benefits in late FY18, which will continue through FY19 onwards.

Jetstar International posted a strong profit after managing an $11 million impact from Bali ash clouds and start-up of new routes like Melbourne-Ho Chi Minh.

Jetstar branded airlines in Asia were all profitable and continue to give the Group a capital-light foothold in key growth markets. The expansion of Qantas' Singapore hub has been helped by traffic flows and onward connections with these airlines.

Qantas Freight continued to perform well, with the international market strengthening and the domestic market stable.

QANTAS LOYALTY

Qantas Loyalty achieved a record result of $372 million, up 1 per cent from the prior year. Margins dropped by 0.4 percentage points due to a mix of market conditions and bonus points promotions to support the launch of new financial products, but remained strong at 24.1 per cent.

The impact of interchange fee adjustments – which continued into the second half of the year – was mitigated by consumer demand for Qantas Points. While total growth in new credit cards issued in Australia shrank by 4 per cent, cards that earn Qantas Points grew at 7 per cent[2], showing the value that points have in card acquisition.

The Frequent Flyer program grew by 4.2 per cent[3] to reach 12.3 million members. Levels of member engagement increased, helped by the widening number of partners in the program and additional 'opt-ins' among Woolworths customers to earn Qantas Points.

There was continued revenue growth from new ventures, including health insurance and Qantas' own premier credit card. Further expansion into financial services is planned in the first half of FY19.

FINANCIAL FRAMEWORK

The Group delivered against its financial framework in FY18.

Net free cash flow increased by $133 million, helping to push net debt below the low end of the preferred range. This gives future flexibility for earnings accretive investment and to continue rewarding shareholders.

The Group remains on track for a combined $3 billion in capital expenditure for FY18 and FY19 (net of asset sales), with $1.97 billion of this delivered in FY18. Ongoing transformation delivered $463 million of revenue and cost benefits.

Hedging helped minimise impact of fuel price increases during FY18, giving the Group time to adjust revenue settings to reflect increased costs. This has continued into FY19, with the first half of the year 87 per cent hedged. Ongoing efficiency measures drove a 1 per cent reduction in fuel consumption and the same is expected in FY19.

Continued profitability saw Qantas exhaust the last of its available carry forward tax losses and incur company tax in the second half of FY18.

SHAREHOLDER RETURNS

The Qantas Board has announced up to $500 million to be returned to shareholders. This comprises an increased, fully franked dividend of 10 cents per share to be paid on 10 October 2018 with a record date of 6 September 2018, as well as an on market buy-back of up to $332 million.

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[2] At June 2018 compared to June 2017. Source: RBA credit and card charges statistics.

[3] At June 2018 compared to June 2017.

This will bring the amount of capital returned to Qantas shareholders to $3.1 billion since October 2015 and the total reduction in shares on issue to around 26 per cent.

INVESTING FOR THE FUTURE

Several major investments were announced during FY18, including six additional 787-9s for Qantas International, accelerated retirement of remaining 747s, a major upgrade of A380 cabins and 18 new A321LR NEOs for Jetstar.

Work on Project Sunrise – which will unlock direct flights from the east coast of Australia to London and New York by 2022 – advanced to the request for proposal stage with Airbus and Boeing. And several lounge upgrades were announced, underway or completed.

Qantas has today announced an extension of its global lounge upgrade program, designed to support demand for premium travel across six additional ports. They are:

- Updated and expanded Sydney International First Lounge
- Major upgrade to the Auckland Lounge
- Refreshed Tokyo Narita Lounge
- Expanded Brisbane International Lounge
- Two regional lounge upgrades – Tamworth and Hobart.

(See separate release for detail.)

The Qantas Group has today also committed to a second Pilot Academy facility, which will help meet the unprecedented global demand for skills as the aviation sector continues to grow. The academy concept is designed to provide a future talent pipeline for Qantas Group airlines and support General Aviation in a country that relies heavily on air transport. It also represents a commercial opportunity to create a centre of excellence to train pilots for airlines throughout the region.

The concept has been met with substantial levels of support from state governments, local councils and the private sector. *(See separate release.)*

Qantas has set aside a total of $20 million towards establishment of the two facilities. Both will be located in regional Australia, with cities to be announced in coming weeks. The first location will open during calendar year 2019 and the second expected to follow in 2020.

Qantas has also committed to delivering up to $3 million to regional communities as part of its drought assistance program.

OUTLOOK

The strength of forward bookings and continued focus on transformation provides confidence that the Group will substantially recover higher fuel costs in FY19. This is supported by capacity discipline and fundamental strengths of our dual brand strategy in the domestic market, combined with margin advantage and fleet investment in the international market.

The Group's current operating expectations for FY19 are[4]:

- Total fuel bill is expected to increase to ~A$3.92 billion (up ~$690 million).
- Inflation impact on Group expenditure (including wage growth) expected to be ~$250 million.
- Transformation benefits are expected to be ~$400 million.
- Net capital expenditure[1] expected to be $1.0b for FY19.
- Total Group capacity to increase by ~0–1 per cent in the first half of FY19, with Group International up by 1 per cent and Group Domestic capacity flat.
- Net depreciation and non-cancellable aircraft operating leases expected to be ~$155 million higher than FY18.

Media Enquiries: Qantas Media +61 418 210 005 qantasmedia@qantas.com.au

[4] See Investor Presentation for detailed outlook assumptions.