Media Release

QANTAS

QANTAS ANNOUNCES PROFIT RESULT – HALF-YEAR ENDED 31 DECEMBER 2010

SOLID RECOVERY FROM GFC AND OTHER EVENTS, STRONG GROWTH ACROSS ALL OPERATING SEGMENTS

HIGHLIGHTS

- Underlying Profit Before Tax[1] of $417 million – up 56 per cent on prior corresponding period
- Revenue of $7.6 billion – up 10 per cent on prior corresponding period
- Operating cash flow of $743 million – up 54 per cent on prior corresponding period
- Cash balance of $3.3 billion

SYDNEY, 17 February 2011: Qantas today announced an Underlying Profit Before Tax (Underlying PBT) of $417 million for the half-year ended 31 December 2010.

The Underlying PBT result was materially stronger than for the half-year ended 31 December 2009.

Qantas Chief Executive Officer, Mr Alan Joyce, said the result built on the Qantas Group's FY10 performance and showed it had emerged from the Global Financial Crisis in a solid position.

"The Qantas Group has delivered a strong result and is, again, one of the few airlines to remain consistently profitable and continue to hold an investment grade credit rating," Mr Joyce said.

"With half-year underlying profit up more than 56 per cent year-on-year, all parts of the Group performed well, with Jetstar and Qantas Frequent Flyer delivering record half-year profits and Qantas Airlines' performance significantly improving.

"Qantas and Jetstar are now the two most profitable domestic airlines in Australia, demonstrating the strength of our two brand strategy and capacity to service and grow both the business and leisure sectors.

"The Group's response to events that included the A380 Rolls-Royce engine failure, and subsequent temporary grounding of the Qantas A380 fleet in November, also showed us to be flexible, adaptable and resilient."

Mr Joyce said the Group was well positioned to capitalise on the improving global aviation environment and opportunities in both the premium and leisure sectors.

"Domestic business travel continues to recover and Qantas' yield premium has been restored to pre-financial crisis levels," he said.

"While domestic leisure market conditions continue to be highly competitive, Jetstar remains well placed as the low fare leader.

"While demand on key international routes continues to improve, the international environment remains challenging. We remain committed to improving the performance of Qantas' international business.

[1] Underlying PBT is the primary reporting measure used by management and the Board to assess the financial performance of the Group. Refer appendix for reconciliation to Statutory PBT.

"In Asia, to which Australia's future is clearly tied, the Group is looking for growth opportunities via Jetstar's aggressive pan-Asian growth as well as options for Qantas to capitalise on the growing demand for premium travel in the region.

A380 Rolls-Royce Engine Incident and Fleet Grounding
Mr Joyce said the grounding of the A380 fleet in November was a setback for Qantas.

"Qantas' response to this unprecedented event was swift and appropriate. In very challenging circumstances, and with the commitment and hard work of our people, we managed to maintain 98 per cent of our international operations. While disruptions were minimised, we regret any inconvenience customers may have experienced at the time," Mr Joyce said.

Qantas has estimated the full-year economic impact to the business at $80 million, with $55 million in the first half and $25 million forecast in the second half.

The figure does not include the cost of repair of the damaged aircraft and engines, estimated to be at least $100 million, which are all covered by insurance or by existing contractual arrangements with Rolls-Royce.

Qantas remains in discussions with Rolls-Royce in relation to a commercial settlement to compensate the airline for the economic loss incurred. While discussions continue, no agreement has yet been reached.

Segment Performance
Mr Joyce said all operating segments of the Qantas Group were profitable for the half-year ended 31 December 2010, delivering significant EBIT growth.

"Qantas Airlines produced a strong revenue performance across both its international and domestic operations, with Underlying EBIT of $165 million up 175 per cent on prior year first half," Mr Joyce said.

"Qantas remains the best domestic airline for the business market in terms of frequency, product, service, large wide and narrow body fleets, industry-leading punctuality and an unsurpassed loyalty program.

"Domestic market share was maintained, as was yield premium in the corporate market. The international business remains challenging but with demand expected to strengthen in coming months.

"QantasLink also delivered a strong contribution to the Qantas Airlines result and is set to grow with the addition of a further seven new Q400 aircraft, the first of which has just entered service. The regional airline operation will also oversee the Group's move into the Western Australian fly-in-fly-out resources air charter market through the purchase of Network Aviation.

"Qantas' three-year transformation program, QFuture, continued to deliver sustainable margin improvements alongside an expanded suite of full service customer product and service offerings. The program delivered $173 million in benefits across a range of business areas in the half-year and is on track to achieve the FY11 target of $500 million, and $1.5 billion in benefits over three years."

Mr Joyce said Jetstar delivered another record profit (Underlying EBIT of $143 million, up 18 per cent) and, after Qantas, was Australia's second most profitable domestic airline.

"Jetstar continued to grow and maintain its low fares market leadership position in Australia and Asia – the world's fastest growing aviation market – and grew capacity by 19 per cent across its operations compared to 1H10," he said.

"Jetstar has been profitable every year since its launch in 2004 and, in keeping with this history, continued to expand its international and domestic networks, attracting significant growth in passenger numbers, while still reducing its unit costs.

"Jetstar Asia contributed a record profit (Underlying EBIT of S$17 million) to Jetstar's result. It has embedded the Jetstar brand in Asia across a range of key markets and, as the largest low cost carrier operating from

Singapore, achieved capacity growth of 46 per cent compared to 1H10. The airline also launched A330 services out of Singapore during the half, and is well positioned for future growth.

“Qantas Frequent Flyer (Underlying EBIT of $189 million) once again delivered a record result, this time a 20 per cent improvement on the comparable half-year.

“Program membership continued to grow – now at 7.5 million, up 12 per cent over the last 12 months. It also added new partners, including Caltex, as part of the Woolworths Group alliance, and OnePath life insurance, and launched multiple market leading credit card products.”

The result of Qantas Freight (Underlying EBIT of $41 million, up 141 per cent), confirmed the strong recovery of the international air freight market.

Investment in Fleet and Customer Initiatives
Mr Joyce said the Group remained committed to cost effective investment in customer product, service, innovation and fleet.

“Investment – $1 billion in the half-year – in our customer offering and the best, modern, next generation fuel efficient fleet remain integral to our strategy of making Qantas the best premium airline, and maintaining Jetstar’s position as the low fare leader in Australia and across Asia,” he said.

“Qantas’ international transformation continued, with the arrival of more A380s and the commencement later this year of the fleet reconfiguration will bring the B747 product to the ultra-premium A380 standard and better match travel class options to demand.

“The B787 also remains central to the Group’s international strategy and our multi-billion dollar fleet and growth plan, and the first aircraft is now expected at the end of 2012.

“Another key development has been the successful launch of Qantas’ faster, smarter Next Generation Check-in offering in Perth, Sydney, and Melbourne.”

Outlook
The general operating environment continues to improve.

Forward bookings indicate yields in the second half of FY11 will be higher than the same period in FY10, noting that the first half is typically a stronger revenue period due to seasonal factors.

The Group expects to increase capacity in the second half of FY11 by 11 per cent compared to the same period in FY10, while maintaining flexibility.

As at 14 February 2011, underlying fuel costs for the second half of FY11 are estimated to increase to around $2.0 billion due to higher forward market jet fuel prices and increased flying. Fuel surcharges, fare increases and hedging are being used to mitigate the impact of fuel price rises.

However, a number of significant weather events are impacting current trading conditions, including the Queensland floods (estimated to impact second half FY11 Underlying PBT by up to $55 million) and Cyclone Yasi in North Queensland (estimated to impact second half FY11 Underlying PBT by up to $15 million).

The Qantas Group estimates the A380 disruptions will have an impact of $25 million in the second half of FY11, in addition to the $55 million in the first half of FY11. Qantas remains in discussions with Rolls-Royce in relation to compensation for the economic loss incurred. No agreement has been reached at this stage. Any compensation will be recognised in the Group’s Underlying PBT in the relevant period.

Given the first half result, Underlying PBT for FY11 is expected to be materially stronger than FY10.

However, changes in fuel prices, foreign exchange rates, general trading conditions and the impact of significant weather events could rapidly impact earnings. It is therefore not possible to provide a more specific forecast at this time given the volatility and uncertainty of the aviation market.

Dividend

The Board remains committed to the resumption of dividend payments. As previously disclosed to the market, the quantum and timing of this will depend on actual and forecast trading results, market conditions, the maintenance of an investment grade credit rating and the level of capital expenditure commitments.

In the first half of financial year 2011, the operating performance of all Qantas businesses improved significantly and the Board is confident in the outlook for the company. However, significant capital investment is being undertaken, reflecting a fleet renewal to bolster the foundations for future growth. Considering this investment program alongside the preference to rely on internally generated capital and debt funding for this investment, the Board believes it is prudent not to pay a dividend at this time.

Future dividend payments will be assessed against ongoing earnings performance and capital requirements.

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APPENDIX

Review of Operations (Extracted from Appendix 4D)

Highlights of the half-year result include:

- Underlying Profit Before Tax up 56 per cent and operating cash flows up by 54 per cent
- Strong growth across all operating segments
- Record results for Jetstar and Qantas Frequent Flyer
- Result achieved despite financial impact of A380 disruptions
- Strong revenue growth of 10 per cent achieved through expansion of capacity and continued improvement in yield

Underlying PBT Result Up 56 Per Cent

The Qantas Group reported an Underlying PBT of $417 million for the half-year ended 31 December 2010, an increase of 56 per cent on the prior corresponding period of $267 million.

This result was achieved while overcoming significant operational challenges during the period including disruptions to the A380 network from November. No financial settlement from Rolls-Royce has been reflected in the results.

Segment Performance Summary

$M	December 2010	December 2009	$ Change	% Change
Qantas	165	60	105	175
Jetstar	143	121	22	18
Qantas Frequent Flyer	189	157	32	20
Qantas Freight	41	17	24	141
Jetset Travelworld Group	3	5	(2)	(40)
Corporate/Unallocated	(94)	(67)	(27)	40
Eliminations	5	14	(9)	(64)
Underlying EBIT	**452**	**307**	**145**	**47**
Underlying net finance costs	(35)	(40)	5	(13)
Underlying PBT	**417**	**267**	**150**	**56**

Strong Growth in all Operating Segments

All operating segments have improved contributions to Underlying PBT, delivering strong growth compared to the prior corresponding period. Qantas and Qantas Freight achieved growth in excess of 100 percent. Both Jetstar and Qantas Frequent Flyer delivered record half-year results.

Capacity and Yield Recovery

Despite the challenges presented during the period, the Group achieved strong revenue growth. Total revenue for the half-year increased 10 per cent from $6,909 million to $7,591 million. Average yields, excluding foreign exchange (FX) movements, increased by 7 per cent reflecting the continued improvement in premium business following the Global Financial Crisis. Capacity increased 7 per cent following the addition of 22 aircraft to the Group fleet between 31 December 2009 and 31 December 2010.

The Group's revenue performance has been supported by maintaining the Group's target of 65 per cent share of the domestic Australian market, industry leading on time performance, and continued efforts to improve and ensure customer safety and satisfaction. Qantas Frequent Flyer's record result has been built on continuing robust growth in members and program affiliates.

Expenses for the half-year were $7,227 million, an increase of 7 per cent from the prior corresponding period of $6,766 million. Cost increases were in line with the Group's capacity growth of 7 per cent. However fuel costs increased by 10 per cent, impacted by higher average fuel prices in the current period compared to the prior corresponding period.

The Rolls-Royce A380 engine disruptions and associated loss of capacity unfavourably affected unit cost in the first half. After allowing for the effects of A380 disruptions and reduced average sector length the Comparable Net Underlying Unit Cost performance is favourable by 1 per cent.

Operating Statistics

		December 2010	**December 2009**	**Change**	**% Change**
Available Seat Kilometres (ASKs)[1]	M	66,821	62,476	4,345	7
Revenue Passenger Kilometres (RPKs)[2]	M	54,592	51,494	3,098	6
Passenger Numbers	'000	22,948	21,038	1,910	9
Seat Factor	%	81.7	82.4		(0.7)pts
Yield (Excluding FX)	c/RPK	11.0	10.3	0.7	7
Net Underlying Unit Cost[3]	c/ASK	5.76	5.72	0.04	1
Comparable Net Underlying Unit Cost[4]	c/ASK	5.65	5.72	(0.07)	(1)

1 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown
2 RPK – total number of paying passengers carried, multiplied by the number of kilometres flown
3 Net Underlying Unit Cost – Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate per ASK
4 Comparable Net Underlying Unit Cost– Net Underlying Unit Cost adjusted for the impact of A380 disruptions and reduced average sector length

Capital Expenditure Supported by Strong Balance Sheet and Operating Cash Flows

Operating cash flows grew to $743 million, an increase of 54 per cent on the prior corresponding period result of $483 million, in line with the growth in earnings.

Qantas Group cash was $3,337 million at 31 December 2010, a decrease of $367 million from 30 June 2010 resulting from aircraft purchases partially funded from cash reserves and the deconsolidation of cash held in Jetset Travelworld Group.

$M	**December 2010**	**December 2009**	**$ Change**	**% Change**
Cash at Beginning	3,704	3,617	87	2
Operating Cash Flow	743	483	260	54
Investing Cash Flow	(1,076)	(947)	(129)	14
Financing Cash Flow	(20)	345	(365)	(106)
Effect of Foreign Exchange on Cash	(14)	-	(14)	-
Cash at Half-Year End	**3,337**	**3,498**	**(161)**	**(5)**

Qantas has retained a strong balance sheet and a secure capital position while supporting substantial ongoing investment in the Group's portfolio of businesses.

The Group invested $1 billion in additional property, plant and equipment during the period. This includes the purchase of six aircraft, progress payments on a significant pipeline of future deliveries, and the introduction of Next Generation Check-In and other product investments.

A conservative approach to capital management and significant growth in Operating Cash Flows provide ongoing flexibility to manage medium term capital expenditure and funding requirements while preserving an investment grade credit rating. As at 31 December 2010, the Group's gearing ratio is 52 per cent.

$M	December 2010	June 2010	$ Change	% Change
Net Debt[1]	2,558	2,209	349	16
Net Debt Including Off Balance Sheet Debt[2]	6,605	6,170	435	7
Equity (Excluding Hedge Reserves)	6,041	5,896	145	2
Gearing Ratio[3]	52:48	51:49		

1 Includes fair value of hedges related to debt and aircraft security deposits
2 Includes non-cancellable operating leases, excluding hedge reserves. Non-cancellable operating leases are a representation assuming assets are owned and debt funded and is not consistent with the disclosure requirements of AASB117: Leases
3 Gearing Ratio is Net Debt to Net Debt and Equity (including off balance sheet debt from operating leases excluding hedge reserves)

Fleet

The Group remains committed to a fleet strategy designed to provide for long term fleet renewal, simplification and growth. Qantas continues to have one of the world's largest aircraft order books, with 173 new aircraft to be delivered by FY18.

These include 13 more A380 flagship aircraft for Qantas, and 50 B787 Dreamliners, with the first to be delivered to Jetstar in last quarter 2012. At 31 December 2010, the Qantas Group fleet comprised 266 aircraft.

During the half year, the Group entered 13 new aircraft (6 purchased and 7 leased) into service:
- Qantas – 1 A380, 1 A330-200
- Jetstar, including Jetstar Asia – 10 A320-200s, 1 A330-200

The Group retired no aircraft during the half year but did return one leased B747-400. Three aircraft are scheduled for retirement during the second half of the year.

Product and Service

Across the Group, investment in customer product, service, training and innovation remains a core focus.

Key developments in the half-year for Qantas included the progressive roll-out of the faster, smarter domestic Next Generation Check-in – now available in Perth, Sydney and Melbourne. Planning also continues for the international fleet reconfiguration program that will commence later this year. It will see nine B747-400s upgraded to A380 product standards and the A380 fleet reconfigured over time to meet forecast changes in market demand.

While focused on its low fare leadership, Jetstar also continued its investment in innovation, including in the area of airport self-service and the introduction of iPads for inflight entertainment use.

Qantas

		December 2010	December 2009	$ Change	% Change
Total Revenue	$M	5,706	5,295	411	8
Underlying EBIT	$M	165	60	105	175
Seat Factor	%	82.4	83.1		(0.7)pts

Qantas achieved an Underlying EBIT of $165 million for the half-year. The result is 175 per cent above the prior corresponding period, driven by a $411 million, or 8 per cent, increase in total revenue.

Qantas improved yield by 9 per cent, and increased capacity by 3.3 per cent demonstrating a strong revenue recovery across both international and domestic business. The result was achieved despite the significant operational and financial challenges of the A380 disruptions and northern hemisphere snow storms during the period.

QantasLink continued to deliver a strong contribution to the Qantas Airlines result with capacity growing 10.6 per cent. QantasLink has also added fly-in-fly-out charter capability with the acquisition of Network Aviation.

Looking ahead, Qantas is expecting to grow its domestic and international capacity, adding 4.5 per cent for domestic (including QantasLink), and 4.3 per cent in international capacity during the second half. This includes the return of the A380 fleet to full program by March 2011.

QFuture

QFuture is the key business change program within Qantas, designed to position the airline for profitable growth. It involves transformational change across the airline, with total benefits of $1.5 billion targeted over the 3 years FY10 to FY12 to underpin unit cost reduction and margin improvement.

For the half-year, benefits of $173 million have been achieved (including IT). The majority of the benefits were contributed by the Commercial, Customer & Marketing and Engineering divisions of the Qantas segment. Qantas is also on track to achieve the FY11 target of $500 million and the $1.5 billion in benefits over three years.

Jetstar

		December 2010	December 2009	$ Change	% Change
Total Revenue	$M	1,346	1,131	215	19
Underlying EBIT	$M	143	121	22	18
Seat Factor	%	79.6	80.2		(0.6)pts

Jetstar achieved a record result for the period, with an Underlying EBIT of $143 million, an 18 per cent increase on the prior corresponding period.

Jetstar increased domestic capacity by 20 per cent and international capacity by 18 per cent, resulting in a net capacity increase of 19 per cent versus the prior corresponding period. Yield improvements and a 15 per cent increase in passenger numbers versus the prior corresponding period have resulted in an increase in Jetstar's revenue of $215 million (19 per cent).

Jetstar has also achieved continuing improvements in unit cost. Unit cost (excluding fuel) has fallen 2 per cent compared to the previous corresponding period.

Jetstar's record result reflects its status as one of the fastest growing airlines in Asia, the world's largest aviation market. Operations now span two continents and four countries, with 379 flights per day and growing. This growth will continue with the delivery of 15 B787s from late 2012.

Qantas Frequent Flyer

		December 2010	December 2009	$ Change	% Change
Members	M	7,545	6,745	800	12
Total Revenue	$M	583	547	36	7
Underlying EBIT	$M	189	157	32	20
Normalisation Adjustment	$M	(82)	(78)	(4)	5
Normalised EBIT[1]	$M	107	79	28	36

[1] Normalised EBIT is a non-statutory measure which restates redemption revenue to the fair value of awards redeemed (removing the impact of the change in accounting estimate) and recognises the marketing revenue when a point is sold. This creates a comparable basis for the presentation of results.

Qantas Frequent Flyer achieved an Underlying EBIT of $189 million, which was $32 million higher than the prior corresponding period and Normalised EBIT growth of 36 per cent.

Qantas Frequent Flyer's result reflects positive growth in new members driven by the development of products and services with key business partners. Membership has increased 12 percent on the prior corresponding period to 7.5 million members.

Billings increased by 9 per cent compared to the prior corresponding period, driven by capacity increases across the flying businesses and additional revenue from new members.

The development of the Woolworths partnership in particular has contributed incremental airline revenue as well as growth in Woolworths' billings as the program matures. These outcomes highlight the value of Qantas' portfolio of businesses, and especially Qantas Frequent Flyer, in maximising the returns generated from the core flying brands.

Qantas Freight

		December 2010	**December 2009**	**$ Change**	**% Change**
Total Revenue	$M	545	494	51	10
Underlying EBIT	$M	41	17	24	141
Load Factor	%	60.3	59.9		0.4pts

Qantas Freight's Underlying EBIT of $41 million is more than double the $17 million from the prior corresponding period.

Qantas Freight's result reflects a recovery in economic activity from Global Financial Crisis lows as well as stronger volumes and yields, principally on key China/US routes. Yield has improved by 12 per cent (excluding foreign exchange) due to market recovery and higher fuel surcharges.

The domestic express freight market has also improved, resulting in higher earnings from the joint venture businesses Australian air Express and Star Track Express.

Statutory Result

$M	**December 2010**	**December 2009**	**$ Change**
Underlying PBT	**417**	**267**	**150**
Non-Recurring Items	(50)	(48)	(2)
Ineffectiveness and Non-Designated Derivatives Relating to Other reporting periods	(45)	(129)	84
Statutory PBT	**322**	**90**	**232**

Statutory PBT has improved to $322 million from $90 million.

Statutory PBT includes ineffectiveness and non-designated derivative losses relating to other reporting periods.

Non-recurring items included in the half-year statutory result are:
- loss on disposal and other transaction costs relating to the Jetset Travelworld Group merger of $29 million
- profit on the sale of the DPEX Group of $5 million
- provisions for freight regulatory fines and third party actions of $26 million