Media Release

QANTAS ANNOUNCES PROFIT RESULT – YEAR ENDED 30 JUNE 2009

HIGHLIGHTS

- Profit before tax of $181 million, in a year when the International Air Transport Association forecast US$9 billion in losses for global aviation
- Net profit after tax of $123 million
- Revenue of $14.6 billion
- Group liquidity increased by $1.0 billion, with cash balance of $3.6 billion
- Operating cashflow of $1.1 billion
- Earnings per share of 5.6 cents
- $1.1 billion of funding facilities for future aircraft deliveries
- Qantas return to market leading on-time domestic performance

SYDNEY, 19 August 2009: Qantas today announced a profit before tax of $181 million for the full-year ended 30 June 2009, down 87 per cent on the prior year.

Qantas Chief Executive Officer, Mr Alan Joyce, said the diversity of the Qantas Group's operations had contributed to it being one of the few airline operators worldwide to produce a full-year profit, despite the impact of the global economic downturn.

"There has never been a more volatile and challenging time for the world's aviation industry. When most airlines are reporting losses, the Qantas Group is reporting a profit for the full-year," Mr Joyce said.

"Through unprecedented and significant shifts in operating conditions and demand, we have remained financially strong.

"This has been due to our strategy built around two strong flying brands in Qantas and Jetstar, a portfolio of airline-related businesses, and an ongoing focus on managing costs and driving efficiencies."

Mr Joyce said the 2008/09 financial year was one of two contrasting halves for the Qantas Group.

"The first half of the year was characterised by a generally favourable operating environment and strong demand," he said.

“During the second half, the environment deteriorated, with domestic and international competitor capacity continuing to grow and demand in key markets softening quickly as the global slowdown hit.

“This was compounded by one-off events during the year, including protracted industrial action, H1N1 influenza and the costs associated with introducing the new Qantas A380.

“The Qantas Group moved quickly and decisively to address these unprecedented circumstances by reducing capacity, adjusting capital expenditure and further reducing fixed and semi-variable costs.

“At the same time, we continued to stimulate the market via pricing initiatives and maintained a strong focus on customer service, safety and environmental performance.”

Key drivers of the result were:

- weaker domestic and international demand, which led to a 4.3 per cent yield decline and a 1.1 per cent decrease in seat factor (load) to 79.6 per cent for the Group; and
- capacity cuts of 1.9 per cent across the Group, which led to the removal of some variable operating costs as well as reduced revenue. Jetstar, however, increased capacity during the year through network growth.

The Group also experienced one-off events during the year which affected the result, including:

- industrial action by the Australian Licenced Aircraft Engineers Association, with a resulting maintenance backlog, which cost an estimated $130 million in additional expenses and lost revenue;
- the impact on profitability of the H1N1 Influenza 09 virus, estimated at $45 million; and
- costs associated with the introduction of the new Qantas A380, estimated at $37 million.

Non-operating items included in the year’s result were:

- aircraft write-downs and provisions of $152 million, which included plans to ground a number of wide-body aircraft;
- restructuring and redundancy expenses of $106 million as a result of capacity cuts and organisational restructuring;
- write-downs of investments and goodwill of $18 million;
- changes in Frequent Flyer accounting estimates of $164 million, of which $84 million related to the non-recurring benefit of the direct earn points conversion strategy; and
- an $86 million profit on the reverse acquisition of Jetset Travelworld Group by Qantas Holidays.

Fleet, Product and Service

Mr Joyce said the Qantas Group remained committed to investment in customer service, product enhancements, infrastructure, technology and training.

“The negotiation of changes to aircraft purchases, as part of our response to the downturn, has helped preserve cash and will ensure ongoing investment in these core areas,” he said.

“We also remain focused on a long term fleet renewal program and still have one of the largest order books for new and fuel efficient aircraft in the world. For example, we have more than 160 new aircraft on order over the next 10 years that will deliver operational cost savings and allow our airlines to grow and enter new markets.

“Having adjusted our orders earlier this year, we remain committed to the Boeing 787 program and continue to monitor developments closely.”

The Qantas Group will now take four to five A330-200 aircraft, for delivery from November 2010 and to provide for growth of Jetstar's long haul international operation (see separate media release).

Qantas
Mr Joyce said Qantas had held up well given the changing economic situation.

"Qantas experienced a challenging second half as a result of the global downturn, with demand and yields, particularly in international premium cabins, adversely affected," he said.

"The successful launch of Buenos Aires services in November 2008 built on an international network that now covers six continents and spans the globe.

"The airline remains at the centre of the Group's operations and will continue to invest in key market segments and growth opportunities, and benefit from the integrated operations structure we have introduced.

"Qantas' network, schedule, product, service and on-time performance have meant it remains the best airline for business travellers. We have identified untapped potential for the airline in servicing small to medium sized enterprises, and are introducing new initiatives to build our market share.

"A clear highlight during the year was the introduction of the Group's new flagship, the Qantas A380. Three aircraft are already in service, with a further three to commence operations by the end of the year.

"The launch of the new Centre of Service Excellence, and a range of customer product and service enhancements, along with a return to market leading on-time domestic performance, are delivering very strong customer satisfaction levels."

Jetstar
Mr Joyce said Jetstar had a record year in a deteriorating market environment, delivering improved profitability while increasing capacity by 14.4 per cent.

"In May 2009, Jetstar became the second largest carrier of passengers, to and from Australia, after Qantas," he said.

"Jetstar also became the largest airline between Japan and Australia and provided a profit turnaround for the Group in this important market, despite H1N1 influenza. New Zealand domestic operations were also launched by Jetstar in June this year which, in the first month of operations, returned a profit.

"Investment in Jetstar over the next 12 months, and beyond, will be significant, with an additional seven A320 aircraft to be added to the Singapore, Australia and New Zealand flying businesses, as well as four to five additional A330-200 aircraft."

Mr Joyce said the Qantas Group had increased ownership of Jetstar Asia and was looking for opportunities to build a platform for future growth for the Jetstar brand in Asia, the world's largest potential aviation market.

"Jetstar Asia has made a decision to grow its capacity by 46 per cent for Singapore services over the next 12 months," he said.

Qantas Group Plans

Mr Joyce said the two brand strategy, with Qantas and Jetstar, was all about building on a profit-maximising 65 per cent Australian domestic market share and developing an expansive international network.

“As an extension of this strategy, Jetstar will launch five A320 services a day between Sydney and Melbourne Tullamarine on 25 October, to enhance profitability and Group market position, ensuring we are meeting the needs of different market segments,” he said.

“Our two brand strategy has been most successful when we have created an optimal balance of Qantas and Jetstar services in a particular market, and the two airlines already operate jointly on a number of key domestic routes.”

Qantas will continue to operate 32 daily flights between Sydney and Melbourne. Jetstar will also continue to fly out of Avalon, with four daily flights to Sydney (down from seven) and multiple flights to Brisbane.

Mr Joyce said several new services would also be launched by Jetstar Asia over the next week, including the first Chinese mainland route.

“With this approach we will build on Qantas Group market share, and our leading corporate market position, and capitalise on the continuing appetite for leisure travel, both within Australia and across Asia,” he said.

Qantas Frequent Flyer

Mr Joyce said Qantas Frequent Flyer achieved standout returns during the year, which helped offset the demand and revenue declines experienced by Qantas.

“With the successful launch of its new alliance with Woolworths, Qantas Frequent Flyer has now passed six million members and more than 400 partners and, particularly in an environment where airline revenues have been affected, the value of the loyalty business, which is intimately aligned with the flying businesses, cannot be underestimated,” he said.

“The Qantas Frequent Flyer direct earn strategy, which allows customers to earn Frequent Flyer points by purchasing with an affiliated credit card, delivered strong revenue for the Group, despite softening consumer spending.

“Given the strategic value of Qantas Frequent Flyer to the Group, we will be retaining full ownership for the foreseeable future.”

Q Future

Mr Joyce said a new cost reduction program, known as Q Future, would target $1.5 billion in permanent savings over three years, starting from this year, including $500 million in 2009/10.

“Q Future will focus on Qantas’ operations and improving efficiencies across a range of areas, including sales and distribution, fuel conservation, aircraft utilisation and schedule, and procurement,” he said.

“We are also keeping a close watch on oil and fuel prices. While well below the record levels seen in 2008, they remain volatile and are trending upwards. For 2010, the Qantas Group has hedged 80 per cent of fuel costs at a worst case price of US$89 per barrel.”

Q Future builds on the success of the Sustainable Future Program which delivered over $550 million in savings for the year.

Dividend

With the interim dividend of 6 cents per share, the Qantas Group has paid out 100 per cent of profit after tax. Under the present circumstances, the Board considers it prudent not to pay a final dividend, and future dividends will be assessed against ongoing earnings performance and capital requirements.

Outlook

There are signs of an improvement in passenger volumes. In addition, yields have stabilised at the levels experienced in the second half of the 2009 financial year. High levels of volatility in the economic outlook, industry capacity, passenger demand, fuel prices and exchange rates continue. Given the high level of uncertainty it is not possible to provide any profit guidance.

Financial commentary is contained in the attached appendix.

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APPENDIX

FINANCIAL COMMENTARY

Summary

The Qantas Group achieved a Profit Before Tax (PBT) of $181 million for the year ended 30 June 2009, reflecting a profit of $288 million in the first half of the year, offset by a loss of $107 million in the second half. The decline, from $1,408 million in the prior year, was reflective of the operating environment over the year.

While the business started to feel the effects of the economic downturn in the first half, the impact was greater in the second half, with rapid falls in demand causing passenger and freight revenue to decline by $1.3 billion.

In response to the downturn in passenger demand, the Group initiated a number of capacity cuts throughout 2009, beyond those commenced in 2008, and developed plans to ground older aircraft, while continuing with cash preservation measures, targeted leave initiatives and further redundancies. Capacity cuts resulted in the removal of some of the Group's variable operating costs. Fixed and semi-fixed costs, however, cannot be removed as quickly, leading to a significant decline in operating margin.

To maintain liquidity and balance sheet strength, the Group raised over $500 million of new equity, arranged $1.1 billion of funding facilities for future aircraft purchases, and successfully negotiated the deferral of US$7.9 billion[1] of capital expenditure with Airbus and Boeing.

Qantas suffered rapid revenue declines, particularly in the international and premium markets. Despite the immediate implementation of cost reduction initiatives, the natural lag of their financial realisation impacted Qantas' profitability.

In contrast, Jetstar was able to profitably grow capacity during the year, as the leisure market proved more resilient in the economic downturn.

The non-flying segment results reflected the difficult operating environment, with the exception of Qantas Frequent Flyer, where significant program enhancements and strategic alliances drove revenue increases.

A number of significant items are included in the Group's result:

- aircraft write-downs and provisions of $152 million, which included plans to ground a number of wide-body aircraft;
- restructuring and redundancy costs of $106 million as a result of capacity cuts and organisational restructuring;
- write-downs of investments and goodwill of $18 million;
- changes in Frequent Flyer accounting estimates of $164 million, of which $84 million relates to the non-recurring benefit of the direct earn points conversion strategy; and
- a gain of $86 million on the reverse acquisition of Jetset Travelworld Group by Qantas Holidays.

[1] Based on list price

Group Revenue

Passenger revenue was significantly affected by the economic downturn by $1,105 million, or 8.7 per cent. A change to the mix of travel classes, as well as discounting of fares to maintain loads in a shrinking market, resulted in Group yield falling from 11.81 cents to 11.30 cents. Group seat factor (load) declined 1.1 points, to 79.6 per cent, further reducing revenue.

Reduced capacity and economic factors also affected freight revenue, which declined from $959 million to $764 million. Strong competition, particularly in Asia, resulted in yield reducing significantly from the prior year, while capacity cuts also contributed to the decline.

Other revenue, including Tours and Travel and Contract Work Revenue, increased $225 million on the prior year, comprising:

- increased Frequent Flyer redemption revenue attributable to the new program enhancements and reward offerings;
- $99 million increase in revenue from Tours and Travel (mainly attributable to the acquisition of Jetset Travelworld Group in July 2008);
- $86 million from the profit on sale of Qantas Holidays in the first half of the year;
- benefits resulting from changes in Frequent Flyer accounting estimates; and
- this was partially offset by income recognised in the prior year for liquidated damages receivable as a result of aircraft not being received by contracted delivery dates.

Expenditure

Manpower costs increased $151 million, or 4.3 per cent, on the prior year, reflecting:

- $122 million of Enterprise Bargaining Agreement related wage rises;
- $78 million from areas of increased activity, such as Jetstar and Qantas Engineering; and
- increased restructuring and redundancy costs.

Offsetting these were productivity improvements of $155 million, including employee reduction in the second half of the year and lower bonus provisions.

Fuel costs decreased by $99 million, or 2.7 per cent, compared to the prior year. Increases in hedged into-plane fuel prices were offset by favourable foreign exchange movements. Additional fuel cost savings were achieved through capacity reductions and fuel conservation measures.

Aircraft operating variable costs increased by $226 million, or 8.7 per cent, due to price increases in landing fees and additional engineering material costs.

Depreciation expenses were $79 million, or 5.4 per cent, lower than the prior year mainly due to depreciation savings on aircraft written down in the prior year and a one-off maintenance accounting charge for QantasLink aircraft in the prior year.

The Group's equity accounted investments contributed a $15 million loss compared to a $28 million profit in the prior year. This was mainly a result of losses from Air Pacific and Jetstar Pacific and reduced profits from Australian air Express and Star Track Express.

Net financing costs increased by $68 million due to increased borrowings and a reduction in capitalised interest as new aircraft were delivered over the year.

Qantas
Qantas contributed an underlying Earnings Before Interest and Tax (EBIT) of $4 million. During the year, capacity was cut by 5 per cent mainly on international routes. Competitor pressure and the economic downturn caused yields to reduce by 4.1 per cent, excluding foreign exchange movements. Pricing strategies assisted in maintaining load factors at 80.1 per cent.

Passenger revenue decreased by $1.3 billion, or 11.7 per cent, particularly across international premium cabins.

Significant one-off items reduced Qantas' result to an EBIT loss of $77 million. Aircraft and investment write-downs and provisions of $167 million were partially offset by an $86 million profit on the reverse acquisition of Jetset Travelworld Group by Qantas Holidays.

Jetstar
Jetstar achieved an underlying EBIT of $107 million, a 4.9 per cent increase on the prior year.

A record PBT result of $137 million[2], an 18 per cent increase on the prior year, included a one-off gain of $19 million on the equity gain on the reversal of a prior year investment impairment of Jetstar Asia and a $15 million equity accounted loss.

Passenger revenue increased by $211 million or 14.6 per cent. This was largely driven by the 14.4 per cent increase in capacity arising from the continued expansion of the airline's international network.

Jetstar's profit was adversely affected by $20 million in the last quarter, as a result of H1N1 influenza. Even though the Japanese market was significantly affected by the outbreak, Jetstar nevertheless made a profit from this market.

Included in the Jetstar results are the consolidated financials for Jetstar Asia/Valuair (from April to June 2009), equity accounted results for Jetstar Pacific and Jetstar's Australian and New Zealand based operations. The change in structure of Jetstar Asia and Valuair aligned them more closely with Jetstar Australia.

Qantas Frequent Flyer
Qantas Frequent Flyer reported an underlying EBIT of $226 million. The result was a $98 million improvement on the prior year and reflected the benefits of program enhancements and the direct earn strategy. The segment recorded a PBT of $384 million[2] after the inclusion of a $147 million revenue benefit from a change in accounting estimates, of which $84 million is non-recurring.

Qantas Freight Enterprises
Qantas Freight Enterprises reported an underlying EBIT of $7 million for the year, $72 million down on the previous year. The result was reflective of the economic climate across the global freight industry and intense competition. EBIT was a loss of $15 million, including a $22 million impairment of goodwill.

Jetstet Travelworld Group
The reverse acquisition of Jetset Travelworld Group by Qantas Holidays was completed in July 2008. The combined Group reported an underlying EBIT of $16 million. The result is not directly comparable to the prior year due to the ownership changes.

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[2] Includes an allocation of interest income based on net working capital balance.

Cash Flow and Balance Sheet

The net cash position at 30 June 2009 was $3,617 million, $1,018 million higher than at 30 June 2008.

Cash flows from operating activities totalled $1,129 million, a decrease of $999 million on the prior year. The decrease was driven by the decline in revenues, particularly in the second half.

Net capital expenditure totalled $1,530 million, an increase of $106 million on the prior year. This included the delivery of three new A380 aircraft, as well as progress payments on new undelivered aircraft, modifications and spares on existing aircraft, and upgrades to lounges and maintenance facilities.

Net cash inflows from financing activities totalled $1,052 million and included $1,468 million in proceeds from new secured financing and $514 million from the equity raising in February 2009.

Shareholders' equity remained stable, as an increase in issued capital resulting from the Dividend Reinvestment Program (DRP) and capital raising was offset by the dividend payments during the year and decreases in the financial instruments hedge reserve.

The book net debt to equity ratio (including operating leases and excluding the hedge reserve) increased from 46:54 at 30 June 2008, to 49:51 at 30 June 2009.

Qantas has taken significant steps in the past 12 months to increase liquidity and strengthen its balance sheet. An additional $1.1 billion of funding facilities is in place for future aircraft deliveries and a $500 million undrawn stand-by facility is also available. This funding, together with record cash balances and changes in the Group's capital expenditure program, place Qantas in a strong position to withstand the current economic conditions and take advantage of the economic recovery.