Media Release

Qantas Group Full Year 2017 Financial Result[1]

Sydney, 25 August 2017

- Underlying Profit Before Tax: $1,401 million (second highest in Qantas' history)
- Statutory Profit Before Tax: $1,181 million
- Statutory Earnings Per Share: 46c
- Return On Invested Capital: 20.1%
- Net free cash flow: $1,309 million
- Up to $500 million shareholder return: 7 cents per share ordinary unfranked dividend, plus an on-market buyback of up to $373 million
- $55 million for non-executive employee bonus
- Upgrade of A380 cabins and Melbourne Domestic lounge announced
- Evaluation of new ultra-long range aircraft for Qantas International

Qantas today reported an Underlying Profit Before Tax of $1,401 million and a Statutory Profit Before Tax of $1,181 million for the 12 months ended 30 June 2017.

The underlying result represents the second highest performance in Qantas' 97 year history, down 8.6 per cent compared with last year's record. It is slightly above the guidance range provided in early May this year, mainly due to strengthening of the Group's domestic businesses. A drop in statutory profit before tax of $243 million reflects that the FY16 result included the gain on sale from the Sydney Domestic Terminal.

Overall, the FY17 performance shows the Qantas Group's margin advantage over local and global competitors[2], which has been underpinned by completion of its three year transformation program.

SUMMARY OF RESULT

All parts of the Qantas Group delivered strong returns in FY17.

In the domestic market, Qantas and Jetstar combined reached a record $865 million Underlying EBIT, making them again the two most profitable airlines in Australia with around 90 per cent of the total domestic profit pool.

Qantas International, which has faced high levels of capacity growth in the broader market, saw an improvement of conditions in the second half; it posted an Underlying EBIT of $327 million. Continued strength in its core markets helped the Jetstar Group deliver the second highest profit in its 13 years of operation.

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[1] Refer to the Review of Operations for definitions and explanations of non-statutory measures. Unless otherwise stated, amounts are reported on an underlying basis.
[2] IATA's December 2016 profit outlook forecasts an average industry margin for 2017 of 4.1 per cent. Qantas Group reported an operating margin of 9.9% for FY17 (calculated as Group Underlying EBIT divided by Group Total Revenue).

Qantas Loyalty booked a record $369 million Underlying EBIT on a 4 per cent increase in revenue as it continued to diversify its earnings.

The Group met all the objectives of its financial framework, reporting a 12-month return on invested capital of 20.1 per cent. Another $470 million in transformation benefits were delivered, completing the three year program and outperforming the $2 billion target by $125 million.

The Qantas Transformation Program has underpinned these results and enabled the Group to outperform its key domestic and international competitors.

This performance means Qantas is able to reward shareholders, recognise the hard work of its people and invest for customers.

CEO COMMENT

CEO Alan Joyce said the result marked completion of a turnaround plan that has repositioned Qantas as one of the most profitable airline groups in the world.

“Three years ago, we started an ambitious turnaround program to make the Qantas Group strong and profitable. We tackled some difficult structural issues, became a lot more efficient and kept improving customer service.

“Today’s announcements show this plan has well-and-truly paid off. It’s delivered $3.5 billion in cumulative underlying profit, record customer satisfaction and the opportunity for Qantas to grow.

“We operate in a very competitive environment, so continuous improvement is crucial. Being more efficient is part of our culture and we’re now targeting an average of $400 million in gross benefits a year.

“We have a plan to keep delivering sustainable returns well into the future. We’re investing in lounges, Wi-Fi and cabin upgrades; looking at new aircraft to evolve our network; and diversifying into new businesses like insurance and financial services.

“Our people remain central to our success, and that is why it is so pleasing that we are able to grant another bonus to around 25,000 non-executive employees to mark the successful completion of the turnaround program,” added Mr Joyce.

RETURNS FOR SHAREHOLDERS

The Qantas Board has declared a dividend of 7 cents per share (unfranked) to be paid on 13 October 2017 with a record date of 11 September 2017.

A further on-market buyback of up to $373 million has been announced. Once this latest buyback is completed the number of Qantas shares is expected to have been reduced by more than 20 per cent since October 2015.

Since the transformation program began in February 2014, the total return for Qantas shareholders – including share price appreciation and distributions – has been around $9 billion. This has made the Group the top performer on the ASX100.

INVESTING FOR CUSTOMERS

The Group will continue to invest in new aircraft, upgrading cabins and lounges, and extending its network of destinations.

The airline's fleet of 12 Airbus A380s will receive a significant upgrade to improve passenger comfort as well as route economics (see separate release). This will include replacing Skybeds in Business Class with the latest version of the Business Suite; increasing the size of the Premium Economy cabin and installing the same all-new seats that will debut on the Dreamliner at the end of this year; and refurbishment of the Economy and First Class sections. Work will begin in the second quarter of calendar year 2019.

Both the Business and Qantas Club lounges at Melbourne Domestic will be progressively renovated from November this year, providing customers more space, comfort and dining options before they fly. (See separate release.)

New lounges at both ends of the landmark Perth-London route will be completed during FY18, and two remaining A330s will have their cabins upgraded following lease extensions.

The rollout of Wi-Fi on the Qantas Domestic network (A330 and 737 aircraft) is expected to accelerate in late September 2017, once the current trial is complete and final regulatory approval for the new service is confirmed.

Jetstar will invest in additional service training for 4,000 of its frontline employees as it continues to stimulate new travel demand with low fares. The airline will start a new route from Melbourne to the Central Chinese city of Zhengzhou from December 2017, which is expected to bring 35,000 Chinese tourists to Australia a year.

REWARDING OUR PEOPLE

In line with the successful completion of the $2 billion transformation program, non-executive Qantas Group employees will receive a bonus of $2,500 (or $2,000 for part time). This will apply to approximately 25,000 people ranging from pilots to cabin crew, engineers, ground staff and office workers.

This brings the total amount set aside for non-executive bonuses to more than $220 million since the start of the turnaround in 2014.

BUSINESS UNIT PERFORMANCE

Qantas Domestic reported Underlying EBIT of $645 million up $67 million compared with the same period last year. Careful capacity management, cost control and yield management helped drive this record result, with unit revenue up 3 per cent and margins of 11.5 per cent. The business market strengthened in the second half, while the impact of the resources sector decline on the Group slowed to $55 million in FY17 compared to a decline of $120 million in FY16.

Qantas International reported Underlying EBIT of $327 million, which is its second highest result. This decline of $185 million was largely driven by 8.5 per cent capacity growth in the broader market, which saw a 6.5 per cent reduction in unit revenue. These pressures moderated in the second half, with the decline in unit revenue slowing to 4 per cent. Ongoing cost control meant Qantas International's margins, while dropping from 8.9 to 5.7 per cent, remain stronger than many of its competitors[3].

Qantas International continues to review network opportunities created by the 787's arrival, including the ability to deploy some of its existing wide-body fleet differently.

Qantas Freight reported Underlying EBIT of $47 million, down $17 million compared with last year due to weakness in the international market caused by increased wide-body aircraft capacity. The domestic freight business was broadly stable.

The **Jetstar Group** reported Underlying EBIT of $417 million, down $35 million and still the second highest in its history. Jetstar's domestic Australian operations posted another strong profit and its international routes to-and-from Australia also performed well. While Jetstar's margin declined by 0.8 percentage points – with the impact of booking and service fee changes and softer freight yields – it remains the highest-margin airline in Australia. A cabin upgrade to the airline's A320s during FY18 will deliver a 3 per cent capacity increase per aircraft with limited capital outlay.

Qantas Loyalty reported Underlying EBIT of $369 million, up $23 million to reach another record. Its performance was underpinned by the strength of the core Frequent Flyer program, which added around 400,000 new members to reach 11.8 million. Billings were supported by more Woolworths customers opting to earn Qantas Points and the addition of 22 new program partners. Loyalty achieved double digit earnings growth in the second half and overall revenue improvement of 4 per cent.

NEXT GENERATION OF DIRECT FLIGHTS

Qantas has announced it is investigating direct flights from the east coast of Australia to London and New York by 2022. A challenge has been given to Airbus and Boeing to give their next-generation aircraft currently under development (Airbus' A350ULR and Boeing's 777X) the range to make these non-stop flights possible with a full passenger load. A direct flight would cut total journey time by up to four hours on Sydney-London and almost three hours on Melbourne-New York.

Mr Joyce said: "From next year we'll be flying direct from Perth to London, which is a huge leap forward. We believe advances in technology in the next few years will make Sydney to London direct a possibility and Qantas is well placed to be the airline to do it.

"Any aircraft purchase would have to meet strict financial thresholds, but these direct flights would be revolutionary for air travel in Australia."

FLEET UPDATE

Qantas International will take delivery of two Dreamliner 787-9s in the first half of FY18, with all eight to join the fleet by first half FY19.

Qantas retired one 747-400 in July this year with another to leave the fleet around mid-2018. A total of five older jumbos will be retired to make way for the eight Dreamliners. The remaining six extended range 747s are expected to remain until the early 2020s.

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[3] IATA's December 2016 profit outlook forecasts an average margin for Asia-Pacific carriers of 2.9 per cent, putting Qantas International at double the average.

Three Fokker F100 aircraft joined the Qantas Domestic fleet in the first half of the year, providing flexibility to reduce capacity but maintain frequency on resources routes. Jetstar added two Airbus A321 aircraft to meet demand in short-haul leisure markets.

FINANCIAL FRAMEWORK

Qantas has further strengthened its capital position through sustained positive free cash flow. Net debt has fallen by $434 million to $5.2 billion compared to FY16, which is at the lower end of the target range. More than 60 per cent of the Group's fleet is now debt-free, representing an unencumbered asset base of around US$3.8 billion. Short term liquidity remains strong at $1.8 billion, plus another $1 billion in undrawn facilities.

All parts of the Group are delivering a return above their weighted average cost of capital.

OUTLOOK

First Half

- Overall Group Capacity is expected to increase by around 3 per cent in the first half.
- Group Domestic capacity is expected to decrease by around 1 per cent compared with the same period last year; unit revenue is expected to increase on stronger demand.
- Group International capacity is expected to increase by around 5 per cent, driven by previously-announced new routes into growing Asian markets. Unit revenue declined by 2 per cent in the second half of FY17 on competitor capacity growth of 5 per cent; competitor capacity growth is expected to slow to around 4 per cent in the first half of FY18.

Full year

The Group's current operating expectations for the full year are as follows:

- Given its hedging program, fuel costs are expected to be no more than $3.16 billion and are tracking at $3.11 billion at current forward AUD prices.
- Net capital expenditure is expected to be $3.0 billion for FY18 and FY19 combined.
- Impact of inflation on costs, including wage growth, is expected to be $250 million.
- Gross benefits from the next wave of ongoing transformation (including cost, revenue and fuel efficiency improvements) are expected to be $400 million per year.

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