ASX and Media Release

QANTAS GROUP FULL-YEAR RESULT 2016[1]

Key points:

- Record underlying profit before tax: $1.53 billion, up 57%
- Record statutory profit before tax: $1.42 billion, up 80%
- Record results for Qantas Domestic, Qantas International, Jetstar Group, Qantas Loyalty
- Near-doubling of earnings per share: 49c, up 24c
- Return on invested capital: 23%, up 6.5 points
- Operating cash flow: $2.8 billion, up 38%
- Net free cash flow: $1.7 billion
- $500m shareholder return: fully-franked 7c per share ordinary dividend and on-market share buy-back
- Additional cash bonus totalling $75 million for 25,000 non-executive employees
- Continued investment in aircraft cabins and wi-fi

SYDNEY, 24 August 2016: Qantas today reported an underlying profit before tax of $1.53 billion for the 12 months ended 30 June 2016 – the best result in its 95-year history.

The record performance is a 57 per cent per cent improvement on financial year 2015. It means Qantas can resume dividend payments, reward 25,000 EBA-covered employees with a one-off cash bonus, and continue investment for customers, including extending wi-fi to Qantas' regional and international fleets and finalising the network and customer experience for the Qantas Dreamliner.

SUMMARY OF RESULT

Qantas Domestic, Qantas International, the Jetstar Group and Qantas Loyalty all reported record results.

Total underlying EBIT in the domestic market – across both Qantas and Jetstar – was a record $820 million, up $191 million, and total underlying EBIT in the international division was $722 million, up $374 million.

Return on invested capital was 23 per cent, compared with 16 per cent at 30 June 2015, and earnings per share almost doubled to 49 cents.

The Qantas Transformation program continues to reshape the Group's cost base and ability to generate revenue. It has unlocked $1.66 billion in permanent cost and revenue benefits since early 2014, including $557 million in financial year 2016, and is now outperforming, with the Group expecting to realise $2.1 billion in benefits by June 2017.

[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.

Effective fuel hedging saw the Group secure a $664 million benefit from lower global fuel prices compared with financial year 2015, passing a proportion of these savings through to air fares - which are up to 40 per cent lower than a decade ago in the Australian market.

The Group's financial position improved significantly during the year, with $2.8 billion in operating cash flow used for capital expenditure, shareholder distributions and debt repayments, and excess cash used for refinancing.

CEO Comment
Chief executive Alan Joyce said the result demonstrated the success of Qantas' strategy to build a strong, sustainable future for the national carrier.

"Our transformation program is paying dividends for our shareholders, our customers and our employees," Mr Joyce said. "Our people can be incredibly proud of what they've achieved. It's thanks to their skill and commitment that we're announcing a record profit today.

"This was a true team performance, which shows that our strategy is the right one for the tough markets we're operating in and the long-term opportunities we see ahead of us.

"Transformation has made us a more agile business, created value for our shareholders and given us a platform to invest for the future. Qantas is stronger than ever, but we're also determined to keep changing and adapting so that we can succeed no matter what environment we're in."

RETURNS TO SHAREHOLDERS

The Group has returned more than $1 billion to shareholders over the past 12 months, through a $505 million capital return (completed in November 2015) and $500 million on-market share buy-back (completed in June 2016), and Qantas today confirmed it will return up to $500 million more to shareholders.

The Qantas Board has declared a fully-franked final ordinary dividend of 7 cents per share – or $134 million in total – to be paid on 12 October 2016. In addition, Qantas will carry out a further on-market share buy-back of up to $366 million, subject to shareholder approval.

Where there is surplus capital in future the Group will first distribute to shareholders via an ordinary dividend, in conjunction with share buy backs, special dividends or a capital return should additional surplus exist. Future dividends will be partially franked or unfranked, until Qantas' franking credit balance - which will fall to $26 million after the current dividend is paid - increases.

REWARDING OUR PEOPLE

In recognition of their outstanding contribution, around 25,000 personnel across the Qantas Group will be eligible for a one-off $3,000 Record Result Bonus (on a full-time basis) if they are covered by an EBA that includes the 18-month pay freeze outlined as part of the Qantas Transformation program.

Combined with the bonus announced in July 2015, this now means more than $160 million in cash rewards has been set aside for non-executive employees in the past two years.

The costs of the discretionary payment will be recognised in financial year 2017, outside of underlying earnings.

INVESTING FOR CUSTOMERS

Over the past 12 months Qantas has announced new investment in eight Boeing 787-9 Dreamliners for Qantas International, super-fast inflight wi-fi for Qantas Domestic, and new lounges in London Heathrow and Brisbane, in addition to the refresh of Qantas' Airbus A330 and Boeing 737-800 fleets.

The Group confirmed today that:

- Qantas in the final stages of scoping options to extend wi-fi to its regional and international fleets;
- Qantas is exploring a partnership with Cricket Australia to live-stream cricket over summer 2016-17, on the aircraft involved in the wi-fi technology trial;
- The first Qantas Dreamliner flights will open for sale before Christmas, on Qantas International's existing network, with other international destinations for the Dreamliner confirmed shortly afterwards; and
- Qantas is working with a team of world-class designers, including Marc Newson, and university sleep experts to design the Dreamliner interiors in Economy, Premium Economy and Business to best-in-class standards.

"Throughout our transformation we've invested in the areas that matter most to our customers," Mr Joyce said. "We've renewed our aircraft, lounges, technology and the training we provide for our people, who've done a phenomenal job to earn record customer satisfaction.

"Today's result means we can build on those investments, with some really exciting projects in the pipeline to make the experience of flying with Qantas even better. Our plans for the Qantas Dreamliner, in particular, will set new standards for the industry."

GROUP PERFORMANCE

Qantas' performance in financial year 2016 reflects the advantages of the Group portfolio, with approximately two-thirds of its earnings generated from its strong, stable domestic and loyalty businesses, and approximately one-third from its international business – increasing potential earnings and resilience to volatility.

Qantas Domestic reported record underlying EBIT of $578 million, up 20 per cent on financial year 2015.

The business continued to navigate the transition in the Australian economy, with a $121 million drop in revenue from resources markets but higher revenue in non-resources markets, and capacity reductions limiting the impact of weaker demand at the end of the year. Operating margin was up 1.9 points to 10.1 per cent.

Customer satisfaction was at record levels, helped by upgrades to Qantas' A330 and B737 fleets and continuous investment in service training.

Qantas International reported record underlying EBIT of $512 million, up 92 per cent on last year and an improvement of more than $1 billion compared with its result in financial year 2014.

The business continued to reduce costs and increase revenue while growing capacity to meet demand through a 5 per cent rise in aircraft utilisation. Unit costs excluding fuel were down 4 per cent and operating margin was up four points to 8.9 per cent.

With business travel and tourism strengthening in Asia, Qantas International has re-allocated capacity from trans-Pacific routes and the domestic market to destinations including New Zealand, Singapore, Hong Kong, Japan, the Philippines and Indonesia. Overall capacity on the Pacific routes has been increased under an expanded partnership with American Airlines, which saw Qantas return to San Francisco and American to Sydney and Auckland.

This agile approach to growth will continue in financial year 2017, as the Group monitors broader economic conditions, while continuing to deepen strategic partnerships with American Airlines, Emirates and China Eastern.

Qantas International's employees also achieved record customer satisfaction.

The **Jetstar Group** reported record underlying EBIT of $452 million, up 97 per cent.

Operating margin for the Jetstar Group in financial year 2016 was up 5.8 points to 12.4 per cent, helped by a 3 per cent reduction in unit costs (excluding fuel).

After completing the renewal of Jetstar's long-haul fleet with Boeing 787-8 Dreamliners, investment is focused on continuing to improve the airline's customer experience and online sales channels.

The Jetstar airlines in Asia delivered an $85 million improvement on last year. This improved performance included a first full-year profit for Jetstar Japan, which today announced plans to grow from 20 to 28 aircraft over the next three years, building on its success since launch in 2012 and supporting ongoing domestic and international growth.

Qantas Loyalty reported record underlying EBIT of $346 million, up 10 per cent.

Revenue increased by 6.7 per cent, with margins up 0.7 points to 23.8 per cent.

Approximately 45 per cent of the business' revenue growth in the year came from non-core ventures, while the core consumer and business loyalty programs continued to perform strongly.

Qantas Frequent Flyer members increased by 580,000 to 11.4 million and a range of improved products and partnerships have been announced. An expanded arrangement with Woolworths increases opportunities to earn Qantas Points on every dollar, including grocery and fuel purchases.

Loyalty continues to invest in new ventures and grow the scale of existing ones, taking a strategic stake in Data Republic – a secure data sharing platform – alongside Westpac and NAB, and launching Qantas Assure, a health insurance venture with nib.

Qantas Freight reported underlying EBIT of $64 million, down 44 per cent on last year.

The result reflects difficult global cargo markets and the end of favourable legacy agreements with Australian Air Express, impacting yields. However, the business is well-positioned for the future. New long-term deals with Australia Post and Toll, the country's two biggest freight customers, are in place in the domestic market. Qantas Freight is also pursuing new opportunities internationally, in particular on triangular Australia–China–US routes.

FINANCIAL POSITION

The Group remained in an optimal capital structure throughout the year, with net debt within the Group's target range of $4.8 billion to $6 billion.

Total Group short-term liquidity is $3 billion, including $2 billion in cash and $1 billion in undrawn facilities. The Group's unencumbered asset base is valued at more than US$3.9 billion.

Investment remains disciplined, with net capital expenditure of $1 billion in financial year 2016 and a forecast of approximately $1.5 billion in financial year 2017.

OUTLOOK

First half

The Group is planning for capacity growth of 2-3 per cent in the first half of financial year 2017, driven by increased aircraft utilisation:

- Group domestic capacity is expected to be flat to a decrease of 1 per cent; and
- Group international capacity is expected to increase by approximately 4 per cent.

The Group is planning for the mixed domestic and international operating environment to continue in the first half. Unit revenue is expected to be below the first half of financial year 2016, with competitive industry pricing and resources sector weakness. This will be offset by a total unit cost improvement from the Qantas Transformation program and lower fuel costs.

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

Mr Joyce said: "The Qantas Group expects to continue its strong financial performance in the first half of financial year 2017, in a more competitive revenue environment. We are focused on preserving high operating margins through the delivery of the Qantas Transformation program, careful capacity management, and the benefit of low fuel prices locked in through our hedging.

"The long-term outlook for the Group is positive, with clear strategic priorities and a robust financial framework to deliver for our customers, our people and our shareholders."

Full year

The Group's current operating expectations for financial year 2017 are as follows:

- First half Group capacity is expected to increase by 2-3 per cent;
- Full year underlying fuel costs are expected to be no more than $3.2 billion, or $3.1 billion at current forward Australian dollar prices;
- Full year depreciation and amortisation expense is expected to be approximately $150 million higher than in financial year 2016;
- Full year lease expense is expected to be approximately $100 million lower than in financial year 2016;
- Full year transformation benefits (cost, fuel efficiency and revenue) are expected to be $450 million; and
- Full year net capital expenditure is expected to be $1.5 billion.

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

Introduction of quarterly trading updates
From financial year 2017 the Qantas Group will enhance market disclosure by reporting first quarter and third quarter trading updates, released in October and April. The quarterly trading update will incorporate traffic statistics and unit revenue (RASK) performance, and introduce actual revenue performance for the quarter at a Group level. Quarterly trading updates will replace monthly traffic statistics.

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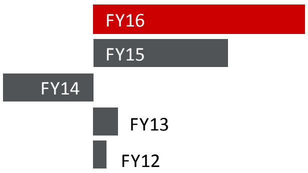
Review of Operations

For the year ended 30 June 2016

RESULT HIGHLIGHTS

Underlying Profit Before Tax

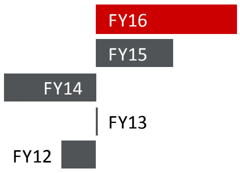
1,532 $M



FY16	**1,532**
FY15	975
FY14	(646)
FY13	186
FY12	95

Statutory Profit After Tax

1,029 $M



FY16	**1,029**
FY15	560
FY14	(2,843)
FY13	2
FY12	(244)

The Qantas Group reported an Underlying Profit Before Tax[1] of $1,532 million for the 12 months ended 30 June 2016, an improvement of $557 million from 2014/15 and a record result. The Group's Statutory Profit After Tax of $1,029 million included $108 million of costs which were not included in Underlying PBT[1] primarily driven by 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 domestic Australia, 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 2015/16, strategic highlights included:

- Record results for the Group and its segments[2]
- Group Domestic EBIT[3] up 30 per cent with enhanced dual brand coordination
- Reduction in ex-fuel unit cost[4] of three per cent
- Building a resilient and sustainable Qantas International through continued unit cost improvement
- Diversification of earnings with eight years of double-digit EBIT growth at Qantas Loyalty[5]
- Building a pan-Asia brand at Jetstar, with an $85 million improvement in profitability from Jetstar Airlines in Asia
- Record levels of customer advocacy[6] with targeted investment in service and product
- Record people engagement with continued focus on culture and leadership

The Qantas Transformation Program continues to underpin a maintainable earnings uplift, delivering $557 million of benefits over the financial year – ahead of a targeted $450 million of benefits. Ex-fuel unit cost was reduced by three per cent, and the Group's revenue increased by two per cent, reflecting the cost reduction and revenue generation initiatives in the program. As a result of the program exceeding targets to date, the Group has raised the target of Qantas Transformation to $2.1 billion of benefits delivered by the end of financial year 2016/17, up from $2 billion.

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

- Net debt[7] of $5.6 billion within target range of $4.8 billion to $6 billion[8]
- Investment grade credit metrics and rating from 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
- $1 billion returned to shareholders in 2015/16 through a capital return and on-market share buy-back
- $500 million in additional capital management initiatives announced including resumption of dividend payments with a seven cents per share ordinary dividend totalling $134 million and the announcement of a $366 million on-market buy-back

The Group achieved a strong increase in earnings in mixed global trading conditions, with margin expansion realised through total unit cost[9] improvement of six per cent partially offset with a two per cent decrease in unit revenue[10].

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 Based on Underlying Profit Before Tax (PBT) for the Qantas Group and Underlying EBIT (Earnings before net interest and income tax expense) for Qantas Domestic, Qantas International, Jetstar Group and Qantas Loyalty.
3 Underlying EBIT of Qantas Domestic and Jetstar Domestic.
4 Ex-fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in: employee provision discount rates and other assumptions changes, foreign exchange rates, share of net profit/(loss) of investments accounted for under the equity method and block codeshare flying agreements per ASK. The adjustment for foreign exchange rates is made to the comparative year to enable comparability.
5 When normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.
6 Record NPS achieved at Qantas Domestic, Qantas International and Qantas Loyalty.
7 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 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.
8 Target range calculated based on current average invested capital.
9 Total Unit cost is calculated as Underlying PBT less ticketed passenger revenue per available seat kilometre (ASK).
10 Unit Revenue is calculated as ticketed passenger revenue per ASK.

Domestic Australia experienced a stable operating environment in non-resources sectors:

- Lower AUD and increased inbound visitor arrivals supporting domestic traffic growth
- Resource related traffic and revenue down compared to 2014/15
- Fourth quarter 2015/16 general demand weakness

The Group's international operating environment was more competitive, with competitor capacity growth and sharper pricing activity seen on key routes:

- Increased industry capacity growth on the back of higher operating margins
- Industry-wide pricing activity passing on a portion of fuel benefit
- Geopolitical uncertainty impacting northern hemisphere travel
- Qantas and Jetstar capacity growth focused on higher demand markets in Asia

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

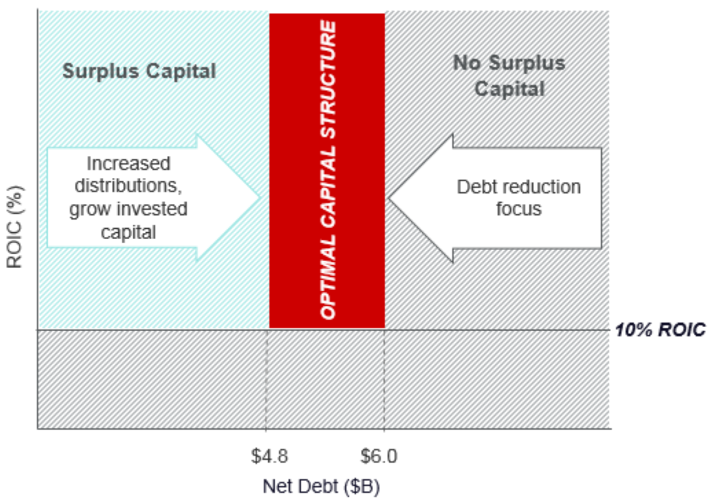
Qantas' Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings per share growth over the cycle, which in turn should translate into Total Shareholder Returns (TSR) in the top quartile of the ASX100 and a basket of global airlines[11], the Financial Framework has three clear priorities and associated long-term targets:

1. Maintaining an Optimal Capital Structure	2. ROIC > WACC[12] Through the Cycle	3. Disciplined Allocation of Capital
Minimise cost of capital by targeting a net debt range of $4.8 billion to $6 billion	Deliver ROIC > 10 per cent through the cycle	Grow Invested Capital with disciplined investment, return surplus capital

MAINTAINABLE EPS[13] GROWTH OVER THE CYCLE

TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE

Maintaining an Optimal Capital Structure



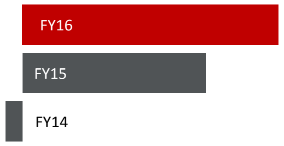
- The Group's Financial Framework targets an optimal capital structure with a net debt range of between $4.8 billion and $6 billion, based on the current Average Invested Capital of approximately $9 billion. This capital structure lowers the Group's cost of capital, preserves financial strength, and therefore enhances long-term shareholder value.
- Capital allocation decisions, including distributions to shareholders, are sized to remain 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.

11 Target Total Shareholder Returns within the top quartile of the ASX100 and global listed airline peer group as stated in the 2015 Annual Report, with reference to the 2015-2017 Long Term Incentive Plan (LTIP).
12 Weighted Average Cost of Capital (WACC) is calculated on a pre-tax basis.
13 Earnings per share.

ROIC > WACC Through the Cycle

Return on Invested Capital

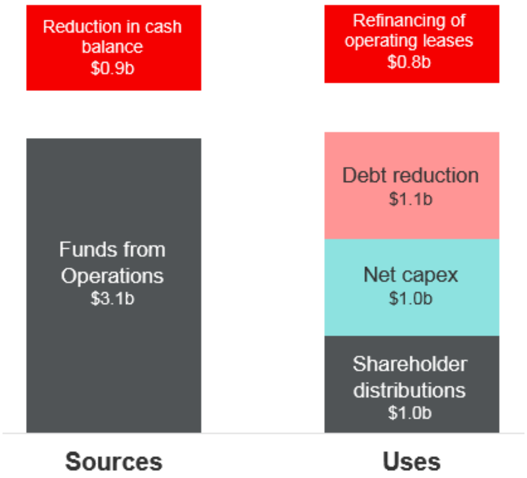
23 %



FY16	**22.7%**
FY15	16.2%
FY14	(1.5%)

Return on Invested Capital (ROIC) of 22.7 per cent, up from 16.2 per cent in the prior year, was achieved through generating higher returns from existing assets. Average Invested Capital in 2015/16 of $8.9 billion was slightly below Average Invested Capital of $9.1 billion in 2014/15 with disciplined capital expenditure. With increased fleet utilisation, cost reduction through the Qantas Transformation Program and lower fuel prices, returns were well above the Group's threshold target of ROIC greater than 10 per cent.

Disciplined Allocation of Capital



Funds from Operations (FFO)[14] increased to $3.1 billion in 2015/16. FFO were applied to:

- $1.1 billion of debt repayments[15]
- $1 billion of net capital expenditure[16] in line with guidance
- $1 billion distributed to shareholders in 2015/16 through a share buy-back and capital return

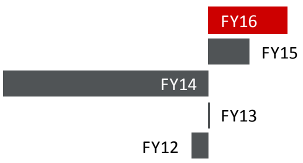
$778 million cash in excess of short-term liquidity requirements was used to refinance 29 aircraft out of maturing operating leases. Using the Group's existing cash balance in this way achieved the following benefits:

- Reduced gross debt and cost of carry, minimal impact to net debt
- Greater fleet and maintenance planning flexibility
- Reduced exposure to USD lease rentals
- Increased value of unencumbered assets to over US$3.9 billion[17]

Maintainable EPS Growth over the Cycle

Earnings Per Share

49.4 cents



FY16	**49.4**
FY15	25.4
FY14	(128.5)
FY13	0.0
FY12	(10.8)

Earnings per share almost doubled to 49.4 cents, with an 84 per cent improvement in Statutory Profit After Tax and a 12.6 per cent reduction in shares on issue. Shares on issue were reduced through the $505 million capital return and related share consolidation as well as the $500 million on-market share buy-back, both of which were completed in 2015/16.

UNDERLYING PBT

The Qantas Group's full-year 2015/16 Underlying PBT increased to $1,532 million, compared to an Underlying PBT of $975 million in 2014/15. The significant improvement in earnings was driven by the delivery of a reduction in ex-fuel unit cost, fuel efficiency initiatives, and revenue benefits from the Qantas Transformation Program and the benefits of lower fuel prices captured by the Group's disciplined hedging program.

14 Funds from Operations of $3.1 billion is equal to operating cash flows in the Consolidated Cash Flow Statement adjusted for the principal portion of operating leased aircraft rental payments. The principal portion of aircraft operating lease rentals are considered a debt repayment in the Group's financial framework. After this adjustment, the interest portion of lease rental payments continues to be recognised as an outflow in Funds from Operations.

15 Debt repayments of $1.1 billion refers to repayment of on balance sheet borrowings and capitalised operating lease liability repayments (excluding cash flows relating to aircraft operating lease refinancing). Debt reduction is equal to the total of financing cash flows in the statement of cash flows excluding shareholder distributions and payments for treasury shares, principal portion of operating leased aircraft rental payments and reduction of capitalised operating leases from the return of leased aircraft.

16 Net capital expenditure of $1 billion is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) less the impact to invested capital of returning operating lease aircraft.

17 Based on AVAC market values.

Net passenger revenue increased by three per cent, reflecting improved passenger loads in most markets and the Group's capacity growth of five per cent. This stronger revenue performance was supported by network changes and capacity management which led to increased fleet utilisation. A reduction in the Group's fuel expense resulted from lower AUD fuel prices and fuel efficiency measures in the Qantas Transformation Program.

Group Underlying Income Statement Summary[18]	June 2016 $M	June 2015 $M	Change $M	Change %
Net passenger revenue	13,961	13,604	357	3
Net freight revenue	850	936	(86)	(9)
Other revenue	1,389	1,276	113	9
Total Revenue	**16,200**	**15,816**	**384**	**2**
Operating expenses (excluding fuel)	(9,529)	(9,064)	(465)	(5)
Fuel	(3,235)	(3,899)	664	17
Depreciation and amortisation	(1,224)	(1,096)	(128)	(12)
Non-cancellable aircraft operating lease rentals	(461)	(495)	34	7
Share of net loss of investments accounted for under the equity method	–	(29)	29	100
Total Expenditure	**(14,449)**	**(14,583)**	**134**	**1**
Underlying EBIT	**1,751**	**1,233**	**518**	**42**
Net finance costs	(219)	(258)	39	15
Underlying PBT	**1,532**	**975**	**557**	**57**

Operating Statistics		June 2016	June 2015	Change	Change %
Available Seat Kilometres (ASK)[19]	M	148,691	142,287	6,404	5
Revenue Passenger Kilometres (RPK)[20]	M	119,054	112,543	6,511	6
Passengers carried	'000	51,426	49,181	2,245	5
Revenue seat factor[21]	%	80.1	79.1	1pts	1
Unit Revenue (RASK)	c/ASK	8.08	8.21	(0.13)	(2)
Total unit cost	c/ASK	(7.05)	(7.54)	0.49	6
Ex-Fuel unit cost	c/ASK	(4.81)	(4.97)	0.16	3

Group capacity (Available Seat Kilometres) increased by five per cent, and demand (Revenue Passenger Kilometres) increased by six per cent, resulting in a one percentage point increase in Revenue Seat Factor. Unit revenue (Revenue per Available Seat Kilometres) decreased two per cent in 2015/16 with growth in the first-half of 2015/16 and a decrease in unit revenue in the second-half of 2015/16 as a proportion of the benefit from lower fuel prices was passed on in pricing in the international market. The Group's ex-fuel unit cost improved by three per cent.

CONTINUED DELIVERY OF BUSINESS TRANSFORMATION

The Group's balanced scorecard through the Qantas Transformation Program ensures a net benefit for the customer experience in addition to permanent reduction of costs. This was seen in customer and brand highlights for the year including:

- Record customer advocacy (NPS) results at Qantas Domestic, Qantas International and Qantas Loyalty
- Reconfiguration of the A330 fleet, progressively adding 'Business Suites' with lie-flat beds on A330 family aircraft
- Reconfiguration of the B737 fleet with 54[22] completed to date, upgrading cabin interiors and in-flight entertainment at the same time as increasing seat count for efficiency gains
- B787 aircraft with enhanced customer offering in the Jetstar International fleet with the last three of 11 delivered during the year
- Continuation of global lounge upgrade program, with new lounges announced for London Heathrow and Brisbane
- Digital innovation focused on improving speed and ease of travel including auto check-in on mobile and the announced wi-fi roll-out for Qantas Domestic

18 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.
19 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
20 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
21 Revenue Seat Factor – RPK divided by ASK. Also known as seat factor, load factor or load.
22 As at 24 August 2016.

The Group has delivered total benefits from the Qantas Transformation Program of $1.66 billion as at 30 June 2016, leading to an increase in the 2017 target to $2.1 billion. Since implementing the program in financial year 2014, ex-fuel expenditure has been reduced by nine per cent and all major milestones have been met on time or exceeded.

In 2015/16 Transformation benefits achieved of $557 million consisted of:

- Cost reduction of $451 million, including $51 million of fuel efficiency benefits
- Net revenue benefits of $106 million

The target metrics and progress to date as at 2015/16 include:

		Target		Progress to Date
		Metric	Timeframe	
ACHIEVING OUR TARGETS	Accelerated Transformation Benefits	$2.1 billion gross benefits >10 per cent[23] Group ex-fuel expenditure reduction	2016/17	$1.66 billion benefits realised Ex-fuel expenditure reduced by 9 per cent[24]
		5,000 FTE	2016/17	4,605 FTE reduction[25]
	Deleverage Balance Sheet	>$1 billion debt reduction[26]	2014/15	Delivered on schedule
		Debt/EBITDA[27] <3.5 times FFO/net debt[28] > 45 per cent	2016/17	Delivered ahead of schedule
	Cash Flow	Sustainable positive free cash flow[29]	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	NPS record achieved at Qantas Domestic, Qantas International and Qantas Loyalty[30]
		Maintain premium on-time performance Qantas Domestic	Ongoing	Premium on-time performance maintained with increase to 89.7 per cent[31]

The Group-wide policy of implementing an 18-month wages freeze, whilst not part of the Qantas Transformation Program, is helping to offset inflation, build a more competitive and sustainable wages position going forward and closes the gap to our major domestic competitors. Thirty 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.

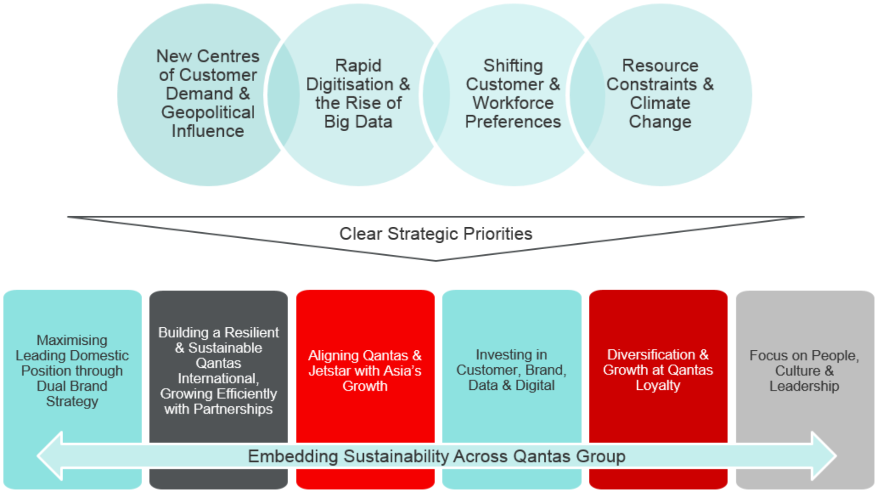
In July 2015, Qantas announced that employees covered by the wages freeze policy will receive a bonus payment worth five per cent of their base annual salary. In August 2016, the Group announced a non-executive bonus payment of $3,000 for full-time and $2,500 for part-time employees, subject to the employee group having signed up to the 18-month wages freeze.

23 Target assumes steady foreign exchange rates and capacity.
24 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. 2015/16 vs annualised first-half 2014/15.
25 Actioned Full Time Equivalent employee reduction as at 30 June 2016. ~30 FTEs still to exit as at 30 June 2016.
26 Reduction in net debt including capitalised operating lease liabilities.
27 Management's estimate based on Moody's methodology.
28 Management's estimate based on Standard and Poor's methodology.
29 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.
30 Measured as Net Promoter Score. Average 2015/16 compared to average 2014/15.
31 Qantas mainline operations (excluding QantasLink) for the period 2015/16 compared to average 2014/15. Source: BITRE.

BUILDING ON THE GROUP'S LONG-TERM COMPETITIVE ADVANTAGES

The Qantas Group's integrated portfolio strategy is designed to diversify earnings and mitigate risk, with the dual brands of Qantas and Jetstar and their presence in attractive markets across the Asia Pacific providing long-term growth opportunities. The starting point for the Group's strategy is understanding the global forces that will impact Qantas over the long-term – the megatrends that present both risk and opportunity – and ensuring the Group is well positioned to respond.

Qantas has engaged with stakeholders including shareholders, sustainability thought leaders, industry partners and suppliers to identify and prioritise the global forces of most relevance to the Group. With this long-term context in mind, the Group's strategic priorities allow us to navigate the right path, building on our long-term competitive advantages while recognising and responding to the risks and opportunities arising from emerging global forces.



RAPIDLY IMPROVED CASH GENERATION

Cash Flow Summary	June 2016 $M	June 2015 $M	Change $M	Change %
Operating cash flows	2,819	2,048	771	38
Investing cash flows (excluding aircraft operating lease refinancing)	(1,145)	(944)	(201)	21
Net free cash flow	**1,674**	**1,104**	**570**	**52**
Aircraft operating lease refinancing	(778)	–	(778)	>100
Financing cash flows	(1,825)	(1,218)	(607)	50
Cash at beginning of year	2,908	3,001	(93)	(3)
Effect of foreign exchange on cash	1	21	(20)	(95)
Cash at end of year	**1,980**	**2,908**	**(928)**	**(32)**

Debt Analysis		June 2016 $M	June 2015 $M	Change $M	Change %
Net on balance sheet debt[32]		2,880	2,594	286	11
Capitalised operating lease liabilities[33]		2,766	3,806	(1,040)	(27)
Net debt[34]		**5,646**	**6,400**	**(754)**	**(12)**
FFO/net debt	%	52	45	7pts	
Debt/EBITDA	times	2.5	3.0	(0.5) times	

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.
33 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.
34 Net debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.

Operating cash flows of $2.8 billion saw a strong increase from the prior year, reflecting cost and revenue benefits realised through the Qantas Transformation Program, and lower AUD fuel prices. When adjusted for the principal portion of operating rental payments, Funds from Operations were $3.1 billion.

Net capital expenditure of $1.0 billion included investment in replacement fleet such as the Boeing 787 for Jetstar International and customer experience initiatives including airport lounges and the continuation of Airbus A330 and Boeing 737 cabin reconfigurations. Qantas generated $1.7 billion of net free cash flow in the period facilitating net debt reduction and returns to shareholders of $1 billion in the financial year.

With reduced financial leverage and minimal near-term refinancing risk, the Group has optimised the mix of liquidity with less requirement for short-term liquidity held in cash. The Group used cash in excess of its short-term requirements to purchase aircraft out of maturing operating leases, reducing the cash at period end and increasing the value of the Group's pool of unencumbered aircraft to over US$3.9 billion. 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.

At 30 June 2016, the Group's leverage metrics were well within investment grade (BBB/Baa range) with FFO/net debt of 52 per cent (2014/15: 45 per cent) and Debt/adjusted EBITDA of 2.5 times (2014/15: 3.0 times).

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 all times, the Group retains significant flexibility to respond to any changes in market conditions and the competitive environment.

At 30 June 2016, the Qantas Group fleet[35] totalled 303 aircraft. During 2015/16, the Group purchased six aircraft and reclassified one aircraft from assets held for sale back into the fleet:

- Qantas – two B717-200s, one Bombardier Q300 and one Fokker 100
- Jetstar – three B787-8s

The Group removed three aircraft from service in 2015/16 including two lease returns. These included two A330-200s and one B747-400. The Qantas Group's scheduled passenger fleet average age is now 8.6 years[36], within the targeted 8-10 year range. The benefits of fleet investment include improved customer satisfaction, improved environmental outcomes, operational efficiencies and cost reductions.

SEGMENT PERFORMANCE

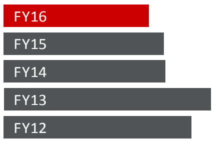
Segment Performance Summary	June 2016 $M	June 2015 $M	Change $M	Change %
Qantas Domestic	578	480	98	20
Qantas International	512	267	245	92
Qantas Freight	64	114	(50)	(44)
Jetstar Group	452	230	222	97
Qantas Loyalty	346	315	31	10
Corporate	(168)	(163)	(5)	3
Unallocated/Eliminations	(33)	(10)	(23)	>100
Underlying EBIT	**1,751**	**1,233**	**518**	**42**
Net finance costs	(219)	(258)	39	(15)
Underlying PBT	**1,532**	**975**	**557**	**57**

35 Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan and Jetstar Pacific.
36 Based on Group's scheduled passenger fleet, excluding freighter aircraft and Network Aviation.

QANTAS DOMESTIC

Revenue

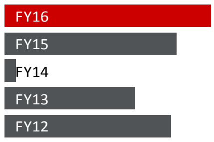
5,710 $M



FY16	**5,710**
FY15	5,828
FY14	5,848
FY13	6,218
FY12	6,063

Underlying EBIT

578 $M



FY16	**578**
FY15	480
FY14	30
FY13	365
FY12	463

Metrics		June 2016	June 2015	Change
Operating margin[37]	%	10.1	8.2	1.9pts
ASKs	M	36,260	36,638	(1.0)%
Seat factor	%	75.2	74.2	1.0pts

Qantas Domestic reported a record Underlying EBIT of $578 million, a stand out performance in a year that saw a continued drop off in revenue from the resources sector and general demand weakness in the final quarter 2015/16. Operating margin increased to 10.1 per cent, with ex-fuel unit cost[38] improvement offsetting a decrease in revenue that was driven by the downturn in the Australian resources sector. Key drivers of the result included:

– Unit revenue was flat while ex-resources unit revenue[39] increased by one per cent
– Ex-fuel unit cost improvement of one per cent on capacity decrease of one per cent

Qantas Transformation delivered an increase in aircraft utilisation of two per cent[40]. In response to the two-speed Australian economy, with passenger growth on east coast and leisure markets and contraction in intra-Western Australia and other resources markets, Qantas Domestic continued to shift aircraft to higher-growth markets. Resource-related passenger revenue was down $121 million[41] in the year, not including a reduction in charter activity.

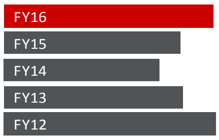
Qantas Domestic saw strong improvement in all key operational metrics including:

– Record on-time performance increasing to 89.7 per cent from 88.3 per cent in 2014/15[42]
– Customer advocacy (NPS)[43] increased five percentage points to a record result with investment in B737 and A330 cabin upgrades
– 15 x A330-200 and 54 x B737 reconfigurations completed[44]
– Passenger seat factor increased one percentage point to 75.2 per cent

QANTAS INTERNATIONAL

Revenue

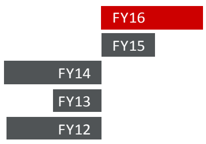
5,750 $M



FY16	**5,750**
FY15	5,467
FY14	5,297
FY13	5,496
FY12	5,770

Underlying EBIT

512 $M



FY16	**512**
FY15	267
FY14	(497)
FY13	(246)
FY12	(484)

METRICS		June 2016	June 2015	Change
Operating margin	%	8.9	4.9	4.0pts
ASKs	M	63,599	59,263	7.3%
Seat factor	%	81.7	81.5	0.2pts

37 Operating margin calculated as Underlying EBIT divided by total segment revenue.
38 Ex-fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in: employee discount rates and other assumptions, and foreign exchange rates.
39 Ex-resources unit revenue is unit revenue other than specific routes that are classified as resources.
40 Average block hours per aircraft per day compared to 2014/15.
41 Regular Public Transport (RPT) resources routes revenue compared to 2014/15.
42 On time performance (OTP) of Qantas Mainline (excluding QantasLink) operations. Measured as departures within 15 minutes of scheduled departure time. Source: BITRE.
43 Average 2015/16 net promotor score based on internal Qantas reporting.
44 As at 24 August 2016.

Review of Operations continued

For the year ended 30 June 2016

Qantas International achieved a record Underlying EBIT of $512 million, a $1 billion turnaround since 2013/14 that reflects the successful restructure of the segment's cost base, network and alliance partners, and a more dynamic approach to scheduling that has created new revenue opportunities. Highlights of the 2015/16 result included:

- Revenue increased five per cent with capacity growth and seat factor improvement
- Unit Revenue decline of one per cent for 2015/16 with a second-half 2015/16 decline of five per cent amid competitive market pricing
- Ex-fuel unit cost[45] improvement of four per cent driving margin uplift
- Qantas Transformation delivering utilisation increase of five per cent[46]

Aircraft were reallocated from Qantas Domestic to Qantas International in response to shifting demand, facilitating additional services to higher growth markets in Asia. Over the course of the financial year Qantas International added services to Japan, China, Singapore and Bali, consistent with its strategic objective of aligning with the region's passenger growth.

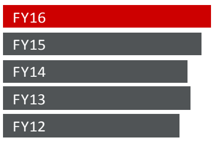
Qantas International continued to broaden its network and strengthen offshore distribution with new alliance partnerships announced with American Airlines and China Eastern[47]. The early integration of each alliance tracked according to plan, with synergies to begin being realised in 2016/17.

Record customer advocacy[48] results at the segment were the result of continued investment in product and service with all 10 International A330-300 cabin reconfigurations completed.

JETSTAR GROUP

Revenue

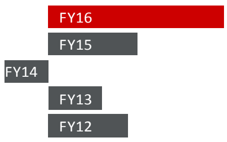
3,636 $M



FY16	**3,636**
FY15	3,464
FY14	3,222
FY13	3,288
FY12	3,076

Underlying EBIT

452 $M



FY16	**452**
FY15	230
FY14	(116)
FY13	138
FY12	203

METRICS		June 2016	June 2015	Change
Operating margin	%	12.4	6.6	5.8pts
ASKs	M	48,832	46,386	5.3%
Seat factor	%	81.5	79.9	1.6pts

Jetstar Group reported a record Underlying EBIT of $452 million, almost double the segment's prior record result in 2014/15. The result saw a strong contribution from across the Jetstar Group's domestic and international businesses, with highlights including:

- Jetstar Domestic result up 62 per cent to $242 million, leveraging brand and network advantage
- Strong Jetstar International profit with B787-8 efficiencies and growth in core Asia-Pacific markets
- Operating margin[49] improvement, up 5.8 pts to 12.4 per cent
- Controllable unit cost[50] reduction of three per cent
- Successful launch of New Zealand regional operations

A stand out of the Jetstar Group result was the performance of Jetstar Airlines in Asia[51] which delivered an $85 million improvement in profitability compared to 2014/15. Jetstar Japan reported its maiden full year profit with international expansions and realising scale benefits. Jetstar Asia in Singapore had a strong result with the launch of four new destinations (including charters into China) and total unit cost reduction, notwithstanding a challenging competitive market. Jetstar Pacific in Vietnam's earnings were lower in a highly competitive low fares market in the country, but continues to represent an attractive growth option for the Group in South East Asia.

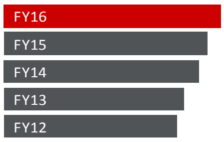
Jetstar's focus on driving customer advocacy and ancillary revenue growth continued with investment in innovative service training and digital sales. A re-design of jetstar.com, including data-driven ancillary product offering, has enhanced the customer experience.

45 Ex-fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in: employee provision discount rates and other assumptions, foreign exchange rates, and block codeshare flying agreements per ASK.
46 Calculated as average block hours per aircraft per day. Compared to 2014/15.
47 American Airlines partnership is subject to regulatory approval.
48 Average 2015/16 Net Promoter Score, based on internal Qantas reporting.
49 Operating margin calculated as Underlying EBIT divided by total segment revenue.
50 Controllable unit cost excludes Jetstar New Zealand Regionals which commenced in December 2015, and is calculated as Underlying expenses less fuel, adjusted for changes in foreign exchange rates, share of net profit/(loss) of investments accounted for under the equity method, charter revenue and changes in sector length per ASK.
51 Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific.

QANTAS LOYALTY

Revenue

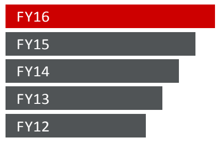
1,454 $M



FY16	**1,454**
FY15	1,362
FY14	1,306
FY13	1,205
FY12	1,157

Underlying EBIT

346 $M



FY16	**346**
FY15	315
FY14	286
FY13	260
FY12	231

METRICS		June 2016	June 2015	Change
Operating margin	%	23.8	23.1	0.7pts
Deferred revenue growth	M	56	108	(48)%
QFF members	M	11.4	10.8	5.4%

Qantas Loyalty reported a record Underlying EBIT of $346 million, the eighth consecutive year of double-digit earnings growth[52]. Diversifying the Group's non-cyclical earnings at Qantas Loyalty remains a key pillar of the Group's long-term strategy. Highlights in 2015/16 included:

- Revenue up 6.7 per cent; strong margins maintained
- 3.8 per cent growth in Qantas Frequent Flyer co-branded credit cards, outpacing industry[53]
- Continued growth of core Qantas Frequent Flyer coalition
- 44 per cent of revenue growth coming from Loyalty businesses other than Qantas Frequent Flyer
- Record customer advocacy after program enhancements

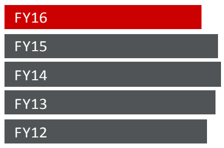
The Qantas Frequent Flyer and Aquire programs continued to attract new partners or extensions with existing ones. Significantly for Qantas Frequent Flyer, a new Woolworths proposition was announced that includes better member earn rates than under previous proposition. Core to the Loyalty strategy is diversification into new businesses that leverage the assets of the 11.4 million member base, in-house marketing expertise and digital capability. New ventures announced in the year were:

- Qantas Assure health insurance on target to deliver 2-3 per cent market share with a differentiated offering
- Investment in Data Republic – Australia's first secure public data exchange platform

QANTAS FREIGHT

Revenue

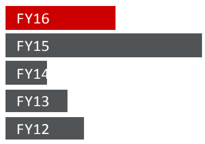
982 $M



FY16	**982**
FY15	1,067
FY14	1,084
FY13	1,056
FY12	1,013

Underlying EBIT

64 $M



FY16	**64**
FY15	114
FY14	24
FY13	36
FY12	45

METRICS		June 2016	June 2015	Change
Operating margin	%	6.5	10.7	(4.2)pts
International capacity[54]	B	3.3	3.2	4.7%
International load[55]	%	53.4	57.0	(3.6)pts

52 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.
53 Based on number of personal credit card accounts with interest free periods; growth comparison for 12 months to June 2016; RBA credit and card charges statistics.
54 International capacity measured as international available freight tonne kilometres.
55 International load is measured as international revenue freight tonne kilometres divided by International available freight tonne kilometres.

Qantas Freight reported an Underlying EBIT of $64 million, a $50 million decrease from the prior year in line with guidance provided at the Group's full year 2014/15 results. The performance reflected challenging global cargo markets, and more in keeping with historical performance. Key drivers of the result included:

- Revenue performance reflecting flat demand against a six per cent global capacity increase
- Conclusion of favourable Australian air Express legacy agreements in 2014/15
- Continued cost reduction through Qantas Transformation

Qantas Freight retains a leading position in the Australian cargo market with Australia Post and Toll Group, Australia's largest air freight customers, under contract. With yields likely remaining under pressure, the segment is focused on delivering on strategic objectives to ensure sustainable performance in the future:

- Integrated ground to air operations
- Continued cost reduction through Qantas Transformation
- Developing growth opportunities into China through tactical freight deployment to Zhengzhou and Chongqing
- Agile scheduling to adapt to changing markets – for example new freighter stop-off into Dallas

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax of $1,424 million for the year ended 30 June 2016 is $635 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. 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.

	2016 $M				2015 $M			
	Statutory	Ineffectiveness relating to other reporting periods	Other items not included in Underlying PBT	Underlying	Statutory	Ineffectiveness relating to other reporting periods	Other items not included in Underlying PBT	Underlying
Net passenger revenue	13,961	–	–	13,961	13,604	–	–	13,604
Net freight revenue	850	–	–	850	936	–	–	936
Other	1,389	–	–	1,389	1,276	–	–	1,276
Revenue and other income	**16,200**	**–**	**–**	**16,200**	**15,816**	**–**	**–**	**15,816**
Manpower and staff related	3,849	–	(22)	3,827	3,604	–	(13)	3,591
Fuel	3,250	(15)	–	3,235	3,937	(38)	–	3,899
Aircraft operating variable	3,362	–	(5)	3,357	3,206	–	(3)	3,203
Depreciation and amortisation	1,224	–	–	1,224	1,096	–	–	1,096
Non-cancellable aircraft operating lease rentals	461	–	–	461	495	–	–	495
Share of net (profit)/loss of investments accounted for under the equity method	–	–	–	–	40	–	(11)	29
Other	2,411	–	(66)	2,345	2,390	–	(120)	2,270
Expenses	**14,557**	**(15)**	**(93)**	**14,449**	**14,768**	**(38)**	**(147)**	**14,583**
Earnings Before Interest & Tax	**1,643**	**15**	**93**	**1,751**	**1,048**	**38**	**147**	**1,233**
Net finance costs	(219)	–	–	(219)	(259)	1	–	(258)
PBT	**1,424**	**15**	**93**	**1,532**	**789**	**39**	**147**	**975**

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 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, impairments of assets and other transactions outside the ordinary course of business. Other items not included in Underlying PBT of $93 million includes transformation costs relating to the Qantas Transformation Program of $183 million, the wage freeze employee bonus of $91 million relating to the Enterprise Bargaining Agreements (EBAs) announced on 3 July 2015 and other costs of $20 million offset by the net gain on disposal of property, plant and equipment of $201 million relating to the disposal of Sydney Airport Terminal Three and related assets to Sydney Airport Corporation Limited announced on 18 August 2015.

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 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 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.
- 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[56] billion with 87 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2016/17 is $3.1[57] billion)[58]. Complementing the hedging program, increased focus on forecasting and operational agility of our aviation operations supports the Group 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 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 30 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[59] work to reduce the likelihood of outages, ensure early detection and the mitigation of 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.

56 The worst case total fuel cost is based on a two standard deviation correlated move in the Brent forward market prices to US$56/bbl with the AUD/USD rate at 0.78 for the remainder of 2016/17.
57 The current forward market price total fuel cost is based on a Brent forward market price of A$67/bbl for the remainder of 2016/17.
58 As at 23 August 2016.
59 An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on www.qantas.com.au.