



ASX and Media Release

QANTAS ANNOUNCES STRONG FULL YEAR PROFIT, SHAREHOLDER RETURN & DREAMLINER ORDER¹

- Underlying Profit Before Tax: \$975 million
- Statutory Profit Before Tax: \$789 million
- Return on invested capital: 16 per cent
- Statutory earnings per share: 25.4 cents
- Proposed capital return and related share consolidation: \$505 million, 23 cents per share
- Boeing 787-9 Dreamliner order for Qantas International

SYDNEY, 20 August 2015: Qantas today announced its strongest profit since before the Global Financial Crisis, a \$505 million capital return to shareholders and a Boeing 787 Dreamliner order to start a new era for Qantas International.

For the 12 months to 30 June 2015, Qantas reported an Underlying Profit Before Tax of \$975 million and a Statutory Profit Before Tax of \$789 million. The underlying result is a turnaround of \$1.6 billion compared with financial year 2014, including Qantas' best ever second half performance, with all segments of the Qantas Group reporting robust profits and returning their cost of capital.

The driving force behind the result was progress with the Qantas Transformation program, which realised \$894 million in transformation benefits during the year and saw Qantas meet its target of paying down more than \$1 billion in net debt. As a result, Qantas has reached its optimal capital structure – enabling it to resume shareholder returns while continuing to invest in growth and renewal.

Chief executive Alan Joyce said the milestone acquisition of the next-generation Dreamliner for Qantas International marked the scale of Qantas' turnaround and signalled a new phase of renewal and growth.

“We are halfway through the biggest and fastest transformation in our history,” Mr Joyce said. “Without that transformation, we would not be reporting this strong profit, recommencing shareholder returns, or announcing our ultra-efficient Dreamliner fleet for Qantas International.

“We have reshaped our business for a strong, sustainable future – and because we moved quickly and made tough decisions early, we have strong foundations to build on.”

¹ Refer to the Review of Operations for definition and explanation of non-statutory measures, including Underlying PBT, Underlying EBIT, return on invested capital, net debt, utilisation, comparable unit cost, controllable unit cost, yield, load, and billings. Unless otherwise stated, amounts are reported on an underlying basis. Refer to the Investor Presentation.

RETURNS TO SHAREHOLDERS

A capital return of \$505 million, equivalent to 23 cents per share, is proposed to be paid to shareholders in early November 2015. The payment is subject to shareholder approval at the Qantas Annual General Meeting on 23 October 2015 of the capital return and the related share consolidation (see separate release).

“The financial discipline we have applied means we can reward our shareholders, who have been both patient and supportive throughout our transformation,” Mr Joyce said. “We’re delighted to make this announcement today.”

DREAMLINER ORDER

Qantas will acquire eight Boeing 787-9 aircraft, to be delivered from calendar year 2017 and gradually replace five older Boeing 747s (see separate release).

“New aircraft types have always unlocked opportunities for Qantas,” Mr Joyce said.

“When our red tail Dreamliners start arriving in two years’ time, their incredible range and fuel-efficiency will create new possibilities for our network.

“For customers, the Qantas Dreamliner’s improved cabin pressure, larger windows and technology to reduce turbulence will deliver the world’s best travel experience.”

CONTRIBUTION OF QANTAS’ PEOPLE

“I want to thank our people, who have driven this transformation forward with such determination,” Mr Joyce said.

“No other company in Australia has people with more pride, more belief and more commitment than those who go to work each day for Qantas.

“Everyone at Qantas made sacrifices as we worked through changes across our business. That sacrifice will be recognised with the \$90 million in bonus payments to employees covered by agreements that include an 18-month pay freeze.

“Our people have always been proud of Qantas’ history and its legacy. Today that pride is coupled with a new sense of focus and dynamism. We need to keep evolving and transforming to shape a truly sustainable future – but our people should take great satisfaction in what we are achieving together.”

SUMMARY OF RESULT

Drivers of FY15 Turnaround

The \$2 billion Qantas Transformation program was announced in December 2013.

To date, \$1.1 billion of transformation benefits have been realised, including the \$894 million of benefits realised in financial year 2015, and the Group has met every scheduled target for the program.

Other factors that had a positive impact on Qantas’ performance in financial year 2015 were lower fuel prices, depreciation savings from the Qantas International fleet impairment, higher revenue per available seat kilometre (excluding foreign exchange), and the repeal of the carbon tax.

Group Performance

All segments of the Qantas Group reported strong profits with record results for Jetstar, Qantas Loyalty and Qantas Freight on an Underlying Earnings Before Interest and Tax (Underlying EBIT) basis. The combined Qantas Domestic and Qantas International result was the best since 2008. Combined Group domestic Underlying EBIT – Qantas and Jetstar – was more than \$600 million and Qantas International was profitable on a full-year basis for the first time since before the GFC.

Qantas Domestic

Qantas Domestic reported Underlying EBIT of \$480 million, compared with \$30 million in financial year 2014, driven by \$302 million in transformation benefits and a 4.5 per cent increase in revenue per available seat kilometre.

The Group's dual-brand model is enabling it to adjust to shifts in economic conditions and demand, with capacity reductions in mining-intensive Western Australia and Queensland and the introduction of new routes in east coast markets.

Comparable unit costs were cut by 4 per cent as Qantas Domestic completed its fleet simplification with the retirement of the B767 fleet and increased utilisation of aircraft in the second half of the financial year.

Customer satisfaction reached record levels in financial year 2015, while Qantas Domestic also achieved its best on-time performance in over 10 years.

Qantas International

Qantas International reported Underlying EBIT of \$267 million, a turnaround of \$764 million compared with a loss of \$497 million in financial year 2014. This turnaround was driven by transformation benefits of \$408 million, with a 6 per cent increase in revenue per available seat kilometre and a 4 per cent reduction in comparable unit costs.

The business continues to pursue growth opportunities through increased aircraft utilisation, with capacity increases implemented or announced in markets including Los Angeles, Dallas, Vancouver, San Francisco, Santiago, Tokyo and Singapore, and plans to expand partnerships with American Airlines and China Eastern (subject to regulatory approval). Overall, aircraft utilisation has been increased by 15 per cent since financial year 2012.

Qantas International also received record customer satisfaction ratings in financial year 2015.

Jetstar Group

The Jetstar Group reported record Underlying EBIT of \$230 million, up from a loss of \$116 million in financial year 2014, driven by strong performances in the Australian domestic and Australian international market. Jetstar International achieved a record profit as it introduced more B787-8s into its fleet.

Jetstar's New Zealand business was also profitable and all the Jetstar-branded airlines in Asia improved their performance compared with financial year 2014, with losses halved:

- Jetstar Asia (Singapore) was profitable in the full year.
- Jetstar Pacific (Vietnam) was profitable in the second half.
- Jetstar Japan significantly improved its performance on the prior year. Qantas and its fellow shareholder Japan Airlines will each commit an equity injection of up to JPY 5 billion (AUD\$55 million) to Jetstar Japan. This investment will support Jetstar Japan as it continues to expand its international operations and maintain its leading position in the growing and competitive Japanese domestic market.

- Qantas has written off its stake in Jetstar Hong Kong, with an impact of \$21 million outside of Underlying EBIT, following the Hong Kong regulator's decision not to grant an operating license to the airline. Qantas will make no further investments in Jetstar Hong Kong.

The Jetstar Group's controllable unit costs were reduced by 2 per cent, underpinning low fares.

Qantas Loyalty

Qantas Loyalty reported record Underlying EBIT of \$315 million, up from \$286 million in financial year 2014, driven by a 5 per cent increase in billings and significant growth in adjacent businesses, including Qantas Cash.

Qantas Frequent Flyer added 33 new partners and grew its membership to 10.8 million. At the same time, Qantas Loyalty continued to diversify its earnings profile, with new and adjacent businesses contributing 30 per cent of earnings growth.

Around \$1.1 billion has been loaded on the Qantas Cash travel money card, the Aquire small business loyalty program is performing strongly, and the marketing, analytics and research services venture Red Planet was profitable within its first year of operation.

Qantas Loyalty achieved record customer satisfaction, maintaining a clear lead over competitor loyalty programs.

Qantas Freight

Qantas Freight reported record Underlying EBIT² of \$114 million, compared with \$24 million in financial year 2014, driven by transformation benefits of \$38 million and high load factors.

The business renewed Australia Post as its biggest domestic freight customer as well as adding a new major customer, Toll Group.

Customer Focus

Customers have always been at the heart of the Group's strategy, which is why the Group has invested in aircraft, lounges, training and technology throughout transformation. Major customer initiatives completed, underway or beginning soon include:

- Refurbishment of Qantas' A330 fleet of 28 aircraft for international and domestic operations, now approaching the halfway stage.
- Refurbishment of Qantas Domestic's B737-800 fleet of 67 aircraft, now underway.
- Renewal of Jetstar International's fleet with 11 B787 Dreamliners, all in service by September 2015.
- New first and business class lounges now open in Los Angeles.
- New Perth business lounge, to open in late August, and new Brisbane lounges, to open from 2016.
- Re-launched websites for both Qantas and Jetstar in 2016.
- Moving Jetstar into the all-new Terminal 4 terminal in Melbourne by the end of 2015.

FINANCIAL POSITION

Operating cash flow in financial year 2015 was \$2 billion, up from \$1.1 billion in financial year 2014.

² Since separate segmentation of freight result in financial year 2008.

Qantas' net debt has been reduced by \$1.1 billion since financial year 2013 and the Group's leverage metrics are now within an investment-grade range, with debt-to-adjusted-EBITDA of 2.9x, compared with 5.1x in financial year 2014 (based on Moody's methodology).

The Group retains access to diverse sources of funding, including \$2.9 billion in cash, \$1 billion in undrawn facilities and over US\$3 billion of debt-free aircraft.

Group return on invested capital (ROIC) in financial year 2015 was 16 per cent, above the Group's target of ROIC above 10 per cent through the cycle.

Net cash capital expenditure in financial year 2015 was \$944 million, in line with guidance.

OUTLOOK

Current Group operating expectations:

- Qantas Group capacity expected to increase by 3 - 4 per cent in the first half of financial year 2016 compared to the first half of financial year 2015.
 - Group Domestic capacity expected to increase by 0 - 1 per cent in the first half of financial year 2016 compared to the first half of financial year 2015.
 - International capacity increase driven by utilisation, new route launches, B787-8 transition.
- Underlying fuel costs in financial year 2016 expected to be no more than \$3.94 billion³, \$3.64 billion⁴ at current forward Australian dollar prices.
- Depreciation and amortisation expense expected to increase by approximately \$100 million to \$1.2 billion in financial year 2016.
- Transformation benefits (cost, fuel and revenue) expected to be \$450 million in financial year 2016.
- Net capital expenditure to be between \$900 million and \$1 billion in financial year 2016.

No Group profit guidance is provided at this time due to the high degree of volatility and uncertainty in global economic conditions, fuel prices and FX rates.

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³ Worst case total fuel cost based on a 2-standard deviation move in Brent forward market prices to A\$100/bbl, for the remainder of FY16.

⁴ Current forward market price total fuel cost based on a Brent forward market price of A\$71/bbl for remainder of FY16.

EXPLANATION OF RESULTS

The Qantas Group reported an Underlying Profit Before Tax¹ of \$975 million for the 12 months ended 30 June 2015, an improvement of over \$1.6 billion from 2013/2014. The Group's Statutory Profit After Tax of \$560 million included \$186 million of costs which were not included in Underlying PBT¹ primarily driven by redundancies, restructuring and other costs associated with the Qantas Transformation program.

The Underlying PBT result is a strong turnaround from the 2013/2014 financial year, driven by cost and revenue benefits² from the Qantas Transformation program and a more favourable operating environment. Qantas continued to deliver on all of its major strategic and operational commitments over the 2014/2015 financial year, resulting in the rapid recovery in earnings and return to a strong balance sheet position.

The Qantas Transformation program was the major driver of the result delivering benefits of \$894 million. Other drivers of the result included:

- Improved Revenue per ASK³
- Reduced fuel cost, benefiting from lower AUD fuel prices
- The positive impact of reduced depreciation expense resulting from the non-cash write down of Qantas International Fleet in 2013/2014 and the removal of the carbon tax

Qantas takes a disciplined approach to continually reviewing its optimal capital structure and, where there is surplus capital, to assess how to enhance shareholder value with the appropriate mix of growth and shareholder returns. Having returned to our optimal capital structure as at the end of 2014/2015, a \$505 million capital return was declared.

The shareholder distribution is in the form of 23 cents per share capital return combined with a share consolidation. Subject to a final Australian Taxation Office ruling, the entire \$505 million will be treated as a capital return, enabling a highly tax efficient distribution with no tax payable by shareholders on receipt of the cash return. Subject to shareholder approval at Qantas' Annual General Meeting in October 2015, the 23 cents per share payment will be made in November 2015.

Strategic highlights of the 2014/2015 financial year included:

- Qantas Transformation continuing to drive permanent shift in cost base and competitive position
- Disciplined capital allocation facilitated debt reduction and recommencement of shareholder returns
- Investment in product and innovation strengthened the Group's leading market positions
- Focus on engaging our people and improving workplace culture
- Management of external volatility with robust hedging program, capacity and capital expenditure flexibility

All operating segments achieved Return on Invested Capital (ROIC)⁴ greater than the Group's Weighted Average Cost of Capital (WACC), contributing to Group ROIC of 16 per cent.

Qantas International Underlying EBIT¹ of \$267 million was a \$764 million improvement from the prior year, driven by \$408 million of Transformation benefits realised in the year. Jetstar Group, Qantas Loyalty⁵ and Qantas Freight all achieved record Underlying EBIT, while the combined Qantas Domestic and Qantas International Underlying EBIT result was the highest since financial year 2007/2008.

The \$894 million of Qantas Transformation benefits realised during 2014/2015 was ahead of guidance of at least \$675 million, with all planned initiatives being delivered on or ahead of schedule. Transformation benefits included \$576 million of non-fuel expenditure reduction, \$136 million from fuel efficiency⁶, and revenue benefits² of \$182 million from

1 Underlying Profit Before Tax (Underlying PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying Earnings Before Net Finance Costs and Tax (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying PBT to Statutory Profit/(Loss) Before Tax.

2 Any incremental costs associated with revenue benefits are netted in the overall cost benefits attributed to the Qantas Transformation program.

3 Passenger Revenue per Available Seat Kilometre.

4 Return on Invested Capital (ROIC) is a non-statutory measure and is the financial return measure of the Group. ROIC is calculated as Return on Invested Capital EBIT (ROIC EBIT) divided by Average Invested Capital. ROIC EBIT is derived by adjusting Underlying EBIT to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they were owned aircraft. Invested Capital includes the net assets of the business other than cash, debt, other financial assets and liabilities, tax balances and includes the capitalised value of operating leased aircraft assets. Average Invested Capital is equal to the 12 month average of the monthly Invested Capital.

5 Qantas Loyalty record Underlying EBIT result compared to prior periods normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.

6 Fuel efficiency includes reduction in consumption from fuel efficiency and reduction in into-plane costs following transformation initiatives.

EXPLANATION OF RESULTS (continued)

initiatives including increased utilisation⁷ of international and domestic aircraft. Qantas transformation continues to drive a sustainable improvement in earnings.

Qantas has established a financial framework to align our objectives with our shareholders. With the aim of generating maintainable Earnings Per Share growth over the cycle, which in turn should translate into Total Shareholder Returns in the top quartile of the ASX100 and a basket of global airlines⁸, the financial framework has three clear priorities and associated long-term targets:

Priorities and long-term targets	Delivery against priorities and long-term targets
Maintain an optimal capital structure, with a target to minimise WACC	Qantas returned to its optimal capital structure after completing net debt ⁹ reduction of \$1.1 billion since the 2012/2013 financial year. With the concurrent increase in earnings, leverage metrics are within the targeted BBB- to BBB range. Total liquidity ¹⁰ increased, including \$2.9 billion in cash, \$1 billion in undrawn revolving credit facilities and a net increase of 20 unencumbered aircraft to total market value over US\$3 billion.
Deliver ROIC greater than WACC ¹¹ through the cycle, ensured by a target of ROIC > 10 per cent	Return on Invested Capital of 16 percent. The Group ROIC outcome was consistent with the Group's target to deliver ROIC above 10 per cent through the cycle.
Disciplined allocation of capital, with the aim of growing Invested Capital with disciplined investment	Qantas continued to demonstrate disciplined allocation of capital over 2014/2015, with constrained net capital expenditure ¹² of \$944 million facilitating \$1.1 billion net debt reduction since 2012/2013 and the return of \$505 million surplus capital to shareholders. Despite the constrained level of capital expenditure, targeted investment across the Group in product, service and training resulted in customer satisfaction and advocacy, measured by Net Promoter Scores, improving to record levels.

The Group's balanced scorecard through the Qantas Transformation program ensures a net benefit for the customer experience. This was seen in customer and brand highlights for the year including:

- Record¹³ customer advocacy (NPS) results at Qantas Domestic and Qantas International
- The opening of new First and Business lounges in Los Angeles
- Commencement of the A330 reconfiguration program, progressively adding 'Business Suites' with lie-flat beds on 28 A330 family aircraft
- B787 aircraft with enhanced customer offering in the Jetstar International fleet with two further aircraft already delivered since 30 June 2015
- Ongoing customer service training programs completed by more than 10,000 staff
- Digital innovation focused on improving speed and ease of travel including auto check-in on mobile for Qantas Domestic and next-gen online retailing and boarding at Jetstar

UNDERLYING PBT

The Qantas Group's full-year 2014/2015 Underlying PBT increased to \$975 million, compared to an Underlying Loss Before Tax of \$646 million in 2013/2014. The significant improvement in earnings was driven by the delivery of a reduction in operating expenses, fuel efficiency initiatives, and revenue benefits from the \$2 billion Qantas Transformation program¹⁴.

Net passenger revenue increased by three per cent, reflecting improved yields¹⁵ and passenger loads in most markets. This stronger performance was supported by network changes and capacity management in a mixed domestic market, as well as a more benign international competitive environment with the lower Australian dollar resulting in a steep reduction in the pace of international competitor capacity growth. The fuel cost reduction of \$597 million resulted from lower AUD fuel prices and fuel efficiency measures in the Qantas Transformation program.

7 Aircraft utilisation is based on average block hours per aircraft.

8 Compared to global airline peer group as stated in the Notice of Meeting for the 2014 Annual General Meeting, with reference to the 2015-2017 LTIP.

9 Net debt including present value of operating lease liabilities. The present value of operating lease liabilities for aircraft operating leases in accordance with AASB 117: Leases, are not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent applied in Standard and Poor's methodology.

10 Includes cash and cash equivalents and \$1 billion in undrawn facilities as at 7 July 2015.

11 Calculated on a pre-tax basis.

12 Net capital expenditure represents investing cash flows.

13 Net Promoter Score (record achieved in June 2015).

14 \$2 billion of gross benefits excluding inflation.

15 Yield – passenger revenue divided by RPKs (both current year and prior year have been calculated using current foreign exchange rates).

ATTACHMENT 1

EXPLANATION OF RESULTS (continued)

Depreciation and amortisation expenses were lower with \$195 million of the reduction resulting from the non-cash impairment to the Qantas International fleet taken in the 2013/2014 full year results. The remaining reduction is the net impact from aircraft retirements offset by deliveries. Net finance costs increased by \$52 million largely due to reduced capitalised interest and an increase in the average cost of new debt and the significant extension of the Group's debt maturity profile.

Group Underlying Income Statement Summary		June 2015 \$M	June 2014 \$M	Change \$M	Change %
Net passenger revenue		13,667	13,242	425	3
Net freight revenue		936	955	(19)	(2)
Other revenue		1,213	1,155	58	5
Revenue		15,816	15,352	464	3
Operating expenses (excluding fuel) ¹⁶		(9,064)	(9,288)	224	2
Fuel ¹⁶		(3,899)	(4,496)	597	13
Depreciation and amortisation		(1,096)	(1,422)	326	23
Non-cancellable aircraft operating lease rentals		(495)	(520)	25	5
Share of net loss of investments accounted for under the equity method ¹⁶		(29)	(66)	37	56
Expenses		(14,583)	(15,792)	1,209	8
Underlying EBIT		1,233	(440)	1,673	>100
Net finance costs ¹⁶		(258)	(206)	(52)	(25)
Underlying PBT		975	(646)	1,621	>100

Operating Statistics			June 2015	June 2014	Change	Change %
Available Seat Kilometres (ASK) ¹⁷	M		142,287	141,715	572	0.4
Revenue Passenger Kilometres (RPK) ¹⁸	M		112,543	109,659	2,884	2.6
Passengers Carried	'000		49,181	48,776	405	0.8
Revenue Seat Factor ¹⁹	%		79.1	77.4	1.7pts	
Yield ¹⁵	c/RPK		10.40	10.29	0.11	1.1
Comparable unit cost ²⁰	c/ASK		4.79	5.05	(0.26)	(5.1)

Group capacity (Available Seat Kilometres) increased by 0.4 per cent, and demand (Revenue Passenger Kilometres) increased by 2.6 per cent, resulting in a 1.7 percentage point increase in Revenue Seat Factor.

16 Underlying operating expenses (excluding fuel) – total Underlying expenses excluding share of net loss of investments accounted for under the equity method, fuel and net finance costs. These Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 9 which relate to other reporting periods and other items identified by Management. Refer to the reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax.

17 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.

18 RPK – total number of passengers carried, multiplied by the number of kilometres flown.

19 Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.

20 Comparable unit cost – unit cost is adjusted to aid comparability between reporting periods. Comparable unit cost is calculated as Underlying PBT less passenger revenue and fuel, adjusted for the impact of the Qantas International fleet write-down, changes in discount rates, changes in foreign exchange rates, share of net loss of investments accounted for under the equity method. If adjusted for movements in average sector length per ASK comparable unit cost improvement is 4.2 per cent and if adjusted further for the impact of the carbon tax repeal, the comparable unit cost improvement is 2.6 per cent.

EXPLANATION OF RESULTS (continued)

Yield from ticketed passenger revenue increased 1.1 per cent on a constant currency basis, and the Group's comparable unit cost improved by 5.1 per cent.

Segment Performance Summary	June 2015 \$M	June 2014 \$M	Change \$M	Change %
Qantas Domestic	480	30	450	>100
Qantas International	267	(497)	764	>100
Qantas Freight	114	24	90	>100
Jetstar Group	230	(116)	346	>100
Qantas Loyalty	315	286	29	10
Corporate	(163)	(163)	–	–
Unallocated/Eliminations	(10)	(4)	(6)	>(100)
Underlying EBIT¹	1,233	(440)	1,673	>100
Net finance costs	(258)	(206)	(52)	(25)
Underlying PBT¹	975	(646)	1,621	>100

Qantas Domestic reported 2014/2015 Underlying EBIT of \$480 million, a \$450 million improvement from the prior year. The main driver of the improved performance was realisation of \$302 million of Transformation benefits.

Qantas International reported a \$764 million turnaround from 2013/2014, a major milestone that met the Group's target for the segment to return to profitability in 2014/2015. This major milestone was the result of several years of significant restructuring initiatives, and included \$408 million of Transformation benefits realised in 2014/2015. The segment result benefited from a \$195 million reduction in depreciation from the non-cash impairment to the Qantas International fleet taken in the 2013/2014 full year results.

Jetstar Group recognised a record Underlying EBIT of \$230 million, compared to an Underlying EBIT loss of \$116 million in the prior year. This reflected significant improvement across the Jetstar Group, with continued cost transformation and revenue recovery.

Qantas Loyalty Underlying EBIT increased 10 per cent to a record \$315 million, driven by a five per cent increase in billings²¹ and the growth of new and adjacent business ventures including Qantas Cash, Aquire, Accumulate and Red Planet.

Qantas Freight reported record Underlying EBIT of \$114 million, with Transformation benefits of \$38 million and yield²² reductions offset by higher loads.

²¹ Billings represent point sales to partners.

²² Yield is calculated as freight revenue excluding foreign exchange divided by revenue freight tonne kilometres (RFTKs).

EXPLANATION OF RESULTS (continued)

DISCIPLINED INVESTMENT TO ENHANCE LONG-TERM SHAREHOLDER VALUE

With the Group having returned to its optimal capital structure, and no further net debt reduction required, disciplined investment will grow Invested Capital over time and maximise long-term shareholder value by:

- Building on the Group's competitive advantages
 - Integrated portfolio of premier brands
 - Superior domestic market position
 - Improving customer experience
 - Leveraging customer insights
- Positioning the Group to succeed in future growth markets
 - Loyalty growth initiatives
 - Jetstar in Asia
- Strengthening long-term Group ROIC
 - Next-generation fleet
 - Transformation
- Aligning with our brand values and vision

QANTAS TRANSFORMATION – DELIVERING AGAINST A BALANCED SCORECARD

The accelerated Qantas Transformation program is targeting the delivery of \$2 billion of gross benefits by the end of financial year 2016/2017, with all milestones to date having been met or exceeded. Within the \$2 billion target, the program is sized and structured to achieve important strategic outcomes.

Strategic outcomes by 2016/2017 include:

- Group ex-fuel expenditure reduced by >10 per cent²³
- Qantas Domestic unit cost gap²⁴ to competitor to close to <five per cent
- Qantas International unit cost comparable to direct competitors
- Jetstar lowest seat cost and yield advantage maintained
- Consistent and improved customer experience
- Embedded culture of transformation for ongoing benefits beyond 2016/2017

²³ Target assumes steady foreign exchange rates, capacity and sector length

²⁴ Unit cost is calculated as Underlying EBIT less passenger revenue per ASK. Qantas Domestic unit cost includes QantasLink. Competitor refers to Virgin Australia including mainline domestic and regional operations. Virgin's assumed domestic unit cost is based on Qantas' internal estimates and published competitor data.

ATTACHMENT 1

EXPLANATION OF RESULTS (continued)

The target metrics and achievements to date as at 2014/2015 include:

Achieving Our Targets	Target Metric	Achievements to Date
Accelerated transformation benefits	\$2 billion gross benefits Group ex-fuel expenditure reduced by > 10 per cent ²⁵ 5,000 FTE reduction	\$1.1 billion cost and revenue benefits realised Ex-fuel expenditure ²⁶ reduced by six per cent Reduction of 4,000 ²⁷ full time equivalent staff out of targeted 5,000 reduction by 2016/2017
De-leverage balance sheet	Greater than \$1 billion debt reduction Debt/EBITDA <4 times	\$1.1 billion of net debt reduction since financial year 2012/2013 Debt /adjusted EBITDA ²⁸ of 2.9 times, meeting leverage target of Debt /adjusted EBITDA < 4 times two years ahead of schedule
Cash flow	Sustainable positive free cash flow	\$1.1 billion net free cash flow in FY15
Fleet simplification	11 fleet types to seven	Group fleet types (excluding regional operations) reduced from 11 to nine with the exit of B734 and B767. In addition, four out of six non-reconfigured B747 aircraft retired ²⁹
Customer and brand	Customer satisfaction (six month rolling average) Most on-time domestic carrier: Qantas Domestic	Customer satisfaction at record levels and improving Most on-time domestic departures and arrivals in 2014/2015 ³⁰

With \$1.1 billion of benefits having been realised to date, the Group expects to realise Qantas Transformation benefits of \$450 million in 2015/2016.

The Group-wide policy of implementing an 18-month wages freeze, whilst not part of the \$2 billion Qantas Transformation Program, is helping to offset inflation and build a more competitive and sustainable wages position. Eighteen agreements have been closed with the wages freeze, with all of the major unions representing employee groups having signed up to the policy in at least one agreement.

In July 2015, Qantas announced that employees covered by the wages freeze policy will receive a one-off bonus payment worth five per cent of base annual salary.

25 Compared to first-half ended 31 December 2013, annualised and assuming steady foreign exchange rates, capacity and sector length.

26 Includes Underlying operating expenses (including fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable operating lease rentals.

27 Exited FTEs as at 30 June 2015

28 Metric calculated based on Moody's methodology.

29 From December 2013 to August 2015.

30 Qantas mainline compared with Virgin mainline. Source: BITRE.

EXPLANATION OF RESULTS (continued)

RAPIDLY IMPROVED CASH GENERATION

	June 2015 \$M	June 2014 \$M	Change \$M	Change %
Cash Flow Summary				
Operating cash flows	2,048	1,069	979	92
Investing cash flows	(944)	(1,069)	125	12
Net free cash flow³¹	1,104	–	1,104	>100
Financing cash flows	(1,218)	173	(1,391)	>(100)
Cash at beginning of period	3,001	2,829	172	6
Effect of foreign exchange on cash	21	(1)	22	>100
Cash at period end	2,908	3,001	(93)	(3)
Debt Analysis				
Net on balance sheet debt ³²	2,558	3,455	(897)	(26)
Net debt including present value of operating lease liabilities ⁹	3,742	4,751	(1,009)	(21)
Net debt including capitalised operating lease liabilities ³³	6,306	7,343	(1,037)	(14)
FFO/net debt ³⁴	%	46%	17%	
Debt/adjusted EBITDA ²⁸	times	2.9	5.1	

Operating cash flows of \$2 billion almost doubled from the prior year, reflecting benefits realised through Qantas Transformation, yield improvements across the Group in a more stable operating environment, and lower AUD fuel prices in the second half of the financial year in particular.

Net cash capital expenditure¹² of \$944 million included investment in replacement fleet such as the Boeing 787 for Jetstar International and customer experience initiatives including airport lounges and the commencement of Airbus A330 cabin reconfigurations. Qantas generated \$1.1 billion of net free cash flow in the period – a rapid improvement from the neutral net free cash flow outcome in 2013/2014 – facilitating the completion of the Group's targeted net debt reduction of at least \$1 billion.

The Group's liquidity position strengthened, with \$2.9 billion in cash, a \$410 million increase³⁵ in available undrawn facilities to \$1 billion, and the pool of unencumbered aircraft growing to a total of more than US\$3 billion (at market value). Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to any change in market conditions.

As a result of improved earnings through the achievement of milestones under the Qantas Transformation program, the Group is now within the target optimal capital structure range. At 30 June 2015, the Group's leverage metrics were within or better than investment grade (BBB/Baa range) with FFO/net debt of 46 per cent (2013/2014: 17 per cent) and Debt/adjusted EBITDA of 2.9 times (2013/2014: 5.1 times).

31 Net free cash flow – operating cash flows less investing cash flows. Net free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.

32 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents and aircraft security deposits.

33 Net debt including operating lease liability under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Capitalised operating lease liability is measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis akin to a finance lease.

34 Funds From Operations (FFO) to net debt based on Standard and Poor's methodology

35 From 30 June 2014 to 7 July 2015.

EXPLANATION OF RESULTS (continued)**FLEET**

The Qantas Group remains committed to a fleet strategy that provides for long-term flexibility and renewal, and that prioritises Group fleet simplification. The fleet strategy is designed to support the strategic objectives of the Group's two flying brands and the overarching targets of the Qantas Transformation program. At all times, the Group retains significant flexibility to respond to any changes in market conditions and the competitive environment.

At 30 June 2015, the Qantas Group fleet³⁶ totalled 299 aircraft. During 2014/2015, the Group purchased 11 aircraft and leased one aircraft:

- Qantas – five B737-800s, one Bombardier Q400 and one Fokker100
- Jetstar (including Jetstar Asia) – four B787-8s and one A320-200

The Group removed 21 aircraft from service in 2014/2015 including three lease returns. These included 13 B767-300s, one B747-400, three A320-200s, one Q300 and three EMB120s.

The Qantas Group's scheduled passenger fleet average age is now 7.7 years³⁷, below the targeted 8-10 year range. The benefits of fleet investment include improved customer satisfaction, environmental outcomes, operational efficiencies and cost reductions.

QANTAS DOMESTIC

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income	\$M	5,828	5,848	(20)	(0.3)
Revenue Seat Factor	%	74.2	73.3	0.9 pts	
Underlying EBIT	\$M	480	30	450	>100

Qantas Domestic reported a robust Underlying EBIT of \$480 million, an improvement of \$450 million on the prior year. The result was driven by \$302 million of Transformation benefits. Revenue per ASK³⁸ increased 4.5 per cent, offsetting a decline in third party revenue following the sale of Qantas Defence Services in February 2014. The revenue per ASK was driven by yield and load improvements in a stabilised domestic market. Comparable unit cost³⁹ for the full year decreased by four per cent with three per cent lower capacity compared to 2013/2014.

Network changes and dynamic capacity management supported yield gains in a mixed demand environment. New services and frequencies were added on East Coast leisure markets, while Qantas Domestic continued to right-size its intra-Western Australia and Queensland footprint in response to ongoing demand weakness from the resources sector. Better matching of capacity to demand on thin domestic routes, such as Hobart and Canberra, has also delivered improved revenue per ASK and restored profitability on these markets.

With mainline fleet simplification complete, Qantas Domestic now operates one common narrowbody aircraft type (B738) and one widebody type (A330-200). Focus continues on network optimisation and increased utilisation to generate a stronger return from Invested Capital. The introduction of reduced turn times for the B738 fleet resulted in improved utilisation in the second half of 2014/2015.

36 Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific.

37 Based on Group's scheduled passenger fleet, excluding Freighter aircraft and Network Aviation

38 Calculated as passenger revenue per ASK.

39 Comparable unit cost is calculated as Underlying EBIT less passenger revenue and fuel adjusted for changes in discount rates, foreign exchange rates and movements in average sector lengths per ASK. If adjusted for the impact of the carbon tax repeal, comparable unit cost improved one per cent.

EXPLANATION OF RESULTS (continued)

Qantas Domestic increased on-time performance over the year to 88.3 per cent with the best on-time performance⁴⁰ result in over ten years. With ongoing investment in the customer experience and service training for our people, customer advocacy measured by Net Promoter Score increased to a record⁴¹ in 2014/2015.

QANTAS INTERNATIONAL

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income ⁴²	\$M	5,467	5,297	170	3
Revenue Seat Factor	%	81.5	79.6	1.9 pts	
Underlying EBIT	\$M	267	(497)	764	>100

Qantas International saw a major improvement in recent periods with a \$764 million turnaround in Underlying EBIT to \$267 million in 2014/2015. The impressive result was led by the delivery of \$408 million of cost and revenue benefits from the Qantas Transformation program. Revenue increased three per cent on flat capacity, with a 1.9 percentage point improvement in Revenue Seat Factor, reflecting stronger passenger loads on most routes. Revenue per ASK⁴³ increased by six per cent. The segment result included a \$195 million reduction in depreciation expense from the non-cash fleet impairment to the Qantas International fleet taken in the 2013/2014 financial results.

Reflecting benefits from Qantas Transformation, comparable unit cost⁴⁴ improved by four per cent in the year while aircraft utilisation also improved by four per cent. Since 2011/2012, when the three-year turnaround plan for Qantas International began, aircraft utilisation has increased by 15 per cent. One utilisation initiative in 2014/2015 involved the re-time of the Melbourne-London service and the introduction of improved turnaround times for the A380, which combined, allowed one A380 hull to be released and deployed on the Sydney-Dallas route. 2014/2015 also saw an increase in weekly services to Los Angeles and Santiago, the introduction of seasonal flying to Vancouver, and the announcement that Perth-Singapore services would resume in early 2015/2016.

Qantas International has clear strategic priorities: reshaping our cost base through Transformation; owning the high-yield customer in Australia; overcoming network gaps; and providing connections to the world. An enhanced partnership with American Airlines⁴⁵ will facilitate closer commercial ties and growth between Australia and the US. Expanded alliances and code share relationships with Westjet, Bangkok Airways and China Airlines all help improve network connectivity. Qantas International began the roll out of reconfigured A330 aircraft on medium haul routes to Asia, including new 'Business Suites' with lie-flat beds. Average NPS improved to a record⁴¹ level over the 12 months through targeted investment in lounges including Los Angeles Business and First in 2014/2015, in-flight dining upgrades, and ongoing service training for our people.

JETSTAR GROUP

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income	\$M	3,464	3,222	242	8
Revenue Seat Factor	%	79.9	77.9	2 pts	
Underlying EBIT	\$M	230	(116)	346	>100

40 On-time performance for Qantas mainline. Source: BITRE.

41 Net promoter score based on internal Qantas reporting (record achieved in June 2015).

42 Revenue includes six per cent passenger revenue per ASK growth and movements in other income including the impact of changes in block codeshare agreements.

43 Revenue per ASK calculated as passenger revenue per ASK inclusive of Transformation benefits and foreign exchange movements.

44 Comparable unit cost is calculated as Underlying EBIT less passenger revenue and fuel adjusted for the impact of the Qantas International fleet write-down, changes in discount rates, changes in foreign exchange rates, changes in block codeshare agreements and movements in average sector length per ASK.

45 Subject to regulatory approval.

EXPLANATION OF RESULTS (continued)

Jetstar Group reported record Underlying EBIT of \$230 million, a strong turnaround from a \$116 million Underlying EBIT loss in the prior year. The record performance reflected significant improvement across the Jetstar Group, with a continued focus on cost transformation and revenue recovery. Controllable unit cost⁴⁶ improved by two per cent⁴⁷, while total revenue and other income rose eight per cent reflecting higher yields and passenger loads as well as growth in ancillary revenue.

In domestic Australia, Jetstar benefits from closer dual-brand coordination with Qantas Domestic in stabilised market conditions. Jetstar International delivered a record performance helped by the customer appeal and unit cost benefits of introducing the B787 on long haul international routes. Domestic New Zealand was profitable for Jetstar for the first time with ongoing RASK improvement over the year.

All Jetstar Group airlines in Asia reported an improvement in earnings⁴⁸, with combined losses halved compared to financial 2013/2014. Jetstar Asia (Singapore) returned to profit, Jetstar Pacific (Vietnam) was profitable in the second half of 2014/2015, and Jetstar Japan reported a significant reduction in losses, with strong revenue per ASK improvement and ongoing controllable unit cost⁴⁶ reduction. The 2014/2015 financial accounts include a write-off of the Jetstar Hong Kong business of \$21 million, following the disappointing outcome of the Hong Kong Air Transport Licensing Authority's rejection of Jetstar Hong Kong's licence application. The write-off was recognised outside of Underlying PBT.

Jetstar-branded airlines continue to focus on a differentiated low fares product offering and service standard with innovation and investment in new technology and B787 roll out. Greater self-service, including automated bag drops and kiosk check-in, is improving the customer experience while also delivering cost benefits. Investment in next-generation booking engine and online retailing capabilities will drive the next wave of ancillary revenue growth.

Jetstar was awarded the best low-cost carrier in Australia/Pacific and was in the top five low-cost carriers worldwide⁴⁹.

QANTAS LOYALTY

		June 2015	June 2014	Change	Change %
Members	M	10.8	10.1	0.7	7
Billings ²¹	\$M	1,369	1,306	63	5
Underlying EBIT	\$M	315	286	29	10

Qantas Loyalty reported record⁵⁰ Underlying EBIT of \$315 million, up 10 per cent. Billings growth of five per cent reflects strong underlying system growth, tactical campaigns with existing partners and the addition of new partners to both the Qantas Frequent Flyer and Aquire programs. Qantas Frequent Flyer direct earn credit cards have continued to show strength, with five per cent acquisition growth⁵¹ outperforming the industry average. Qantas Frequent Flyer reached the milestone of 10.8 million members – a seven per cent increase.

Qantas Loyalty has continued to innovate and diversify its earnings base during the period, investing in its adjacent businesses⁵² and reinforcing the core coalition program. These adjacent businesses have accounted for 30 per cent of the overall Underlying EBIT growth in the year.

46 Controllable unit cost is calculated as Underlying expenses less fuel adjusted for the impact of Jetstar branded associates, changes in foreign exchange rates and movements in average sector length per ASK

47 If adjusted for the impact of the carbon tax repeal, controllable unit cost improvement is one per cent.

48 Based on Underlying EBIT

49 Skytrax World Airline Awards 2015

50 Qantas Loyalty record Underlying EBIT result compared to prior periods normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.

51 Growth 12 months to May 2015 compared to 12 months to May 2014.

52 Includes Qantas Cash, Qantas Golf, Qantas epiQure, Red Planet, Accumulate and Taylor Fry.

EXPLANATION OF RESULTS (continued)

Highlights include:

- \$1.1 billion currency loaded on Qantas Cash cards, with 410,000 cards activated
- A 57 per cent increase in Qantas epiQure member base driving a 43 per cent growth in wine sales
- Red Planet launch and delivering profits within first year, growing its external client portfolio and delivering top line value to the airline
- Growth of the Acquire loyalty program for small to medium-sized businesses

During 2014/2015 Qantas Loyalty purchased a controlling stake in actuarial and data analytics consulting firm Taylor Fry, an acquisition that adds to the Group's customer insights capability and provides a new adjacent revenue stream.

The Qantas Frequent Flyer program maintained a record annual NPS⁵³ and continues to hold a premium over competitor programs.

QANTAS FREIGHT

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income	\$M	1,067	1,084	(17)	(2)
Load Factor (International) ⁵⁴	%	57.0	55.1	1.9 pts	3
Underlying EBIT	\$M	114	24	90	>100

Qantas Freight also reported a record⁵⁵ result in 2014/2015, with Underlying EBIT rising almost fivefold to \$114 million from \$24 million in 2013/2014. The significantly improved performance was led by the delivery of \$38 million of benefits from the Qantas Transformation program, including the introduction of new technology to improve productivity and customer experience, together with strong performance from the International Freighter network. Stronger cargo load factors helped offset yield²² reductions in a very competitive domestic freight market.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT/(LOSS) BEFORE TAX

The Statutory Profit Before Tax of \$789 million for the year ended 30 June 2015 is \$4,765 million higher than the prior year.

Underlying PBT

Underlying PBT is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying EBIT. The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally.

⁵³ Average NPS 12 months to July 2015 compared to average 12 months to July 2014.

⁵⁴ Load Factor (International) – Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK).

⁵⁵ Since Freight was reported as a separate segment in 2007/2008

EXPLANATION OF RESULTS (continued)

Underlying PBT is derived by adjusting Statutory Profit/(Loss) Before Tax for the impacts of ineffectiveness and non-designated derivatives relating to other reporting periods and certain other items which are not included in Underlying PBT¹.

	June 2015 \$M	June 2014 \$M
Reconciliation of Underlying PBT to Statutory Profit/(Loss) Before Tax		
Underlying PBT	975	(646)
Ineffectiveness and non-designated derivatives relating to other reporting periods	(39)	72
<i>Other items not included in Underlying PBT</i>		
Impairment of Qantas International CGU	–	(2,560)
– Redundancies, restructuring and other transformation costs	(80)	(428)
– Fleet restructuring costs ⁵⁶	(4)	(394)
– Net impairment of other intangible assets	(7)	(9)
– Net gain on sale of controlled entity and related assets	11	62
– Net impairment of investments	(19)	(50)
– B787-8 introduction costs	–	(14)
– Write-off of Jetstar Hong Kong Business ⁵⁷	(21)	–
– Other	(27)	(9)
Total other items not included in Underlying PBT	(147)	(3,402)
Statutory Profit/(Loss) Before Tax	789	(3,976)

Ineffectiveness and non-designated derivatives relating to other reporting periods

In prior reporting periods, Underlying PBT was adjusted for the impacts of AASB 139 which relate to other reporting periods. The AASB 139 adjustments to Statutory Profit/(Loss) Before Tax ensured derivative mark-to-market movements that relate to underlying exposures in other reporting periods were recognised in Underlying PBT in those reporting periods.

In the current reporting period, as a result of the early adoption of AASB 9 (2013), there is now better alignment between Underlying PBT and Statutory Profit/(Loss) Before Tax. However, there will continue to be a difference between Statutory Profit/(Loss) Before Tax and Underlying PBT resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

Other items not included in Underlying PBT

Items which are identified by Management and reported to the chief operating decision-making bodies as not representing the underlying performance of the business are not included in Underlying PBT. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period.

Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments and impairments of assets and other transactions outside the ordinary course of business.

Redundancy, restructuring and other transformation costs of \$80 million were incurred during the period.

⁵⁶ Fleet restructuring costs include impairment of aircraft, together with other aircraft associated property, plant and equipment, inventory and other related costs.

⁵⁷ The write-off of the Jetstar Hong Kong business includes the impairment of the investment, write-off of deferred costs and the Group's share of net losses for the year ended 30 June 2015.

EXPLANATION OF RESULTS (continued)

A write-off of the Jetstar Hong Kong business of \$21 million was recognised as a result of the Hong Kong's Air Transport Licensing Authority's rejection of Jetstar Hong Kong's licence application.

MATERIAL BUSINESS RISKS

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or an epidemic.

Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects:

- **Competitive intensity:** Market capacity growth ahead of underlying demand impacts industry profitability.
 - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness in recent years has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners and optimising its network. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas International has embarked on a major restructure of its legacy cost issues through the Qantas Transformation program with the objective of achieving a cost base comparable to direct competitors. The operating environment has moderated in 2014/2015 driven by the fall in the AUD against the USD and moderated capacity growth has brought international market capacity growth in line with demand growth. These changes have improved passenger loads and led to a recovery of yields in the international business.
 - The Australian domestic aviation market continues to attract increased competition. The Qantas Group's market-leading domestic position and dual-brand strategy allow Qantas to effectively mitigate the impact of any market changes. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic is focused on removing the cost base disadvantage to its competitor through Qantas Transformation initiatives, while Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs. During 2014/2015, the operating environment has stabilised with market capacity moderation supporting stronger passenger loads and early yield recovery in the domestic business.
- **Fuel and foreign exchange volatility:** The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2015/2016 the Group's hedging profile is positioned such that the worst case total fuel cost is \$3.94 billion with 73 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2015/2016 is \$3.64 billion)⁵⁸
- **Industrial relations:** The associated risks of transformation including industrial action relating to Qantas' collective agreements with its employees. The risk is being mitigated through continuous employee engagement initiatives and ongoing, constructive dialogue with all union groups and other relevant stakeholders. The Group has successfully closed a number of Enterprise Bargaining Agreements (EBAs) subsequent to the commencement of the Qantas Transformation program. These EBAs have included an 18-month wage freeze. As a result of the improved profitability of the Group, and in recognition of the contribution made by all employees to strengthen the Group's long-term competitive position through the wage freeze and the delivery of all Qantas Transformation targets ahead of schedule, a one-off bonus payment will be made to all employees covered by an 18-month wage freeze.
- **Continuity of critical systems:** The Group's operations depend on the continuity of a number of information technology and communication services. The Group has an extensive control and Group Risk Management Framework⁵⁹ to reduce the likelihood of outages, ensure early detection and to mitigate the impact.

⁵⁸ As at 18 August 2015.

⁵⁹ An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on www.qantas.com.au.

EXPLANATION OF RESULTS (continued)

- **Credit rating:** Qantas' credit rating is Ba1 positive outlook by Moody's and BB+ stable by Standard and Poor's. Compared to an investment grade credit rating, the price of new debt funding may increase and/or the Group's access to some sources of unsecured credit could reduce over time. Qantas targets an optimal capital structure range that is commensurate with investment grade credit metrics. The Group maintains strong liquidity options supported by a flexible fleet plan which allows the Group to reduce capital expenditure and/or reduce debt to achieve credit metrics in-line with a BBB/BBB- rating (investment grade). As a result of improved earnings through the achievement of milestones under the Qantas Transformation program, the Group is now within the target optimal capital structure range. At 30 June 2015, the Group's leverage metrics were within or better than investment grade (BBB/Baa range) with FFO/net debt of 46 per cent (2013/2014: 17 per cent) and Debt/adjusted EBITDA of 2.9 times (2013/2014: 5.1 times).
- **Key business partners:** The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework.