



Media Release

QANTAS GROUP FINANCIAL RESULT – FIRST HALF 2012/13

Key points:

- Statutory Profit After Tax: \$111 million, up 164 per cent
- Underlying Profit Before Tax¹: \$223 million, up 10 per cent
- Qantas Loyalty: record result², underlying EBIT up 15 per cent
- Qantas International: 65 per cent improvement, turnaround on course
- Qantas Domestic and Jetstar: solid earnings despite excess capacity in domestic market
- Emirates partnership announced, interim authorisation granted, fares on sale
- No interim dividend declared

SYDNEY, 21 February 2013: The Qantas Group today announced statutory profit after tax of \$111 million and underlying profit before tax of \$223 million for the six months ended 31 December 2012.

The result is in line with previous guidance and reflects progress in the Group's strategy, despite challenging conditions in international and domestic air travel markets.

All operating segments of the Group's portfolio were profitable with the exception of Qantas International. However, losses in Qantas International were reduced by 65 per cent in 1H13 compared with 1H12.

Underlying profit before tax for the first half included \$125 million in revenue from the agreement negotiated with Boeing in August 2012 to restructure the Group's B787 order.

The Group incurred \$136 million in one-off transformation costs during the first half, which have been recognised as items outside of underlying profit before tax.

CEO commentary and Group performance

Qantas CEO Alan Joyce said the Group was delivering against all its strategic goals.

"During 1H13 we increased underlying profit by 10 per cent, announced a global aviation partnership with Emirates³, launched Jetstar Japan, reinforced our position in the Australian domestic market, reduced comparable unit costs by 3 per cent⁴, announced the early repayment of \$650 million in debt, commenced a share buy-back and sold non-core assets," Mr Joyce said.

"In total, the Group achieved \$172 million in transformation benefits in 1H13.

"The operating environment remains complex and volatile, but we are now beginning to realise the benefits of the tough decisions that we have made over the past 18 months.

"This progress would not have been possible without the passion and commitment of everyone at the Qantas Group, right across the company, and I thank all our people for their contribution."

¹ 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, Qantas Loyalty and Qantas Freight operating segments is Underlying EBIT as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT. Refer to page 14 for a reconciliation of Underlying PBT to Statutory PBT.

² 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. The Qantas Frequent Flyer segment was renamed Qantas Loyalty during the period.

³ Subject to regulatory approval.

⁴ Comparable Unit Cost – Net Underlying Unit Cost adjusted for the impact of Industrial Action (1H12), Boeing settlement and carbon tax (1H13) and movements in average sector length.

Qantas International

Qantas International reported an underlying EBIT loss of \$91 million in 1H13 – an improvement of \$171 million compared with 1H12.

“Qantas International is well advanced in its turnaround plan,” Mr Joyce said.

“The 65 per cent improvement in Qantas International’s underlying EBIT is testament to the steps taken to remove cost from the businesses, from closing down loss-making routes to retiring aircraft and consolidating operations.

“But we have also moved to renew Qantas International: nine Boeing 747s have been upgraded with A380-standard cabins, we have strengthened our alliances with American Airlines and LAN around the new hubs of Dallas/Fort Worth and Santiago, and we are introducing new customer services such as chauffeur transport. International customer satisfaction has reached the highest level ever recorded.⁵

“From 31 March, subject to final regulatory approval, our partnership with Emirates will take effect – giving our customers one-stop access to over 65 destinations in Europe, the Middle East and North Africa, via a superb hub in Dubai.

“At the same time, we will strengthen our network in Asia. Earlier this month we announced a new schedule for Qantas services to the region, increasing dedicated capacity, and today we announce our plans to refurbish the Airbus A330 aircraft we use on Asian routes.

“Taken together, these measures provide a platform to return Qantas International to profit and, over the long term, target growth opportunities.”

Qantas Domestic

Qantas Domestic reported underlying EBIT of \$218 million in 1H13, down from \$328 million in 1H12.

“Clearly the Australian domestic market is highly competitive,” Mr Joyce said. “We have seen elevated levels of capacity growth from competitors attempting to claim market share from Qantas Domestic.

“This has put pressure on yield for all airlines – but Qantas Domestic has remained the airline of choice for business travellers, maintaining its 84 per cent share of the corporate market. During the first half we renewed 40 accounts and won 39 new accounts, including four won back from the competition.⁶

“We have continued to invest in the domestic business, with new and upgraded aircraft and a big focus on improving customer service through training and technology. Qantas Domestic consistently outperformed its main competitor for on-time performance during 2012 and achieved record customer satisfaction.⁷

“We also continue to grow in regional Australia, both through QantasLink and through our expanding charter business in mining regions. We are confident that with our balanced portfolio of domestic airlines we will remain the leader in every segment of the market.”

Jetstar

Jetstar reported underlying EBIT of \$128 million in 1H13, down from \$147 million in 1H12, reflecting domestic market conditions and start-up investments in Jetstar Japan and Jetstar Hong Kong.

“Jetstar’s revenues increased by 12 per cent as it positioned itself for a new phase of growth,” Mr Joyce said.

⁵ Annual average calendar year customer satisfaction. Qantas started recording customer satisfaction in 2003.

⁶ Represents large market accounts only. Total large market and SME accounts: renewed 73 accounts and signed 69 new accounts.

⁷ Net Promoter Score is at its highest level since recording commenced in August 2008.

“Jetstar Japan commenced domestic operations in July and has made a strong start – with over 600,000 passengers carried in its first six months.

“Singapore-based Jetstar Asia continued to grow, with an improvement in profitability, while the performance of Vietnam-based Jetstar Pacific is also improving after an ownership restructure and fleet renewal program.

“Jetstar Hong Kong’s application for regulatory approval is well underway, and though we do not take the outcome for granted, we believe there is a compelling case for a new low cost airline in this market.

“Already the largest low cost carrier in the Asia Pacific by revenue, we are now building up Jetstar’s scale across the region to support forecast passenger demand – using a capital-light model that draws on close partnerships with local market leaders.”

Qantas Loyalty

Qantas Loyalty reported underlying EBIT of \$137 million in 1H13, a record result up from \$119 million in 1H12.

“Once again, Qantas’ loyalty business has proved its value to the Qantas Group. In 1H13, it increased EBIT by 15 per cent and external billings by 6 per cent. Qantas Frequent Flyer membership reached nine million people in January 2013,” Mr Joyce said.

“Qantas Loyalty delivers steady cash flow for the Group and adds significant value for customers.

“The Qantas-Emirates partnership will open up new benefits for our frequent flyers, while we continue to expand the scope of the program through new and existing partners.

“The announcement of the new ‘Qantas Cash’ card takes the program to the next level, enabling frequent flyers to use their card to withdraw cash, shop and pay bills, as well as for check-in, lounge access and other benefits.”

Qantas Freight

Qantas Freight reported underlying EBIT of \$22 million, down from \$38 million in 1H12.

“International freight earnings held up well in the first half despite a soft global cargo market,” Mr Joyce said.

“Domestic performance was weaker, and the time was right for the Group to sell its stake in StarTrack and integrate Australian air Express with Qantas Freight – creating operational and commercial efficiencies.”

Group financial position

The Group’s liquidity position is strong at \$3.5 billion⁸ and disciplined financial management remains a core priority.

“In August 2012 we said that we would focus on debt reduction after a period of relatively high capital expenditure, and that’s what we have done,” Mr Joyce said.

“During the first half we announced the early repayment of over \$650 million of debt. At the same time, we launched a share buy-back, reflecting the Board’s confidence in the Group’s underlying financial strength and long term strategy.

“These steps were enabled by \$750 million in cash generated by the sale of our stake in StarTrack to Australia Post and the restructure of our Boeing 787 delivery schedule – prudent transactions in keeping with our commitment to disciplined financial management.”

⁸ Comprises \$3.1 billion in cash and a \$400 million undrawn facility.

Planned capital expenditure has been reduced by \$600 million, with a forecast of \$1.6 billion in 2012/13 and \$1.5 billion in 2013/14.

Net free cash flow in 1H13 was \$205 million and the Group continues to target positive net free cash flow⁹ on a full-year basis.

Outlook

The operating environment for the Qantas Group in 2H13 remains challenging and volatile.

Group capacity is expected to increase by 0.5-1.5 per cent in 2H13 compared with 2H12. Group domestic capacity is expected to increase by 5-7 per cent in 2H13 compared with 2H12, while maintaining flexibility.

Underlying fuel costs for the Group are expected to be approximately \$2.25 billion¹⁰ in 2H13.

No Group profit guidance is provided at this time due to the high degree of volatility and uncertainty in the competitive environment, global economic conditions, fuel prices and foreign exchange rates.

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⁹ Net free cash flow – Operating cash flows less investing cash flows. 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.

¹⁰ As at 18 February 2013.

REVIEW OF OPERATIONS

The Qantas Group reported an Underlying PBT¹¹ of \$223 million, a Statutory Profit Before Tax (Statutory PBT) of \$151 million and a Statutory Profit After Tax of \$111 million for the half-year ended 31 December 2012.

Highlights of the half-year result include:

- Improvement in profitability
 - o 10 per cent growth in Underlying PBT in a challenging market
 - o Strong ancillary revenue growth
 - o Qantas International turnaround strategy delivering results
 - o Record result for Qantas Loyalty¹²
 - o Unit cost improvement
- Strengthening financial position
 - o Net free cash flow positive
 - o Fleet delivery profile restructured
 - o Strong liquidity position
- Delivering strategic priorities
 - o Continuing strength of domestic market position
 - o Qantas International turnaround on track
 - o Qantas-Emirates partnership commencing from 31 March 2013¹³
 - o Successfully growing Jetstar in Asia
 - Jetstar Japan – strong start in a competitive market
 - Jetstar Hong Kong – strong local partner with China Eastern

Improved profitability

| Group Underlying Income Statement Summary | | December 2012 | December 2011 | Change | % Change |
|---|------------|--------------------------|--------------------------|---------------|---------------------|
| Net passenger revenue ¹⁴ | \$M | 6,949 | 6,946 | 3 | 0 |
| Net freight revenue | \$M | 475 | 467 | 8 | 2 |
| Other | \$M | 818 | 635 | 183 | 29 |
| Revenue | \$M | 8,242 | 8,048 | 194 | 2 |
| Operating expenses (excluding fuel) ¹⁵ | \$M | (4,767) | (4,634) | (133) | (3) |
| Fuel ¹⁵ | \$M | (2,181) | (2,181) | 0 | 0 |
| Depreciation and amortisation | \$M | (719) | (679) | (40) | (6) |
| Non-cancellable aircraft operating lease rentals | \$M | (265) | (277) | 12 | 4 |
| Expenses | \$M | (7,932) | (7,771) | (161) | (2) |
| Underlying EBIT | \$M | 310 | 277 | 33 | 12 |
| Net finance costs ¹⁵ | \$M | (87) | (75) | (12) | (16) |
| Underlying PBT | \$M | 223 | 202 | 21 | 10 |

¹¹ 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, Qantas Loyalty and Qantas Freight operating segments is Underlying EBIT as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT. Refer to page 14 for a reconciliation of Underlying PBT to Statutory Profit Before Tax

¹² 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. The Qantas Frequent Flyer segment was renamed Qantas Loyalty during the period.

¹³ Subject to regulatory approval.

¹⁴ Net passenger revenue has been adjusted in 1H13 to include associated ancillary passenger revenue, passenger service fees and lease revenue on codeshare. 1H12 net passenger revenue has been restated accordingly. These items remain excluded from the calculation of yield.

¹⁵ Underlying operating expenses (excluding fuel), fuel and net finance costs differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 139 which relate to other reporting periods and other items identified by Management. Refer to page 14 for a reconciliation of Statutory and Underlying PBT.

REVIEW OF OPERATIONS (continued)

| Operating statistics | | December 2012 | December 2011 | Change | % Change |
|--|-------|--------------------------|--------------------------|---------------|---------------------|
| Available Seat Kilometres (ASK) ¹⁶ | M | 71,374 | 70,205 | 1,169 | 1.7 |
| Revenue Passenger Kilometres (RPK) ¹⁷ | M | 57,095 | 56,680 | 415 | 0.7 |
| Passengers Carried | 000 | 24,701 | 23,691 | 1,010 | 4.3 |
| Revenue Seat Factor ¹⁸ | % | 80.0 | 80.7 | (0.7) pts | (0.9) |
| Yield (excluding FX) ¹⁹ | c/RPK | 10.46 | 10.77 | (0.31) | (2.9) |
| Net Underlying Unit Cost ²⁰ | c/ASK | 5.04 | 5.38 | 0.34 | 6.3 |
| Comparable Unit Cost ²¹ | c/ASK | 5.06 | 5.24 | 0.18 | 3.4 |

The Qantas Group delivered a 10 per cent improvement in Underlying PBT to \$223 million. This was underpinned by strong ancillary revenue growth and the benefits of the first phase of the transformation program, which more than offset the effects of over-capacity in the domestic market.

Revenue grew by two per cent in line with capacity growth. Qantas Loyalty delivered continued growth in members and member engagement. Jetstar further improved its industry leading ancillary revenues per passenger, on top of 12 per cent growth in passenger numbers. Included in other revenue is a \$125 million settlement following the restructuring of the Boeing 787 deliveries. This amount has been equally apportioned to Qantas International, Qantas Domestic and Jetstar.

Qantas Group unit cost improved six per cent. Comparable unit cost²¹ improved three per cent, reflecting the successful management of operating cost across the business.

Fuel costs were held in line with the prior corresponding period. Improvements in fuel efficiency of two²² per cent were achieved through modernisation and reconfiguration of the fleet, offsetting the growth in capacity during the period.

| Segment Performance Summary | | December 2012 | December 2011 | Change | % Change |
|------------------------------------|------------|--------------------------|--------------------------|---------------|---------------------|
| Qantas Domestic | \$M | 218 | 328 | (110) | (34) |
| Qantas International | \$M | (91) | (262) | 171 | 65 |
| Qantas Loyalty ²³ | \$M | 137 | 119 ³ | 18 | 15 |
| Qantas Freight | \$M | 22 | 38 | (16) | (42) |
| Qantas Brands Eliminations | \$M | 2 | 9 | (7) | (78) |
| Qantas Brands | \$M | 288 | 232 | 56 | 24 |
| Jetstar | \$M | 128 | 147 | (19) | (13) |
| Corporate/Unallocated | \$M | (105) | (103) | (2) | (2) |
| Eliminations | \$M | (1) | 1 | (2) | <(100) |
| Underlying EBIT | \$M | 310 | 277 | 33 | 12 |
| Net Finance Costs ²⁴ | \$M | (87) | (75) | (12) | (16) |
| Underlying PBT | \$M | 223 | 202 | 21 | 10 |

¹⁶ ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.

¹⁷ RPK – total number of passengers carried, multiplied by the number of kilometres flown.

¹⁸ Revenue Seat factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.

¹⁹ Yield – Passenger revenue excluding FX, divided by RPKs.

²⁰ Net Underlying Unit Cost – Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate per ASK.

²¹ Comparable Unit Cost – Net Underlying Unit Cost adjusted for the impact of Industrial Action (2011/2012), Boeing settlement and carbon tax (2012/2013) and movements in average sector length.

²² Measured as fuel consumption per ASK.

²³ The Qantas Frequent Flyer segment was renamed Qantas Loyalty during the period.

²⁴ Underlying Net Finance Costs differ from Statutory Net Finance Costs due to adjustments for impact of AASB 139 which relate to other reporting periods.

REVIEW OF OPERATIONS (continued)

All segments delivered profitable returns, with the exception of Qantas International where the turnaround strategy is on track and delivering results.

Qantas International delivered a \$171 million improvement in Underlying EBIT, reflecting the first phase of transformation benefits driving improvements in unit cost.

Qantas Domestic maintained its leading market position despite competitive pressures impacting yield. Qantas achieved the best on-time performance compared to its main competitor and remains the domestic airline of choice for the corporate market.

Qantas Loyalty achieved a record first half result²⁵ with a 15 per cent improvement in Underlying EBIT to \$137 million. Membership growth was eight per cent and in January 2013 the Qantas Frequent Flyer program reached nine million members.

Jetstar achieved a 12 per cent increase in revenue while advancing its strategy of growth in Asia.

Strengthening financial position

- Positive net free cash flow of \$205 million
- Fleet delivery profile restructured
- Strong liquidity position

| Cash Flow Summary | | December | December | Change | % |
|--|------------|--------------|--------------|--------------|----------------|
| | | 2012 | 2011 | | |
| Operating cash flows | \$M | 780 | 823 | (43) | (5) |
| Investing cash flows | \$M | (575) | (1,501) | 926 | 62 |
| Net free cash flow²⁶ | \$M | 205 | (678) | 883 | >100 |
| Financing cash flows | \$M | (547) | 525 | (1,072) | <(100) |
| Effect of foreign exchange on cash | \$M | 2 | (1) | 3 | >100 |
| Cash at period end | \$M | 3,058 | 3,342 | (284) | (8) |

Qantas has strengthened its financial position during the period. Positive net free cash flows and strong liquidity have facilitated the reduction of debt.

Positive net free cash flow of \$205 million was achieved for the period. This is the second consecutive six month period of positive net free cash flow and reflects the Group's focus on strengthening credit metrics and disciplined capital management.

Capital expenditure included the addition of six new unencumbered aircraft. In addition several non-core assets were sold, including the Group's interest in StarTrack and the Riverside and Cairns Catering facilities.

The Group continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changing market conditions and remain positioned for sustainable growth.

This flexibility was demonstrated during the half-year through the restructuring of the Boeing 787 aircraft delivery schedule. Firm commitments for 35 Boeing 787-9 aircraft were cancelled and related capital commitments were eliminated.

The Qantas Group's free cash flow and resultant strong liquidity position supported over \$500 million in debt repayments, the commencement of a share buy back and a five per cent reduction in net debt during the period. The Group finished the period with a strong liquidity position including \$3.1 billion in cash and a \$400 million undrawn standby facility. This facility was refinanced and increased by \$100 million during the period with support from key lenders.

²⁵ 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.

²⁶ Net free cash flow – Operating cash flows less investing cash flows. 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.

REVIEW OF OPERATIONS (continued)

| Debt and Gearing Analysis | | December | June | Change | % Change |
|--|-----|-----------------|-------------|---------------|---------------------|
| | | 2012 | 2012 | | |
| Net Debt ²⁷ | \$M | 3,363 | 3,558 | 195 | 5 |
| Net Debt including operating lease liabilities ²⁸ | \$M | 5,006 | 5,418 | 412 | 8 |
| Adjusted Equity ²⁹ | \$M | 5,702 | 5,559 | 143 | 3 |
| Gearing Ratio ³⁰ | | 47:53 | 49:51 | 2 pts | 4 |

Fleet

The Qantas Group remains committed to a fleet strategy that provides for long-term fleet renewal, simplification and disciplined growth. The fleet strategy is designed to support the strategic objectives of the Group's two flying brands, whilst retaining significant flexibility to respond to changes in market conditions.

At 31 December 2012 the Qantas Group fleet comprised 313 aircraft. During the first half of 2012/2013 the Group purchased eight aircraft, leased five aircraft and bought out three leases at termination:

- Qantas – three B737-800s (owned), one A330-200 (leased), two Q400s (owned) and bought out three leased B767-300s
- Jetstar (including Jetstar Asia) – seven A320s (three owned and four leased).

The Qantas Group has added 24 new unencumbered aircraft (A320s and B737-800s) in the last three years.

The Group retired eight aircraft including three lease returns during the first half of 2012/2013. This included three B747-400s, one B767-300, three B737-400s and one A320.

Delivering strategic priorities

- Leading domestic market position
- Qantas International turnaround on track
- Developing partnerships with market leaders
- Successfully growing Jetstar in Asia

The Qantas Group has made significant progress in delivering on its strategic priorities during the first half of 2012/2013.

Leading domestic market position

The Group has maintained its leading domestic market position. The dual brand strategy is working effectively to provide the right product and optimise returns across both business and leisure markets.

²⁷ Net Debt includes interest-bearing liabilities and the fair value of hedges related to debt less cash and aircraft security deposits.

²⁸ Net Debt including operating lease liabilities includes Net Debt and off balance sheet aircraft operating lease liabilities. Operating lease liabilities are measured as the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. This operating lease liability has been calculated in accordance with Standard and Poor's methodology using an assumed interest rate of 9 per cent.

²⁹ Adjusted Equity includes equity adjusted to exclude hedge reserves, defined benefit superannuation prepayments (net of deferred tax) and to include any vested benefits deficit of defined benefit superannuation plans (net of deferred tax).

³⁰ Gearing Ratio is Net debt including operating lease liability to net debt including operating lease liability and Adjusted Equity. The gearing ratio is used by Management to represent the Qantas Group's debt obligation including obligations under operating leases.

REVIEW OF OPERATIONS (continued)

Qantas International turnaround on track

The turnaround of Qantas International is on track and delivering results. To date, the turnaround strategy has implemented:

- The exit of most loss making routes
 - Hong Kong-London
 - Bangkok-London
 - Singapore-Mumbai
 - Auckland-Los Angeles
- The reconfiguration of seven out of a planned 12 A380 and all nine B747-400 aircraft to improve product quality, consistency and economics
- The consolidation of engineering and catering facilities.

Further benefits will be achieved over the next two years with the objective of Qantas International breaking even by the 2014/2015 financial year.

Qantas-Emirates partnership

The Qantas-Emirates partnership is on track to commence operations on 31 March 2013 (subject to final regulatory approvals). Following interim authorisation from the Australian Competition and Consumer Commission the Qantas-Emirates network is on sale for flights to 44 new destinations, operating from 31 March 2013.

The partnership will enable Qantas to offer 14 daily flights between Dubai and Adelaide, Brisbane, Melbourne, Perth and Sydney. With Dubai's 24 hour hub and seamless connectivity to over 175 destinations worldwide this opens up many new gateways to Qantas customers. They will be just one stop away from over 65 destinations across Europe, the Middle East and North Africa.

The partnership will also facilitate the further rationalisation of the Qantas network. The hub for European connections will be transferred from Singapore to Dubai. Unprofitable Frankfurt services through Singapore will be exited, resulting in the re-routing of customers via Dubai and the early retirement of two B747-400 aircraft. Qantas will now focus on serving Asia as a destination. This will improve the appeal of these services for Asian customers and result in more convenient intra-Asia network connections.

Jetstar growth in Asia

Jetstar's pan-Asian strategy has made progress with the successful launch of Jetstar Japan, the development of Jetstar Hong Kong in partnership with China Eastern³¹ and the completion of Jetstar Pacific's fleet renewal.

Jetstar Japan successfully launched in July 2012 in partnership with Mitsubishi, Japan Airlines and Century Tokyo Leasing Corporation. In the first six months of flying it has carried 600,000 passengers. The fleet has grown to seven aircraft and is expected to grow to 24 aircraft in the next few years. All of Jetstar Japan's aircraft have been sourced by Qantas, demonstrating the flexibility of the Group's fleet plan in supporting strategic priorities.

Jetstar Hong Kong's application for regulatory approval is underway in partnership with China Eastern³¹. The management team has now been established with the recent appointment of a local CEO and CFO.

³¹ The launch of Jetstar Hong Kong is subject to regulatory approval.

REVIEW OF OPERATIONS (continued)

Qantas Domestic

- Continuing domestic market strength despite challenging competitive environment
- Unit cost improvement
- Record levels of customer satisfaction
- Charter revenue growth

| | | December 2012 | December 2011 | Change | % |
|--------------------------------|-----|------------------|------------------|-----------|------|
| Total Revenue and Other Income | \$M | 3,220 | 3,147 | 73 | 2 |
| Seat Factor | % | 76.9 | 79.6 | (2.7) pts | (3) |
| Underlying EBIT | \$M | 218 | 328 | (110) | (34) |

Qantas Domestic Underlying EBIT of \$218 million for the half-year ended 31 December 2012 was \$110 million down from the prior corresponding period.

The reduction in Underlying EBIT was driven by growth in the Australian domestic market of 10 per cent³² exceeding market demand. This challenging competitive environment resulted in reduced loads and weaker yields.

Qantas Domestic's comparable unit cost³³ improved one per cent on the prior corresponding period. Cost savings included transformation benefits associated with the consolidation of the Tullamarine Heavy Maintenance base into the Brisbane facility, consolidation of engineering support functions, fleet renewal, rationalisation of catering facilities and other program initiatives.

Domestic customer satisfaction is at its highest sustained level since 2004 and the net promoter score is at its highest level since recording commenced in August 2008. Qantas Domestic was recognised through a number of industry awards:

- 'Best Domestic Airline'³⁴
- 'Regional Airline of the Year'³⁵
- 'Best Regional Airline'³⁶
- 'Best Australian Lounges'³⁷

Qantas achieved the best on time performance in both the first half of 2012/2013 and for 2012 overall³⁸.

Qantas invested in a number of customer product enhancements in the year with the expansion of in-seat entertainment across the domestic network³⁹ and the fast track refurbishment of the B767-300 fleet, including Q-Streaming in-flight entertainment.

Qantas continues to be the clear choice for business travellers and has maintained its corporate market revenue share. During the period Qantas signed 39 new large-market corporate accounts, including four won back as preferred airline, and 40 renewals.

Qantas continues to support the resource sector through growth in QantasLink and Network Aviation services. QantasLink took delivery of two Q400 aircraft during the period and announced a further three Q400 and five leased B717 aircraft to join the network from the second half of 2013.

³² Source: BITRE data.

³³ Comparable unit cost – Net Underlying Unit Cost adjusted for the impact of Industrial Action (2011/2012), Boeing settlement and carbon tax (2012/2013) and movements in average sector length.

³⁴ Australian Federation of Travel Agents National Industry Awards 2012.

³⁵ Air Transport World Awards 2012.

³⁶ Australian Traveller Awards 2012.

³⁷ Australian Business Traveller Awards 2012.

³⁸ Source: BITRE January – December 2012.

³⁹ Three B737-800 aircraft delivered in the half-year ended 31 December 2012. Available on selected routes.

REVIEW OF OPERATIONS (continued)

Qantas International

- Turnaround on track and delivering results
- Highest customer satisfaction ever recorded⁴⁰

| | | December 2012 | December 2011 | Change | % Change |
|--------------------------------|-----|------------------|------------------|---------|-------------|
| Total Revenue and Other Income | \$M | 2,818 | 2,919 | (101) | (3) |
| Seat Factor | % | 82.7 | 81.9 | 0.8 pts | 1 |
| Underlying EBIT | \$M | (91) | (262) | 171 | 65 |

Qantas International Underlying EBIT improved 65 per cent to a loss of \$(91) million from a loss of \$(262) million in the prior corresponding period.

The improvement in profitability is a result of transformation benefits delivering a reduction in comparable unit cost⁴¹ of four per cent versus prior corresponding period.

Qantas International reduced capacity by seven per cent driven by the exit of loss making routes. This was slightly offset by increased capacity through the B747-400 and A380-800 reconfiguration programs.

Further enhanced customer services have been announced with the introduction of the business sleep service, chauffeur service, lounge upgrades in Los Angeles, Singapore, Hong Kong and select on Q-Eat.

Qantas International recorded its highest customer satisfaction results on record⁴⁰

⁴⁰ Annual average calendar year customer satisfaction. Qantas started recording customer satisfaction in 2003.

⁴¹ Comparable Unit Cost – Net Underlying Unit Cost adjusted for the impact of Industrial Action (2011/2012) and Boeing settlement (2012/2013) and movements in average sector length.

REVIEW OF OPERATIONS (continued)

Jetstar

- Successfully growing Jetstar in Asia
 - o Jetstar Japan - strong start in a competitive market
 - o Jetstar Hong Kong – strong local partner with China Eastern⁴²
- Industry leading ancillary revenue and continued growth in revenue per passenger
- Over 100 million passengers flown since launch
- Key strategic vehicle for delivering low cost carrier market leadership

| | | December 2012 | December 2011 | Change | % Change |
|--------------------------------|-----|------------------|------------------|-----------|-------------|
| Total Revenue and Other Income | \$M | 1,757 | 1,565 | 192 | 12 |
| Seat Factor | % | 79.0 | 79.9 | (0.9) pts | (1) |
| Underlying EBIT | \$M | 128 | 147 | (19) | (13) |

Jetstar Underlying EBIT for the half-year ended 31 December 2012 is \$128 million, down \$19 million from the prior corresponding period.

The decline in earnings was primarily driven by Jetstar's investment in the Jetstar Japan and Jetstar Hong Kong start-ups. Jetstar's revenue growth has been supported by increased capacity and passenger numbers, both up 12 per cent, coupled with Jetstar's continued focus on ancillary revenue.

Profitable every year since launch, Jetstar maintains its industry leading ancillary revenue per passenger (up seven per cent at \$31.71/passenger). Controllable unit cost⁴³ excluding Jetstar's Asian businesses improved two per cent compared with the prior corresponding period.

Jetstar Asia continues to build a strong brand with 14 per cent passenger growth in an increasingly competitive market. Jetstar Asia's profits for the first half of 2012/2013 have improved substantially compared to the prior corresponding period.

Jetstar Pacific has successfully completed its fleet renewal, now with a fleet of five A320's with an average fleet age of six years.

Jetstar Japan successfully launched in partnership with Mitsubishi, Japan Airlines and Century Tokyo Leasing Corporation with 600,000 passengers flown in the period. The fleet has grown to seven aircraft and is expected to grow to 24 aircraft in the next few years.

Jetstar Hong Kong's application for regulatory approval is underway in partnership with China Eastern.⁴²

⁴² The launch of Jetstar Hong Kong is subject to regulatory approval.

⁴³ Controllable unit cost is calculated as total expenses excluding fuel and carbon tax per ASK.

REVIEW OF OPERATIONS (continued)

Qantas Loyalty

- Underlying EBIT of \$137 million, up 15 per cent on prior corresponding period
- 8 per cent member growth
- 2.7 million awards redeemed, up 13 per cent
- Qantas-Emirates partnership
- Record positive NPS⁴⁴

| | | December 2012 | December 2011 | Change | % Change |
|-----------------|-----|------------------|------------------|--------|-------------|
| Members | M | 9.0 | 8.3 | 0.7 | 8 |
| Awards Redeemed | M | 2.7 | 2.4 | 0.3 | 13 |
| Underlying EBIT | \$M | 137 | 119 | 18 | 15 |

Qantas Loyalty recorded another record result⁴⁵ with a 15 per cent improvement in Underlying EBIT to \$137 million. This has been driven by strong external billings, increased member engagement and continued member growth. The program reached nine million members in January 2013.

Qantas Loyalty has developed into a premier loyalty business encompassing a portfolio of recognisable brands, including Qantas Frequent Flyer.

The Qantas-Emirates partnership will offer Qantas Frequent Flyer members a world leading loyalty proposition. Members can redeem on any part of the Qantas or Emirates network, a combined total of more than 175 destinations worldwide. The partnership will offer 'one stop' access to over 65 destinations across Europe, the Middle East and North Africa.⁴⁶

The Qantas Frequent Flyer program was further enhanced with new redemption options including charitable redemptions to UNICEF, David Jones Gift Cards and exclusive flight simulation offers.

Qantas Freight

- Increased revenue
- Weak domestic retail environment
- Sale of StarTrack
- Acquisition of Australian air Express

| | | December 2012 | December 2011 | Change | % Change |
|--------------------------------|-----|------------------|------------------|---------|-------------|
| Total Revenue and Other Income | \$M | 531 | 526 | 5 | 1 |
| Underlying EBIT | \$M | 22 | 38 | (16) | (42) |
| Load Factor ⁴⁷ | % | 55.9 | 54.6 | 1.3 pts | 2 |

Qantas Freight's Underlying EBIT was \$22 million, down \$16 million on the prior corresponding period. This was driven by weakness in the domestic market and strong competition. Despite continued soft international freight markets, earnings from international freight were in line with prior corresponding period.

In November 2012, Qantas Freight sold its share in StarTrack and bought out the remaining share of Australian air Express. The integration of Australian air Express is now underway which is expected to deliver significant synergies and will create Australia's leading independent air freight provider. The consolidation of Australian air Express drove the increase in revenue for the half-year ended 31 December 2012.

Freight's cooperation with Emirates will support the changes to the international network from 31 March 2013.

⁴⁴ Qantas Loyalty Net Promoter Score at January 2013.

⁴⁵ 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.

⁴⁶ Subject to regulatory approval.

⁴⁷ Load Factor - RFTK's over AFTK's on International routes only.

REVIEW OF OPERATIONS (continued)

Reconciliation of Underlying PBT to Statutory PBT

The half-year ended 31 December 2012 Statutory PBT of \$151 million has more than doubled from \$58 million in the prior period.

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, Qantas Loyalty and Qantas Freight operating segments is Underlying EBIT as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT.

Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 139: Financial Instruments: Recognition and Measurement (AASB 139) which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT.

| | December 2012 \$M | December 2011 \$M | Change \$M | Change % |
|---|-------------------------|-------------------------|---------------|----------------|
| Reconciliation of Underlying to Statutory PBT | | | | |
| Underlying PBT | 223 | 202 | 21 | 10 |
| Items not included in Underlying PBT | | | | |
| - AASB 139 mark-to-market movements relating to other reporting periods | 34 | (7) | 41 | >100 |
| Items not included in Underlying PBT | | | | |
| - Net impairment of property, plant and equipment | (62) | (72) | 10 | 14 |
| - Redundancies and restructuring | (68) | (46) | (22) | (48) |
| - Gain on disposal of jointly controlled entity | 30 | - | 30 | >100 |
| - Impairment of investment | - | (19) | 19 | >100 |
| - Other | (6) | - | (6) | <(100) |
| Total items not included in Underlying PBT | (106) | (137) | 31 | 23 |
| Statutory PBT | 151 | 58 | 93 | >100 |

AASB 139 mark-to-market movements relating to other reporting periods

All derivative transactions undertaken by the Qantas Group represent economic hedges of underlying risk and exposures. The Qantas Group does not enter into speculative derivative transactions. Notwithstanding this, AASB 139 requires certain mark-to-market movements in derivatives which are classified as "ineffective" to be recognised immediately in the Consolidated Income Statement. The recognition of derivative valuation movements in reporting periods which differ from the designated transaction causes volatility in statutory profit that does not reflect the hedging nature of these derivatives.

Underlying PBT reports all hedge derivative gains and losses in the same reporting period as the underlying transaction by adjusting the reporting period's statutory profit for derivative mark-to-market movements that relate to underlying exposures in other reporting periods.

All derivative mark-to-market movements which have been excluded from Underlying PBT will be recognised through Underlying PBT in future periods when the underlying transaction occurs.

The International Accounting Standards Board is currently drafting a replacement of IAS 39 (international equivalent of AASB 139) to address anomalies in the accounting treatment of hedge transactions. Qantas has lobbied for this redraft and is actively pursuing an outcome that aligns with the principles and methodology applied by Qantas in calculating Underlying PBT.

REVIEW OF OPERATIONS (continued)

Reconciliation of Underlying PBT to Statutory PBT (continued)

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 major transformational/restructuring initiatives, transactions involving investments and impairments of assets outside the ordinary course of business.