ASX and Media Release

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

Sydney, 22 February 2018

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

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

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

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

CEO COMMENTARY

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

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

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

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

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

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

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

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

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

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

GROUP DOMESTIC

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

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

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

GROUP INTERNATIONAL

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

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

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

LOYALTY

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

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

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

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

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

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

FINANCIAL FRAMEWORK

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

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

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

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

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

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

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

SHAREHOLDER RETURNS

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

INVESTING IN THE FUTURE

Jetstar A320 order

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

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

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

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

Qantas Group Pilot Academy

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

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

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

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

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

OUTLOOK

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

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

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[4] For detailed outlook statement, please refer to Investor Presentation.
[5] Compared to 2H17.
[6] Compared to 2H17.