Media & ASX Release

QANTAS GROUP FIRST HALF 2017 FINANCIAL RESULT[1]

- Underlying Profit Before Tax: $852 million
- Statutory Profit Before Tax: $715 million
- Statutory Earnings Per Share: 27.3c
- Rolling 12-month Return On Invested Capital: 21.7%
- $219 million shareholder return: 7c ordinary dividend, plus remaining $91 million of share buy-back
- Clear margin advantage against competitors in domestic, international markets
- New Premium Economy product unveiled; Wi-Fi rollout starting

SYDNEY, 23 February 2017: Qantas today reported an Underlying Profit Before Tax of $852 million and a Statutory Profit Before Tax of $715 million for the six months ended 31 December 2016.

The underlying result was down 7.5 per cent compared with the prior corresponding period, but above the guidance range provided in October last year. It reflects a strong performance in a mixed global aviation market, with the national carrier's integrated Group strategy and ongoing transformation enabling it to keep delivering value for shareholders while investing for customers.

The fall in statutory profit compared with the first half of financial year 2016 largely reflects the inclusion in last year's result of a $201 million gain from the sale of Qantas' Sydney Airport terminal.

SUMMARY OF RESULT

All parts of the Qantas Group were profitable in the half. Combined domestic airline earnings across Qantas and Jetstar were $522 million, while Qantas Loyalty had a record result, giving the Group a strong, profitable core in an improving Australian economy. The Jetstar Group as a whole also had a record result. Qantas International's profitability is impacted by the high levels of capacity growth affecting all major airlines, but it achieved significantly higher margins than the industry average.

The Group met all the objectives of its financial framework, reporting a rolling 12-month return on invested capital of 21.7 per cent. A further $212 million of transformation benefits were unlocked in the half, taking total benefits since 2014 to $1.9 billion. The Group remains on track to reach its goal of $2.1 billion by June 2017.

With net debt within the Group's target range, Qantas is able to continue rewarding shareholders - including with an interim dividend - and investing for the future, revealing an industry-leading Premium Economy product for its Boeing 787-9 Dreamliner fleet.

CEO COMMENT

Qantas CEO Alan Joyce said Qantas was one of the best performing airline groups in the world.

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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.

“Our transformation program has built a strong, sustainable business that generates returns throughout the economic cycle,” Mr Joyce said.

“Qantas and Jetstar’s domestic operations produced an outstanding result and Qantas Loyalty continued to thrive. It’s a combination that keeps delivering and sets us apart from our competitors.

“The international market is tough because of capacity growth and lower fares, and Qantas International is not immune from those pressures. But the work we’ve done on removing costs and making the business more efficient means Qantas International is outperforming its peers in the region.

“Our focus is to stay disciplined on capacity, keep downward pressure on costs, and introduce game-changing improvements like the Dreamliner and high-speed Wi-Fi.

“This result is a credit to the hard work and dedication of our people, who have helped deliver high levels of customer satisfaction right across Qantas, Jetstar and Loyalty.”

REWARDING SHAREHOLDERS

The Qantas Board has declared an interim dividend of 7 cents per share, 50 per cent franked, to be paid on 10 April 2017. This is in addition to completing the remaining $91 million of the $366 million on-market share buy-back announced in August 2016.

Once these distributions are complete, Qantas will have returned more than $1.6 billion in capital to shareholders since July 2015 - and reduced the number of Qantas shares by approximately 18 per cent.

Where Qantas has surplus capital available, it intends to continue paying a dividend every six months - to be supplemented with other capital management initiatives should additional surplus exist.

INVESTING FOR THE FUTURE

The Group’s transformation program has been accompanied by disciplined capital investment, focused on creating world-class experiences for customers and maintaining a competitive edge. Around 100 Airbus A330 and Boeing 737-800 aircraft have been upgraded, and new lounges have opened in Singapore, Hong Kong, Los Angeles, Brisbane International, Perth and Darwin.

That investment will continue in 2017, with new lounges to open in Brisbane Domestic and London Heathrow, as well as the entry into service of the Qantas Boeing 787-9 Dreamliner, which will enable the retirement of older 747s.

Qantas today revealed the Premium Economy experience for the Dreamliner – a design unique to the national carrier and intended to the set the benchmark for the class globally (see Qantas Newsroom).

Qantas also confirmed that successful test flights during February mean it expects to operate its first commercial service with free Wi-Fi in the next few weeks. Wi-Fi will ultimately be rolled out to about 80 domestic aircraft, and later to Qantas’ international and regional fleets, as part of a broader focus on new technology to improve how information is provided to customers and unlock operational efficiencies.

GROUP PERFORMANCE

Qantas Domestic reported Underlying EBIT of $371 million, down $16 million compared with the same period last year.

The business' consistent profitability and stable 12.7 per cent margin represent an outstanding performance in a market that saw negative GDP growth in the first quarter and ongoing softness in resources sector travel. Operating conditions strengthened in the second quarter, while the revenue decline from resources sector travel is beginning to slow and the market is expected to be stable by financial year 2019.

Careful capacity management underpinned the performance, as Qantas Domestic maintained a clear lead in the business travel market and grew in the small-to-medium enterprise sector.

Qantas Domestic's network reach, high levels of on-time performance and service earned record customer satisfaction.

Qantas International reported Underlying EBIT of $208 million, down $62 million. Competitor capacity growth in the half was 11 per cent, which saw the business' unit revenue decline by 8.9 per cent.

Ongoing transformation helped the business achieve an operating margin of 7.3 per cent, down 1.8 points on last year but significantly higher than the industry average.[2]

Qantas International's growth was directed towards Asian routes that are performing strongly, while its exposure to weaker European markets remained limited. Using existing aircraft, the airline added capacity to Hong Kong, Japan, Singapore, Indonesia and the Philippines, and operate seasonal flights to Vancouver.

As in the domestic market, customer satisfaction was at record levels.

The introduction of the more-efficient Boeing 787-9 in late calendar 2017 will cut Qantas International's costs further, improve the experience for customers and create new network options, including the first regular direct connection between Australia and Europe with Perth-London services from March 2018.

The **Jetstar Group** reported record Underlying EBIT of $275 million, up $13 million. Its strong performance was driven by a record result for Jetstar's international operations to-and-from Australia, while the Jetstar Group in Asia continued to improve its profitability. Like Qantas Domestic, Jetstar Domestic remained strongly profitable.

Jetstar's operating margin grew by 1.1 points to 14.8 per cent and the business continues to invest in service training, new products - including for the small business market - and technology.

Qantas Loyalty reported record Underlying EBIT of $181 million, up $5 million.

Revenue growth in the half was affected by cutover to a revised partnership with Woolworths, which is now making good progress with fast take-up by customers.

[2] IATA's December 2016 profit outlook forecasts an average industry margin for 2017 of 4.1 per cent. Forecast average margin for Asia-Pacific carriers is 2.9 per cent, putting Qantas International at more than double the average.

Qantas Frequent Flyer members grew from 11.2 to 11.6 million, helped by the addition of 13 new partners, including AirBnB. At the same time, Qantas Loyalty's new ventures grew their revenue as the business continues to diversify successfully.

The Qantas Business Rewards program will strengthen Qantas' presence in the small business market, while Loyalty also continues to invest in big data services.

Qantas Freight reported Underlying EBIT of $27 million, down $11 million. Freight conditions remain challenging worldwide, but there are signs of stabilisation and Qantas Freight is well-placed.

The business holds more than 80 per cent of the domestic air freight market, with dedicated freighter operations for Australia Post launched in July 2016, and is pursuing new opportunities in the international market - including an agreement to freight Tasmanian milk to China.

FLEET UPDATE

Qantas and Jetstar continue to adapt their fleet plans in response to market conditions and expectations. In the first half, Qantas purchased three Fokker F100 aircraft for routes previously operated by larger aircraft to enable capacity reductions in its resources sector operations. Jetstar added two leased Airbus A321 aircraft to meet demand in short-haul leisure markets.

The Group will defer delivery of Jetstar's first Airbus A320neo aircraft until financial year 2019.

The arrival of Qantas International's first two Boeing 787-9 Dreamliner aircraft in late calendar 2017 enables the retirement of Qantas' two oldest 747s by mid-2018. A total of five 747s will be retired as eight Dreamliners enter the fleet.

FINANCIAL FRAMEWORK

Qantas remains in a strong capital position. Net debt is $5.97 billion, with capital expenditure weighted to the first half. The Group's commitment to stay within its target range of $4.8 to $6 billion is unchanged.

Debt maturity has been extended through a $425 million bonds issuance, while short-term liquidity remains strong at $2.7 billion - including $1.7 billion in cash. Almost 60 per cent of the Group's fleet is now debt-free, giving it an unencumbered asset base valued at more than US$3.8 billion.

Rolling 12-month return on invested capital was 21.7 per cent. All parts of the Group are delivering ROIC above their weighted average cost of capital.

OUTLOOK

Second Half

In the second half of financial year 2017, Group capacity is planned to increase by approximately 1 -2 per cent compared with the second half of financial year 2016.

- Group Domestic capacity is expected to decrease by approximately 2 per cent in the second half.

- Unit revenue in the second half is expected to increase despite continued softness in resource markets.
- Resource sector revenue in the second half is expected to be down by approximately $30 million.

- Group International capacity is expected to increase by approximately 3 per cent in the second half, driven by the impact of previously-announced changes (e.g. Melbourne-Tokyo, Sydney-Beijing) using the existing Group fleet to target growing Asian markets.
  - Unit revenue declined by 7 per cent in the first half; this trend is expected to moderate in the second half on 6 per cent competitor capacity growth.
- Qantas Loyalty is expected to return to double-digit growth in the second half, with a full six-month contribution from the Woolworths partnership.

The short term outlook remains subject to variable factors, including oil price movements, foreign exchange movements and global market conditions.

Full Year

The Group's current operating expectations for the full year are as follows:
- Underlying fuel cost is expected to be no more than $3.2 billion, or $3.13 billion at current forward Australian dollar prices.
- Depreciation and amortisation expense is expected to be approximately $170 million higher than in financial year 2016.
- Non-cancellable aircraft operating lease rentals are expected to be approximately $100 million lower than in financial year 2016.
- Transformation benefits (across cost, fuel efficiency and revenue) are expected to be approximately $450 million.
- The impact of inflation on expenditure is expected to be approximately $250 million.
- Net capital expenditure is expected to be $1.5 billion (with $1 billion in the first half).

Having regard to industry and economic dynamics, no Group profit guidance is provided at this time.

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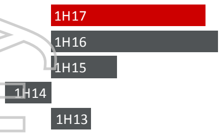
Review of Operations

For the half-year ended 31 December 2016

RESULT HIGHLIGHTS

Underlying profit before tax

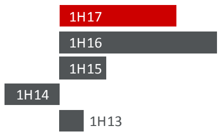
852 $M



1H17	**852**
1H16	921
1H15	367
1H14	(252)
1H13	220

Statutory profit after tax

515 $M



1H17	**515**
1H16	688
1H15	206
1H14	(235)
1H13	109

Rolling twelve month Return On Invested Capital

21.7 %

1H17	**21.7%**
FY16	22.7%
1H16	22.8%
FY15	16.2%
1H15	4.1%

The Qantas Group reported an Underlying Profit Before Tax[1] of $852 million for the six months ended 31 December 2016, a reduction of $69 million from the first half of 2015/16 delivering a Group Return on Invested Capital (ROIC)[2] of 21.7 per cent. The Group's Statutory Profit After Tax of $515 million included $137 million of costs which were not included in Underlying PBT. These costs primarily consisted of redundancies, restructuring and other costs associated with the ongoing Qantas Transformation Program.

The Group is delivering against its strategy to maximise long-term shareholder value; building on our leading position in the Australian domestic market, growing non-cyclical earnings at Qantas Loyalty, aligning Qantas and Jetstar with the rise of Asia and investing in our people and our customers. Over the first half of 2016/17, strategic highlights included:

– Targeted capacity adjustments resulting in stable margins[3] being maintained across Group Domestic [4]
– All segments delivering ROIC greater than Weighted Average Cost of Capital (WACC) [5]
– Record Jetstar Group earnings[6]
– Record earnings[7] from Qantas Loyalty providing a diversified earnings stream

The Qantas Transformation Program delivered $212 million of benefits over the first half of 2016/17 bringing the total benefits delivered under the Qantas Transformation Program to $1.9 billion. The Group continues to target $2.1 billion of benefits delivered by the end of financial year 2016/17, up from the $2 billion originally announced.

The Group's Financial Framework is at the centre of all capital allocation decisions, providing balance sheet strength, investment in growth, and shareholder returns. Key achievements include:

– Net debt[8] of $5.97 billion remained within the target range of $4.8 billion to $6 billion[9], with capital expenditure for 2017/16 weighted to the first half
– Investment grade credit rating with Standard and Poor's and Moody's Investor Services
– Cost of capital minimised by using cash in excess of short-term requirements to refinance operating leases
– $409 million returned to shareholders in the first half of 2016/17 through an on-market share buy-back of $275 million and a fully franked seven cents per share ordinary dividend totalling $134 million paid in October 2016
– $219 million in capital management initiatives will be returned to shareholders, including a continued seven cents per share ordinary dividend totalling $128 million and the completion of the on-market buy-back announced in August 2016 ($91 million remaining)

The Group achieved a strong earnings performance in mixed global trading conditions, with a stable Operating Margin of 12 per cent. This was realised through Total Unit Cost[10] improvement of five per cent which offset a five per cent decrease in Unit Revenue[11].

The Qantas Group is an integrated portfolio of businesses with leading market positions. All segments continue to deliver ROIC greater than 10 per cent, with the portfolio benefiting from stable earnings from the Domestic airlines and Loyalty segment.

– The Group's Domestic airlines, comprising of Qantas Domestic and Jetstar Domestic, continue to remain the highest and second highest margin airlines in the structurally advantaged domestic market. The Qantas Transformation Program continues to improve this leading position.
– The Group's International airlines including Qantas International, Jetstar International and Jetstar Asia, continue to grow in attractive markets through increased utilisation of existing Group fleet. Through the Group's alliance partnerships it has been able to extend its network with limited capital investment.
– Qantas Freight has the highest domestic freight market share and it is well positioned to tap into the growing Australia to China freight market.
– Qantas Loyalty with its 11.6 million member base is the leading loyalty program in Australia. During the first half of 2016/17 Qantas Loyalty launched a new and improved Woolworths program and continues to grow through a diversified portfolio.

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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 Return on invested capital is calculated as ROIC EBIT for the 12 months ended 31 December, divided by the 12 month average Invested Capital. ROIC EBIT is derived by adjusting Underlying EBIT for the period to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they are owned aircraft.
3 Operating margin calculated as Underlying EBIT divided by total segment revenue.
4 Includes Qantas Domestic and Jetstar Domestic.
5 Weighted Average Cost of Capital (WACC) is calculated on a pre-tax basis.
6 Based on Underlying EBIT.
7 Based on Underlying EBIT, when normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.
8 Net debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Capitalised operating lease liabilities are 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.
9 Target range calculated based on approximately $9 billion of invested capital.
10 Total Unit Cost is calculated as Underlying PBT less ticketed passenger revenue per available seat kilometre (ASK).
11 Unit Revenue is calculated as ticketed passenger revenue per ASK.

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

The Group's Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings per share (EPS) growth over the cycle, which in turn aims to deliver Total Shareholder Returns (TSR) in the top quartile of the ASX100 and a basket of global airlines[12], the Financial Framework has three clear priorities and associated long-term targets:

1. Maintaining an Optimal Capital Structure

Minimise cost of capital by targeting a net debt range of $4.8 billion to $6 billion

2. ROIC > WACC Through the Cycle

Deliver ROIC > 10 per cent through the cycle

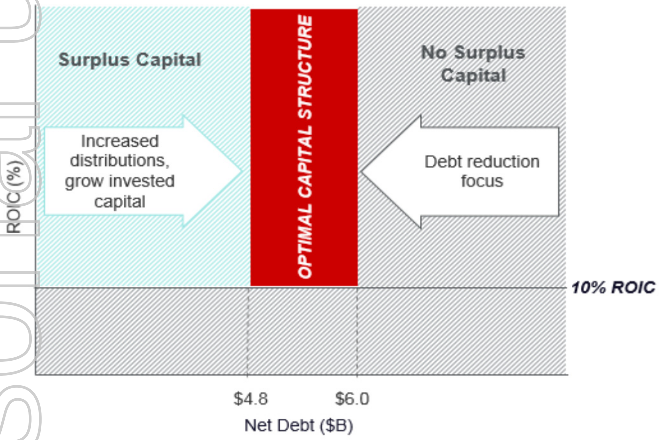
3. Disciplined Allocation of Capital

Grow Invested Capital with disciplined investment, return surplus capital

MAINTAINABLE EPS GROWTH OVER THE CYCLE

TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE

1. Maintaining an Optimal Capital Structure



- The Group's Financial Framework targets an optimal capital structure with a net debt range of between $4.8 billion and $6 billion, based on the current level of capital invested. This capital structure lowers the Group's cost of capital, preserves financial strength, and therefore enhances long-term shareholder value.
- Net Debt was $5.97 billion as at 31 December 2016, with capital expenditure for 2016/17 weighted to the first half. This is within the Group's target range.
- Capital allocation decisions, including distributions to shareholders are sized to ensure the Group remains within the target net debt range on a forward basis.
- The Group's optimal capital structure is consistent with investment grade credit metrics from Standard & Poor's and Moody's Investor Services.

2. ROIC > WACC Through the Cycle

Rolling twelve month Return On Invested Capital

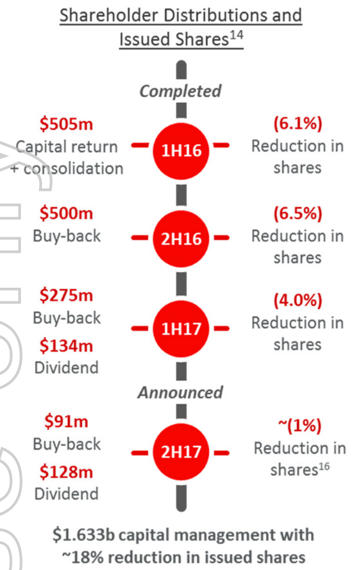
21.7 %

1H17	**21.7%**
FY16	22.7%
1H16	22.8%
FY15	16.2%
1H15	4.1%

The rolling twelve month Return on Invested Capital (ROIC) was 21.7 per cent. With efficient use of capital, increased fleet utilisation and cost reduction through the Qantas Transformation Program, ROIC was above the Group's threshold of ROIC greater than 10 per cent.

12 Target Total Shareholder Returns within the top quartile of the ASX100 and global listed airline peer group as stated in the 2016 Annual Report, with reference to the 2016-2018 Long Term Incentive Plan (LTIP).

3. Disciplined Allocation of Capital



The Qantas Group takes a disciplined approach to allocating capital with the aim to grow invested capital and return surplus to shareholders.

- Net capital expenditure[13] of $1 billion was invested during the first half of 2016/17
- The Group paid a fully franked dividend of seven cents per ordinary share, totalling $134 million and returned $275 million to shareholders in the first half through an on-market share buy-back. This resulted in a further four per cent reduction in shares on issue.[14]
- $327 million cash in excess of short-term liquidity requirements was used to refinance nine aircraft out of maturing operating leases.

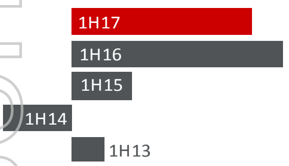
For the second half of 2016/17, the Group will return $219 million in capital management initiatives to shareholders including a fifty per cent franked[15] interim dividend of seven cents per ordinary share totalling $128 million and the completion of the on-market buy-back announced in August 2016 ($91 million remaining). This will result in an approximate one per cent further reduction in shares on issue.[16]

Where there is a surplus, the Group will distribute a dividend every six months to be supplemented with other capital initiatives should additional surplus exist.

Maintainable EPS Growth over the Cycle

Statutory Earnings Per Share

27.3 cents



1H17	**27.3**
1H16	31.9
1H15	9.2
1H14	(10.6)
1H13	4.8

Statutory earnings per share was 27.3 cents for the first half of 2016/17 with Statutory Profit After Tax of $515 million and a 16.6 per cent reduction in shares on issue since 30 June 2015.

UNDERLYING PBT

The Qantas Group achieved an Underlying PBT of $852 million in the first half of 2016/17. This strong earnings result was driven by the continued delivery of benefits from the Qantas Transformation Program, targeted capacity changes in both the domestic and international markets and the benefits of lower fuel prices captured by the Group's disciplined hedging program.

Net passenger revenue decreased by three per cent, primarily reflecting a $50 million reduction in the domestic resource market and continued international yield pressure. Transformation benefits offset inflation and the cost of additional capacity resulting in flat operating expenses (excluding fuel). A reduction in the Group's fuel expense was driven by lower AUD fuel prices and fuel efficiency measures in the Qantas Transformation Program.

13 Net capital expenditure is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) plus the impact to invested capital of commencing new aircraft operating leases.
14 Reduction in shares on issue calculated against balance as at 1 July 2015.
15 Conduit Foreign Income (CFI) credits are attached to the full unfranked portion so no withholding tax will need to be deducted for foreign shareholders.
16 Indicative reduction in shares calculated using the closing price on the 21 February 2017 of $3.48.

Review of Operations continued

For the half-year ended 31 December 2016

Group Underlying Income Statement Summary	December 2016 $M	December 2015 $M	Change $M	Change %
Net passenger revenue	7,064	7,307	(243)	(3)
Net freight revenue	416	458	(42)	(9)
Other revenue	704	698	6	1
Total Revenue	8,184	8,463	(279)	(3)
Operating expenses (excluding fuel) [17]	(4,885)	(4,883)	(2)	–
Fuel[17]	(1,489)	(1,716)	227	13
Depreciation and amortisation	(677)	(585)	(92)	(16)
Non-cancellable aircraft operating lease rentals	(192)	(254)	62	24
Share of net profit / (loss) of investments accounted for under the equity method	8	6	2	33
Total Expenditure	(7,235)	(7,432)	197	3
Underlying EBIT	949	1,031	(82)	(8)
Net finance costs	(97)	(110)	13	12
Underlying PBT	852	921	(69)	(7)

Operating Statistics		December 2016	December 2015	Change	Change %
Available Seat Kilometres (ASK)[18]	M	75,732	74,650	1,082	1.4
Revenue Passenger Kilometres (RPK)[19]	M	61,348	60,652	696	1.1
Passengers carried	'000	26,758	26,211	547	2.1
Revenue seat factor[20]	%	81.0	81.2	(0.2 pts)	(0.2)
Unit Revenue (RASK)	c/ASK	8.02	8.46	(0.44)	(5)
Total Unit Cost	c/ASK	(6.90)	(7.23)	0.33	5
Ex-fuel Unit Cost[21]	c/ASK	(5.00)	(4.90)	(0.10)	(2)

Group capacity (Available Seat Kilometres) increased by 1.4 per cent, and demand (Revenue Passenger Kilometres) increased by 1.1 per cent, resulting in a stable Revenue Seat Factor. Unit Revenue decreased five per cent as a result of intensified competitive pressures in the international market, while Qantas Domestic continues to adjust to softening demand in the resources sector. The Group's Ex-fuel Unit Cost increased by two per cent with the down gauging of fleet in Qantas Domestic to protect margin. Down gauging aircraft in the resource markets increased Ex-fuel Unit Cost while protecting Unit Revenue.

CONTINUED DELIVERY OF BUSINESS TRANSFORMATION

The Group has delivered total benefits from the Qantas Transformation Program of $1.9 billion as at 31 December 2016. Since implementing the program in 2013/14, ex-fuel expenditure has been reduced by nine per cent[22] and all major milestones have been met on time or exceeded.

In the first half of 2016/17 Transformation benefits of $212 million were achieved, which consisted of:

- Cost reduction of $141 million, including $15 million of fuel efficiency benefits
- Net revenue benefits of $71 million

17 Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT. Operating expenses exclude $138 million of items which have been identified by management as not representing the underlying performance of the business. Fuel expenses excludes a $1 million gain relating to mark-to-market movements being recognised in a different period to the Underlying exposure.
18 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
19 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
20 Revenue Seat Factor – RPK divided by ASK. Also known as seat factor, load factor or load.
21 Ex-fuel Unit Cost is measured as Underlying PBT less ticketed passenger revenue, fuel and share of profit/(loss) of investments accounted for under the equity method, adjusted for the impact of changes in FX rates, discount rates and other actuarial assumptions per ASK.
22 Includes Underlying operating expenses (excluding fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable aircraft operating lease rentals, adjusted for movements in FX rates and capacity. First half 2016/17 compared to first half 2013/14.

The target metrics and progress to date as at 31 December 2016 include:

ACHIEVING OUR TARGETS	Target: Metric	Target: Timeframe	Progress to Date
Accelerated Transformation Benefits	$2.1 billion gross benefits >10 per cent[23] Group ex-fuel expenditure reduction	2016/17	$1.9 billion benefits realised Ex-fuel expenditure reduced by 9 per cent
	5,000 FTE	2016/17	4,735 FTE reduction[24]
Deleverage Balance Sheet	>$1 billion debt reduction[25]	2014/15	Delivered on schedule
	Debt/EBITDA[26]<3.5 times FFO/net debt[27] > 45 per cent	2016/17	Delivered ahead of schedule
Cash Flow	Sustainable positive free cash flow[28]	2014/15 onwards	Delivered on schedule
Fleet Simplification	11 fleet types to seven	2015/16	Eight fleet types Retaining two x non-reconfigured B747
Customer and Brand	Customer Advocacy (NPS)	Ongoing	Strong NPS results across the business[29]
	Maintain premium on-time performance Qantas Domestic	Ongoing	Premium on-time performance at 86 per cent with shorter turn times[30]

The Group-wide policy of implementing an 18-month wage freeze, whilst not included as part of the Qantas Transformation Program, is helping to offset inflation, build a more competitive and sustainable wage position going forward and closes the gap against our major domestic competitors. Thirty eight agreements have been closed with the wage freeze, including eight which closed in the first half of 2016/17.

CASH GENERATION

Cash Flow Summary	December 2016 $M	December 2015 $M	Change $M	Change %
Operating cash flows	1,173	1,373	(200)	(15)
Investing cash flows (excluding aircraft operating lease refinancing)	(885)	(603)	(282)	(47)
Net free cash flow	288	770	(482)	(63)
Aircraft operating lease refinancing	(327)	(587)	260	44
Financing cash flows	(271)	(807)	536	66
Cash at beginning of the period	1,980	2,908	(928)	(32)
Effect of foreign exchange on cash	(2)	7	(9)	>(100)
Cash at the end of the period	1,668	2,291	(623)	(27)

Debt Analysis	December 2016 $M	June 2016 $M	Change $M	Change %
Net on balance sheet debt[31]	3,421	2,880	541	19
Capitalised operating lease liabilities[32]	2,546	2,766	(220)	(8)
Net debt[33]	5,967	5,646	321	6

23 Target assumes steady foreign exchange rates and capacity.
24 Actioned Full Time Equivalent employee reduction as at 31 December 2016.
25 Reduction in net debt including capitalised operating lease liabilities.
26 Management's estimate based on Moody's methodology.
27 Management's estimate based on Standard and Poor's methodology.
28 Net free cash flow – operating cash flows less investing cash flows (excluding Aircraft operating lease refinancing). 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.
29 Measured as Average first half 2016/17 Net Promoter Score based on Qantas internal reporting.
30 Qantas mainline operations (excluding QantasLink) for the period first half 2016/17 compared to financial year 2015/16. Source: BITRE.
31 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents.
32 Capitalised operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate.
33 Net debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.

The Qantas Group generated $288 million of net free cash flow in the period.

Operating cash flows of $1.2 billion decreased slightly from the prior period, with the prior period including a $185 million inflow from the sale of Sydney Airport Terminal Three.

Net capital expenditure[34] was $1 billion which included investing cash flows (excluding operating lease refinancing) of $885 million and new operating leases of $138 million. This included investment in two A321-200 aircraft for Jetstar, three F100 aircraft for Qantas Domestic and the deposits on the B787-9 for Qantas International. It also included customer experience initiatives such as airport lounges and the completion of the Airbus A330 and Boeing 737 cabin reconfigurations.

Financing cash flows of $271 million included proceeds from borrowings of $422 million, scheduled debt repayments of $227 million and $409 million returned to shareholders in the first half of 2016/17.

With reduced financial leverage and minimal near-term refinancing risk, the Group continues to optimise the mix of liquidity, lessening the requirement for short-term liquidity held in cash. The Group used excess cash to purchase aircraft out of maturing operating leases, reducing the cash at period end which resulted in a significant unencumbered aircraft pool worth over US$3.8 billion[35]. Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changes in market conditions.

FLEET

The Qantas Group remains committed to a fleet strategy that provides for long-term flexibility and renewal. 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 31 December 2016, the Qantas Group fleet[36] totalled 308 aircraft. During the first half of financial year 2016/17, the Group added five aircraft to the fleet:

- Qantas – three Fokker 100 aircraft
- Jetstar – two A321-200 aircraft

The Qantas Group's scheduled passenger fleet average age is within the targeted 8-10 year range.

SEGMENT PERFORMANCE

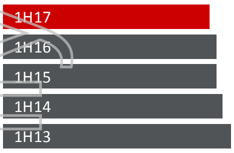
Segment Performance Summary	December 2016 $M	December 2015 $M	Change $M	Change %
Qantas Domestic	371	387	(16)	(4)
Qantas International	208	270	(62)	(23)
Jetstar Group	275	262	13	5
Qantas Freight	27	38	(11)	(29)
Qantas Loyalty	181	176	5	3
Corporate	(88)	(83)	(5)	(6)
Unallocated/Eliminations	(25)	(19)	(6)	(32)
Underlying EBIT	**949**	**1,031**	**(82)**	**(8)**
Net finance costs	(97)	(110)	13	12
Underlying PBT	**852**	**921**	**(69)**	**(7)**

34 Equal to investing cash flows, excluding aircraft operating lease refinancing adjusted for the notional value of operating lease aircraft disposals/acquisitions.
35 Based on AVAC market values.
36 Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan and Jetstar Pacific.

QANTAS DOMESTIC

Revenue

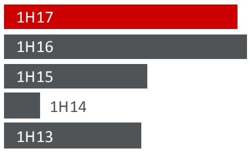
2,916 $M



1H17	**2,916**
1H16	3,007
1H15	3,007
1H14	3,086
1H13	3,220

Underlying EBIT

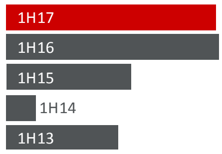
371 $M



1H17	**371**
1H16	387
1H15	227
1H14	57
1H13	218

Operating Margin

12.7 %



1H17	**12.7%**
1H16	12.9%
1H15	7.5%
1H14	1.8%
1H13	6.8%

Metrics		December 2016	December 2015	Change
ASKs	M	18,254	18,536	(1.5%)
Seat factor	%	77.3	76.5	0.8pts

Qantas Domestic reported an Underlying EBIT of $371 million. Highlights of the result included:

- Improving revenue trend from a first quarter Unit Revenue decline to a flat Unit Revenue movement in the second quarter
- Record customer advocacy (NPS)[37] result
- Proactive capacity management resulting in a stable Operating Margin

Qantas Domestic has reduced resource-related capacity by 13 per cent by down gauging aircraft in response to changing resource sector demand. Resource related passenger revenue was down $50 million[38] compared to first half of 2015/16. Non-resource market capacity was flat in the period with strong business and premium leisure market growth offsetting East-West[39] capacity moderation. Qantas Domestic achieved a record customer advocacy (NPS) result with investment in B737 and A330 cabin upgrades and strong on-time performance. As part of the broader Group lounge upgrade program the Domestic Business Lounge and Qantas Club in Brisbane will be opening by mid-2017. With ongoing innovation and focus on speed and ease of travel, in-flight Wi-Fi will be rolled out on Qantas Domestic aircraft from March 2017.

QANTAS INTERNATIONAL

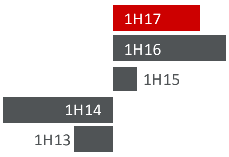
Revenue

2,841 $M

1H17	**2,841**
1H16	2,953
1H15	2,748
1H14	2,621
1H13	2,818

Underlying EBIT

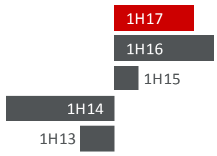
208 $M



1H17	**208**
1H16	270
1H15	59
1H14	(262)
1H13	(91)

Operating Margin

7.3 %



1H17	**7.3%**
1H16	9.1%
1H15	2.1%
1H14	(10.0%)
1H13	(3.2%)

METRICS		December 2016	December 2015	Change
ASKs	M	32,756	31,492	4.0%
Seat factor	%	81.3	83.3	(2.0pts)

Qantas International achieved an Underlying EBIT of $208 million. Unit Revenue declined by nine per cent as competitive pressures intensified offsetting fuel benefits. Key highlights of the 2016/17 result included:

- Ex-fuel Unit Cost[40] improvement of one per cent
- Qantas Transformation delivering utilisation increase of 1.5 per cent[41]
- Record customer advocacy[42] result with continued investment in product and services

By leveraging existing Group assets in response to shifting demand, Qantas International added additional services to high growth markets in Asia. Over the course of the first half of the financial year, Qantas International increased capacity to Hong Kong, Singapore, Manila, Japan and Jakarta, consistent with its strategic objective of aligning with the region's passenger growth.

37 Average first-half Net Promotor Score based on internal Qantas reporting.
38 Regular Public Transport (RPT) resources routes ticketed passenger revenue compared to first half 2015/16.
39 Flying from the Australian East Coast to the Australian West Coast and vice versa.
40 Ex-fuel Unit Cost is measured as Underlying EBIT excluding ticketed passenger revenue and fuel, adjusted for net codeshare commissions, the impact of changes in FX rates, discount rates and other actuarial assumptions, and average sector length per ASK.
41 Calculated as average block hours per aircraft per day. Compared to first half 2015/16.
42 Measured as Net Promoter Score (NPS), based on Qantas Internal reporting.

Review of Operations continued

For the half-year ended 31 December 2016

The segment continues to invest in product and service including the new Brisbane International Lounge completed in October 2016, the London Lounge due for completion in 2017 and the design of the B787-9 Dreamliner premium economy seat.

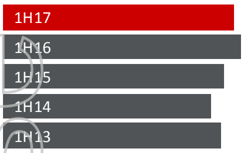
The Qantas Transformation Program has delivered >$750 million benefits to date for Qantas International. This restructured cost base allows Qantas International to continue to deliver a Return on Invested Capital above the Group's Weighted Average Cost of Capital, despite challenging market conditions.

Operating costs will further improve with the delivery of the B787-9 aircraft from October 2017. These new aircraft will deliver both network opportunities and cost efficiencies, with direct flights from Perth to London to begin in March 2018.

JETSTAR GROUP

Revenue

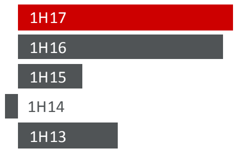
1,859 $M



1H17	**1,859**
1H16	1,913
1H15	1,773
1H14	1,671
1H13	1,757

Underlying EBIT

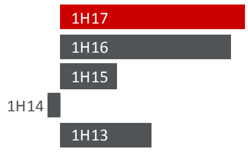
275 $M



1H17	**275**
1H16	262
1H15	81
1H14	(16)
1H13	128

Operating Margin

14.8 %



1H17	**14.8%**
1H16	13.7%
1H15	4.6%
1H14	(1.0%)
1H13	7.3%

METRICS		December 2016	December 2015	Change
ASKs	M	24,722	24,622	0.4%
Seat factor	%	83.3	82.2	1.1pts

The Jetstar Group reported a record Underlying EBIT of $275 million, an increase of five per cent from the segment's prior half in 2015/16. The result saw a contribution from across the Jetstar Group's domestic and international businesses, with highlights including:

- Highest Operating Margin in the Domestic Market[43]
- Controllable Ex-fuel Unit Cost[44] flat compared to prior period
- Record first half profit for Jetstar International with B787-8 efficiencies and strong revenue performance in core markets
- Improved performance of Jetstar Airlines in Asia[45]

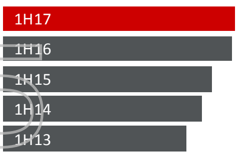
Jetstar Airlines in Asia improvement was driven by increased profitability in Jetstar Japan, which is the largest low cost carrier (LCC) in the Japanese market[46]. Jetstar Asia in Singapore performed well, notwithstanding a challenging competitive market. Jetstar Pacific was impacted by aggressive market growth in Vietnam.

Jetstar continues to invest in the customer with the launch of its small business product designed to meet price driven customer needs. Jetstar has also provided comprehensive service training to more than 2,700 of its people and will continue to roll this training out across the network.

QANTAS LOYALTY

Revenue

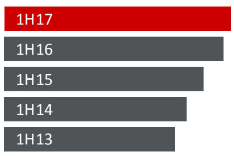
743 $M



1H17	**743**
1H16	734
1H15	669
1H14	640
1H13	590

Underlying EBIT

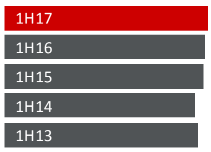
181 $M



1H17	**181**
1H16	176
1H15	160
1H14	146
1H13	137

Operating Margin

24.4 %



1H17	**24.4%**
1H16	24.0%
1H15	23.9%
1H14	22.8%
1H13	23.2%

METRICS		December 2016	December 2015	Change
QFF members	M	11.6	11.2	3.7%

43 Operating margin is calculated as Underlying EBIT divided by total revenue. The Domestic market refers to Qantas Domestic, Jetstar Domestic, Virgin Australia and Tiger Air Australia.
44 Controllable Ex-fuel Unit Cost is measured as total underlying expenses excluding fuel and share of profit/(loss) of investments accounted for under the equity method, adjusted for the impact of changes in FX rates, average sector length, Jetstar branded airline costs and charter revenue per ASK.
45 Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific.
46 Measured as a percentage of market share. Source: Diio.

Qantas Loyalty reported a record Underlying EBIT of $181 million for the half. Diversifying the Group's non-cyclical earnings at Qantas Loyalty remains a key pillar of the Group's long-term strategy. Highlights in the first half of 2016/17 included:

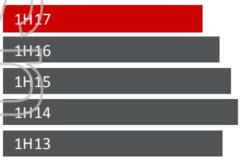
- New Woolworths program launched
- Strong Qantas Frequent Flyer credit card issuance, outperforming the market[47]
- Qantas Cash market share grew to 17 per cent
- Growing contribution from diversified businesses
- Record customer advocacy[48]

Qantas Loyalty continues to strengthen its core Frequent Flyer Program as well as diversify its earnings through investment in new businesses. The Qantas Frequent Flyer and Business Rewards programs continue to attract new partners and renew existing partnerships. A new Woolworths program was announced that includes better member earn rates than under the previous program. In addition 13 new partnerships commenced in the first half of 2016/17 including Airbnb, Caltex and Jaguar Land Rover. Core to the Loyalty strategy is diversification into new businesses that leverage the assets of the 11.6 million member base, in-house marketing expertise and digital capability. Qantas Assure Life, the segment's latest product offering was announced in February 2017, with more initiatives to be announced in the remainder of the financial year.

QANTAS FREIGHT

Revenue

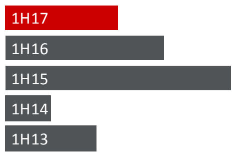
482 $M



1H17	**482**
1H16	525
1H15	550
1H14	568
1H13	531

Underlying EBIT

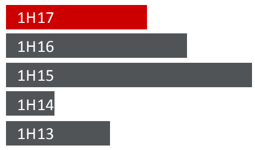
27 $M



1H17	**27**
1H16	38
1H15	54
1H14	11
1H13	22

Operating Margin

5.6 %



1H17	**5.6%**
1H16	7.2%
1H15	9.8%
1H14	1.9%
1H13	4.1%

METRICS		December 2016	December 2015	Change
International capacity[49]	B	1.7	1.7	2.4%
International load[50]	%	54.7	54.8	(0.1pts)

Qantas Freight reported an Underlying EBIT of $27 million. The result reflected a resilient freight performance in challenging global cargo markets. Key drivers of the result included:

- Cost reduction through Qantas Transformation and lower fuel prices
- Significant levels of wide body capacity in international markets impacting yields
- Strong customer advocacy improvement (9 points)[51], with customer feedback driving new innovation

Qantas Freight retains a leading position in the Australian cargo market with over 80 per cent domestic market share[52]. During the first half of 2016/17, the business successfully launched dedicated freighter operations for Australia Post Group and also executed a contract with Van Milk to fly fresh milk to Ningbo China on dedicated B767 Freighter services. The Freight business is well positioned to tap into the growing Australia to China freight market.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax was $715 million for the half year ended 31 December 2016.

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. Underlying PBT is derived by adjusting Statutory Profit 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 PBT.

47 Based on number of personal credit card accounts with interest free periods. Market growth calculated excluding Qantas' contribution to market. Based on December 2016 compared to June 2016. Source: RBA credit and card charges statistics.
48 Measured as Net Promoter Score (NPS). Based on Qantas internal reporting.
49 International Freighter capacity measured as international available freight tonne kilometres.
50 International Freighter load is measured as international revenue freight tonne kilometres divided by International available freight tonne kilometres.
51 Measured as Net Promoter Score (NPS). Average 1H17 compared to six months average at January 16. Based on Qantas internal reporting.
52 Source: BITRE. As at November 2016.

	December 2016 $M	December 2015 $M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX		
Underlying PBT	**852**	**921**
Ineffectiveness and non-designated derivatives relating to other reporting periods	**1**	**(14)**
Other items not included in Underlying PBT		
– Transformation costs	(73)	(48)
– Wage Freeze and Record Results employee bonus[53]	(80)	(67)
– Net reversal of impairment	20	–
– Net gain on sale of property, plant and equipment	–	201
– Other	(5)	(10)
Total other items not included in Underlying PBT	**(138)**	**76**
Statutory Profit Before Tax	**715**	**983**

Underlying PBT is derived by adjusting Statutory Profit Before Tax for the impacts of:

i. **Ineffectiveness and non-designated derivatives relating to other reporting periods**

The difference between Statutory Profit Before Tax and Underlying PBT results from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

ii. **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 outside of underlying primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments, impairments of assets and other transactions outside the ordinary course of business.

Items outside of Underlying include $80 million relating to the Wage Freeze and Records Results employee bonus (2015: $67 million), $73 million of redundancy, restructuring and other costs incurred directly in relation to the Qantas Transformation Program (2015: $48 million), net impairment reversal of $20 million, primarily in relation to the investment in Helloworld due to an increase in the share price of Helloworld and other expenses of $5 million (2015: $10 million). In the first half of 2015/16 items outside of Underlying PBT also included a $201 million gain from the sale of Sydney Domestic Airport Terminal Three.

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. The nature of these risks has not changed with the focus remaining on improving the controls in place to manage or mitigate these risks.

– 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 base through the Qantas Transformation Program with the objective of achieving a cost base comparable to direct competitors.
  - The Australian domestic aviation market is a highly competitive environment. The Qantas Group's market-leading domestic position and dual-brand strategy allow Qantas to effectively mitigate the impact of 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 while maintaining a revenue premium. Jetstar is working to maintain its lowest seat cost and yield advantage. These priorities deliver Qantas Domestic and Jetstar Domestic the highest operating margins in their respective markets enabling the Group to retain market share of Underlying EBIT in excess of capacity share.

53 Payable to non-executive employees.

- **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 2016/17 the Group's hedging profile is positioned such that the worst case total fuel cost is $3.2[54] billion with 65 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2016/17 is $3.13[55] billion)[56]. Complementing the hedging program, increased focus on operational agility supports the Group's ability to manage the residual uncertainty.
- **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. In the latest Group Engagement survey which took place in 2015/16, the Group's engagement score was at a record 79 per cent up four percentage points since 2014/15. The Group has successfully closed 38 Enterprise Bargaining Agreements (EBAs) subsequent to the commencement of the Qantas Transformation Program inclusive of an 18 month wage freeze. To support the implementation of the 18 month wage freeze a bonus payment of five per cent was announced in July 2015 to be made to all employees covered by an 18 month wage freeze. In addition, in August 2016 in recognition of the contribution towards a record result, the Group announced a further $3,000 bonus to all full-time employees and $2,500 to all part-time employees covered by an 18 month wage freeze.
- **Integrity of data and continuity of critical systems**: The Group's operations depend on the continuity of a number of information technology and communication services and the integrity and protection of the privacy of data. The Group's ongoing investment in cybersecurity, together with its extensive Control and Risk Framework[57] work to reduce the likelihood of outages, ensure early detection and mitigation of the impact.
- **Key business partners and alliances**: 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.

54 Worst case total fuel cost based on the addition of separate 2-standard deviation uncorrelated moves in Brent forward market prices to U$64/bbl and AUD/USD rate at 0.74, for the remainder of 2016/17.
55 Current forward market price total fuel cost based on a Brent forward market price of A$74/bbl for remainder of 2016/17.
56 As at 22 February 2017.
57 An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on www.qantas.com.au.