QANTAS ANNOUNCES PROFIT RESULT – HALF-YEAR ENDED 31 DECEMBER 2009

TWO BRAND STRATEGY DELIVERS RESILIENCE AND CONTAINS COSTS

HIGHLIGHTS

- Statutory Net Profit Before Tax of $90 million
- Underlying Profit Before Tax (PBT)[1] of $267 million
- Revenue of $6.9 billion
- Operating cashflow of $483 million
- Cash balance of $3.5 billion
- Statutory earnings per share of 2.6 cents
- No interim dividend

SYDNEY, 18 February 2010: Qantas today announced a statutory profit before tax (PBT) of $90 million for the six months ended 31 December 2009.

The statutory result was in line with guidance, provided in December 2009, of between $50 and $150 million.

Underlying PBT, which is the key measure used by management to assess the performance of the Group, was $267 million for the six months.

Qantas Chief Executive Officer, Mr Alan Joyce, said that, while the global aviation industry remained in loss, the Qantas Group had been profitable.

"According to IATA, the world's airlines will record net losses of US$5.6 billion in 2010," Mr Joyce said.

"While the operating environment has been unprecedented and challenging, this result reflects the strength and diversity of our operations.

"In this context, coupled with significant capital expenditure programme associated with fleet renewal, the Board considers it prudent not to pay an interim dividend, and future dividends will be assessed against ongoing earnings performance and capital requirements.

"The global economic crisis, and its impact on demand, revenues and yields, required airlines to take decisive action.

"Qantas' response was quick but carefully considered, and the tough decisions made last year, particularly in terms of capacity management and cost initiatives, have yielded results.

[1] Underlying PBT is a non-statutory measure defined as profit before tax, excluding gains and losses on derivatives that hedge exposures in other financial periods and non-recurring items.

“Our two-brand strategy, focused on growing the full service, premium Qantas and low fares Jetstar, is not only delivering benefits to our customers, but also to our shareholders.

“Qantas, in particular, has benefited from the capacity reductions and restructuring activities implemented since April 2009, with substantial cost savings achieved during the current half-year.

“Jetstar continues to provide the Group with true diversity, and our broader portfolio of assets with a unique strength and range of revenue growth opportunities.

“Qantas Frequent Flyer has delivered a strong result and continues to benefit from its alliance with the Woolworths Group and other programme enhancements implemented last year.

“Qantas Freight and the Jetset Travelworld Group are also well placed to take advantage of signs of economic and demand recovery.”

Mr Joyce said the result, and Qantas’ future financial and operational performance, was also underpinned by the three-year Q Future cost reduction programme, announced in August 2009.

“Q Future is already delivering significant benefits and efficiencies to Qantas and the broader Group,” he said.

“We are well-placed to deliver the 2009/10 target of $500 million in benefits, with more than $200 million in sustainable savings and efficiencies achieved to date.“

Key drivers of the result, compared to the comparative (1H08/09) half-year, were:

- weaker domestic and international demand and lower fuel surcharges over the last 12 months, that led to a 14.9 per cent decline in yield;
- lower capacity partially offset by an increase in seat factor (load) of 2.7 points;
- average fuel prices 38 per cent lower in the half-year, compared to the prior year, contributing to a net $486 million decline in fuel costs; and
- activity cost savings and benefits from prior year restructuring contributed to an 11.0 per cent decrease in operating expenses (excluding fuel).

Non-recurring items included in the half-year result were aircraft write-downs of $48 million related to changes in the recoverable value of a number of wide-body aircraft held for sale following capacity reductions announced last year.

Underlying PBT and Statutory PBT

Mr Joyce said the Qantas Group’s future internal and external reporting would provide an additional measure of focus on Underlying PBT.

“Current accounting rules result in certain material movements of hedge derivatives being recognised in periods that differ from the underlying exposures,” he said.

“This results in significant earnings volatility and does not reflect the underlying economic outcomes of the Group’s hedging strategy.

“Qantas uses Underlying PBT to assess the performance of the Group and its segments by matching all hedge derivative gains and losses in the same reporting period as the underlying exposures being hedged. In addition, Qantas removes the impact of non-recurring items to assess the underlying quality of returns.

"In the future, we will now provide any future guidance to Underlying PBT as it reflects the operational performance of the business that can be more accurately forecast."

Fleet, Product, Service and Technology

Mr Joyce said the Group remained committed to investment in new fleet, customer service, new and enhanced products, infrastructure, leading edge technology and training.

"Even over the last 12 months, the Qantas Group continued to invest, or planned for investment where it was needed," Mr Joyce said.

"While we took well-timed and prudent action to review and change aircraft orders and deliveries, we remained committed to a long term fleet renewal, backed by one of the world's largest aircraft order books, with more than 160 new aircraft to be delivered over the next 10 years.

"This will result in new aircraft such as the B787 and more A380s, giving the Group access to operational cost savings, growth and new market opportunities."

During the half-year, the Group took delivery of 13 new aircraft – 2 A380s, 1 A330, 3 B737-800s, 2 A320s and 5 Q400s.

"In November, Qantas announced *Airport of the Future,* which will re-engineer the airport experience," Mr Joyce said.

"Trials will commence in Perth later this year, before roll-out across Australia into 2011.

"Jetstar has already invested in streamlining the check-in process for its customers as it moves toward a target of 100 per cent customer self service.

"We have also undertaken an exhaustive review of where we believe international demand is heading, and how Qantas' B747 and A380 fleets should be best configured to meet that demand." (See separate media release)

The Group is also changing its estimated fleet residual values based on the introduction of 'next generation' aircraft and a reduction in secondary market demand increasing pressure on residual aircraft values.

From 1 January 2010, all passenger aircraft will be depreciated to a residual value of 10 per cent at 20 years, compared to the previous policy of 12.5 or 20 per cent at 20 years, depending on aircraft type.

Qantas

Mr Joyce said Qantas performed well compared to international competitors, given the operating environment, with a continued focus on capacity management and margin improvement delivering benefits.

"The global downturn significantly affected international premium traffic in particular and therefore revenues, although domestic leisure demand remained strong," he said.

"While international yields are improving, they are expected to continue to lag behind the recovery of the domestic market in the short to medium term. This is driven by current economic performance in international markets, the softer demand for premium travel, continuing competitive pressures and the cyclical nature of the international business.

“Qantas will be restoring domestic capacity, adding an additional 340,000 seats over the next 12 months.

“Qantas’ customer satisfaction ratings remain at record levels, and the airline was the domestic leader for on-time performance, in 2009.

“Customer feedback on the Qantas A380’s market leading inflight product is overwhelmingly positive.

“This is now being extended to even more customers with the planned reconfiguration of the B747-400 and new B737-800s launched on Tasman services, which will also include in-seat and on-demand entertainment.

“Qantas’ A330-200s with the same on-demand Panasonic system are being launched on domestic trans-continental flights.

“QantasLink again performed strongly, added capacity with new 74-seat Q400 aircraft, and was also the regional airline market leader in punctuality.”

Jetstar

Mr Joyce said Jetstar had a record half-year, delivering improved profitability while increasing capacity by 32.9 per cent across its network.

“Jetstar has continued to develop as a highly successful pan-Asian brand and innovative low fares leader,” he said.

“It is very firmly ensconced as Australia’s leading low fares airline and continues to grow with two new domestic routes launched during the half - Sydney-Perth, Melbourne-Sydney - and on commercial sale for future Melbourne-Brisbane services.

“Jetstar also successfully took over the Group’s New Zealand domestic routes delivering improved economic returns for the Group’s operations in that market.

“Its international growth will be supported by additional A330 capacity ahead of the arrival of the B787, and the recently announced world first low cost carrier alliance with AirAsia establishes a new model for achieving a lower cost base and increased efficiencies.

“We remain committed to Jetstar’s expansion in Asia, including in Vietnam, where we continue to work with local authorities to resolve the situation with our two employees attached to Jetstar Pacific, a business that continues to have strong growth prospects.”

Qantas Frequent Flyer

Mr Joyce said Qantas Frequent Flyer continued to build on programme enhancements and alliances to again deliver exceptional returns to the Group.

“Our loyalty business is very clearly aligned with our airlines, but in a challenging environment where airline revenues have been adversely affected, the value of Qantas Frequent Flyer cannot be underestimated,” he said.

“More than one million new members have joined since 1 July 2009, meaning more than 6.8 million people are now part of Australia’s leading loyalty programme,” he said.

"Around two million of these can be directly linked to the partnership with the Woolworths Group and its Everyday Rewards programme.

"Frequent Flyer customer satisfaction is at record highs as people are better able to realise the value of their points and of their loyalty – to the Qantas Group and to the hundreds of partners aligned with the programme."

Q Future

Mr Joyce said the Q Future transformation programme continued to target $1.5 billion in permanent, sustainable benefits over three years.

"We are on target to deliver the required $500 million in 2009/10 by identifying significant improvements in our operations," Mr Joyce said.

"In the first-half, a $202 million benefit was achieved across a range of areas including aircraft configurations, sales and distribution changes, schedule optimisation, ancillary revenue initiatives, procurement and IT efficiencies."

Qantas Group Plans

Mr Joyce said the Group's two brand strategy, supported by a portfolio of other assets, remained the central plank of its growth plans and of its success.

"Our two complementary airline brands allow us to meet the needs of different market segments," he said.

"Qantas and Jetstar continue to give us an optimal 65 per cent Australian domestic market share, and the best opportunities to develop an expansive and profitable international network.

"The Group's portfolio businesses and investments will continue to give us flexibility and revenue opportunities."

Dividend and Outlook

Remaining uncertainty in the economic outlook, particularly in international markets, industry capacity, passenger and freight demand and high levels of volatility in fuel prices and exchange rates continue. At current prices, fuel costs are expected to be approximately $200 million higher in the second half compared to the first half. In addition, depreciation costs will be approximately $50 million higher in the second half due to a reassessment of aircraft residual values.

Subject to no further significant change in market conditions and fuel prices, Qantas expects Underlying PBT for the full year ending 30 June 2010 to be in the range of $300 - $400 million.

In this context, coupled with significant capital expenditure programme associated with fleet renewal, the Board considers it prudent not to pay an interim dividend, and future dividends will be assessed against ongoing earnings performance and capital requirements.

Financial commentary is contained in the attached appendix.

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APPENDIX

FINANCIAL COMMENTARY

Summary

The Group recorded a Statutory PBT of $90 million for the six months to 31 December 2009. This compares to $288 million in the comparative half-year (1H08/09). The Group achieved an underlying PBT of $267 million for the six months ended 31 December 2009 (excluding gains and losses on derivatives not relating to this half, and non-recurring aircraft impairments).

The current half year experienced the full impact of the economic downturn in the first quarter, with signs of recovery becoming evident by the end of the second quarter. Fuel prices and foreign exchange rates were relatively stable during the current half, as the Group focussed on delivering the benefits of the restructuring programmes commenced in June 2009.

By comparison, the comparative half-year (1H08/09) reflected buoyant economic conditions offset by extremely high fuel prices. The global financial crisis started to affect revenue by the end of the second quarter of 2008/09. Importantly, the prior half-year experienced significant instability in financial markets, which led to jet fuel prices ranging from US$167 to US$59 per barrel, and AUD/ USD foreign exchange rates ranging from 0.97 to 0.64.

The Group benefited from the tough decisions made towards the end of the 2009 financial year, including capacity reductions and other restructuring activities.

Cost savings driven by lower activity, as well as benefits from the Q Future programmes, have contributed to a more than 11 per cent reduction in operating expenses (excluding fuel) on a net decline in capacity of 2.2 per cent compared to the comparative half-year (1H08/09).

All operating segments performed well. Although Qantas and Qantas Freight recorded Underlying EBIT below the comparative half-year, the results in this half reflected a significant turnaround from the second half of 2008/09, when both segments recorded underlying losses.

Jetstar successfully leveraged an increase in capacity to almost triple its comparative year Underlying EBIT result of $43 million.

The Qantas Frequent Flyer result includes the current half-year impact of the change in accounting estimate implemented on 1 January 2009, which has contributed an additional $78 million. Excluding this impact, the current half-year result is 8 per cent higher than the previous half-year, which was a pleasing achievement in the context of reduced airline capacity.

The current year Statutory PBT result included impairment losses of $48 million related to changes in estimates of the recoverable value of eight aircraft held for sale.

The prior year statutory PBT included:

- a gain of $86 million on the reverse acquisition of Jetset Travelworld Group by Qantas Holidays;
- accelerated depreciation and other costs of $28 million related to the retirement of B747-300 aircraft; and
- restructuring and redundancy costs of $62 million associated with the first round of restructuring and capacity reductions in 2008/09.

Group Revenue

Group net passenger revenue declined $832 million, or 13 per cent, in the half year compared to the comparative period (1H08/09), as the full effect of the global financial crisis reduced demand. Weak demand was promptly addressed by reducing capacity. Higher load factors helped to reduce the impact on revenue of the 2.2 per cent capacity decline.

While domestic revenues have recovered, international revenues continue to be severely impacted, with significant discounting required to stimulate demand. Substantial reductions in fuel surcharges year-on-year also contributed to the decline in passenger revenue.

Net freight revenue declined by $96 million, or 19 per cent, compared to the comparative period (1H08/09), primarily due to a significant decline in yield as a result of the global financial crisis. increased load factors mitigated the full effects of capacity reductions on revenue. Load factor increased by 4.7 per cent on a capacity decrease of 6 per cent.

Other revenue declined by over 19 per cent compared to the comparative year. Excluding the comparative year impact of foreign exchange gains and the prior year one-off gain of $86 million on the sale of Qantas Holidays, other revenue increased marginally. Benefits from the change in Qantas Frequent Flyer accounting was largely offset by lower tours and travel revenue and lease revenue due to the impact of economic conditions, while third party contract work revenue declined due to the loss of ground handling and catering contracts.

Expenditure

Operating expenses declined by 14.8 per cent compared to the comparative half year (1H08/09), with reduced fuel costs contributing to most of this reduction.

Fuel costs were $486 million lower in the six months to 31 December 2009, compared to the prior year.

Manpower costs declined by 11 per cent compared to the prior year, due to activity savings and Q Future benefits during the period. Salary and wage increases were kept to less than 3 per cent overall.

Aircraft operating costs were down 10 per cent on the prior year, with the majority of the decrease due to lower engineering costs. Reduced capacity, aircraft retirement and reduced flying utilisation contributed to lower engine maintenance costs and heavy maintenance checks. Q Future benefits contributed a further $29 million to reduce costs.

Other operating expenses, excluding depreciation and rentals, declined almost 13 per cent compared to the prior year. Lower sales and marketing expenses contributed over $100 million to this decline, reflecting lower commissions paid due to reduced capacity and pricing, as well as reduced advertising spend in the current year.

Depreciation and rentals were 5 per cent lower than the prior year. Depreciation savings from grounded and retired aircraft more than offset depreciation and rental costs on new aircraft including the A380 fleet. The prior year included accelerated depreciation charges on the remaining B747-300s which were retired last year.

Net finance costs in the current year reflected interest expenses on higher average gross debt balances, while interest income was affected by lower interest rates earned on cash balances.

Qantas

Qantas generated an Underlying EBIT of $60 million for the current half-year, $38 million below the comparative half-year result of $98 million. Passenger revenue (excluding foreign exchange) declined by $1,044 million due to significant declines in yield as well as the impact of lower capacity.

The decline in passenger revenue was largely offset by lower fuel costs, primarily due to lower average fuel prices and activity based savings, as well as non-fuel cost savings driven by reduced activity (Available Seat Kilometre reduction of 9.6 per cent) and Q Future benefits of $202 million.

Jetstar

Jetstar generated an underlying EBIT performance of $121 million, rising 181 per cent or $78 million from a comparative $43 million for the comparative half year. The record performance represented a continuation of Jetstar's Australian operations being profitable for every reporting period since its May 2004 start-up.

The results represent continued strong cost management. Jetstar's overall Gross Cost per Available Seat Kilometre (ASK) was reduced by 16.5 per cent, whilst its Controllable Unit cost per ASK (excluding fuel and foreign exchange) reduced by 6.1 per cent.

In a tough operating environment including the impact of H1N1 and greater competition in South East Asia and New Zealand, Jetstar yield reduced by 10.9 per cent. The financial period represented one of significant growth for Jetstar. Total Revenues increased 18.1 per cent to $1,131 million on the back of a 33 per cent rise in operating capacity.

Passengers carried by Jetstar increased 43 per cent to 7.3 million (up from 5.1 million in H109).

The Jetstar fleet grew by three aircraft, to 59 aircraft in the six months to 31 December 2009.

Qantas Frequent Flyer

Qantas Frequent Flyer underlying EBIT of $157 million was $84 million higher than the comparative half year (1H08/09). This result includes the current half year impact of the change in accounting estimate implemented on 1 January 2009, which has contributed an additional $78 million to the first half result.

Capacity reductions by Qantas affected Classic Award take-up, although Any Seat and Frequent Flyer Store Award redemptions improved following the success of the first store catalogue and Woolworths membership campaigns and promotions.

The Frequent Flyer Store reached 1.3 billion redeemed points in December 2009, breaking the previous monthly record.

Qantas Freight

Qantas Freight's Underlying EBIT of $17 million was $32 million below the comparative half year (1H08/09), of which $16 million was due to the strengthening Australian dollar. The remainder reflected the downturn in the airfreight market that began in November 2008. These conditions continued through the current half-year.

The economic downturn adversely affected volumes and yields, although volumes improved in December, primarily from increased consumer confidence in the US and the consequential restocking by retailers.

Yields for the half-year were 23 per cent below the comparative half year (1H08/09), of which roughly 25 per cent was attributable to adverse foreign exchange.

Jetset Travelworld Group

Underlying EBIT for this half-year was $5 million. The business was significantly affected by a decline in volumes as a result of the continuing effects of the economic downturn. Cost saving initiatives partly mitigated these effects.

Cash Flow and Balance Sheet

Operating cash flows improved $105 million to $483 million in the half-year. Income tax refunds of $90 million were received in the current half, compared to income tax payments of $218 million made in the comparative half year (1H08/09).

Significant declines in working capital, most notably $187 million in revenue received in advance, reduced operating cash flow. This was largely the result of a 12.7 per cent reduction in Qantas international capacity.

Cash outflows from investing activities were $1,009 million. During the period, Qantas purchased $764 million of new aircraft and incurred $163 million for capitalised heavy maintenance checks and aircraft spare parts.

Cash inflows from financing activities of $407 million were lower than the comparative half year (1H08/09), comprised more than $600 million from secured aircraft funding offset by $213 million in scheduled debt repayments.

Qantas had approximately $3.5 billion in cash held at the end of December 2009. Subject to Standard ECA approvals, Qantas has mandated financings in place for over 90 per cent of aircraft funding requirements out to June 2011.

Gearing, including off-balance sheet debt, increased to 51:49 because of the increase in book net debt offset by currency benefits in capitalised operating leases.