Media Release

QANTAS RESULTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

HIGHLIGHTS

- Profit before tax of $483.5 million
- Net profit after tax of $352.6 million
- Revenue of $6.8 billion
- Interim dividend of 11 cents per share fully franked
- Earnings per share of 18.4 cents

Media Release

QANTAS REPORTS HALF YEAR PROFIT OF $483.5 MILLION

SYDNEY, 16 February 2006: Qantas today announced a profit before tax of $483.5 million for the half-year ended 31 December 2005, a 3.4 per cent decrease on the half-year to 31 December 2004.

The 2005 half-year profit includes a one-off restructuring cost of $69.6 million under the airline's Sustainable Future Program. The 2004 half-year results included a release of surplus revenue accounting provisions of $52.1 million.

Adjusting for these two items, profit improved by $104.6 million, or 23.3 per cent during the six months to 31 December 2005.

The result was achieved in very difficult trading conditions, with fuel prices increasing costs by $689.8 million before hedging benefits of $214.7 million, and aggressive competitor capacity increases in the international market.

Net profit after tax was $352.6 million, down 9.6 per cent on the comparative half-year. This figure reflects the impact of the restructuring charges and fuel prices, but also reflects a lower tax expense in the comparative 2004 half-year when the Qantas Group entered into Tax Consolidations.

The Directors declared a fully franked interim dividend of 11 cents per share, an increase of 1 cent per share on the prior half-year.

The Chairman of Qantas, Ms Margaret Jackson, said the increased dividend reflected the confidence of the Board and Management in the airline's future.

“We believe we can continue to grow and invest profitably despite the obvious challenges faced by the industry in all parts of the world.

“While doing this, it is also important that we continue to reward our shareholders by paying franked dividends,” she said.

Ms Jackson said the result was a credit to Qantas staff, who had performed with exceptional professionalism and commitment in difficult circumstances, including the second Bali bombing in October 2005, which had impacted leisure travel and Qantas Holidays.

"Despite publicity about job losses and some negative Union comments about Qantas, the facts are that very few Australian companies invest like we do in the growth of the nation or grow employment so consistently, and no other company has better overall employment conditions.

"In the six year period under the current Management team, Qantas has grown employment by 25 per cent, or 7,000 jobs, with more than 90 per cent of our 38,000 staff based in Australia. Our ***be safe!*** occupational health and safety program has delivered a 70 per cent reduction in lost time injuries in the last four years, creating a safer workplace for all employees," she said.

The Chief Executive Officer of Qantas, Mr Geoff Dixon, said that Qantas' performance, like all airlines today, was more and more being influenced on an ongoing basis by the price of fuel.

"Fuel costs climbed by 58 per cent in the half year and represented 28 per cent of our net expenditure. Without our successful hedging strategies, this would have been 31 per cent.

"All our business transformation initiatives are now focused on enabling Qantas to meet its future expenditure commitments and profit projections with a fuel cost above US$60 a barrel."

Mr Dixon said the main contributors to the half-year results were:

- $215 million of savings under the Sustainable Future Program which resulted in a unit cost reduction, excluding fuel and restructuring costs, of 5.7 per cent (3.9 per cent excluding foreign exchange rate movements);

- a 5.4 per cent improvement in yield (7.1 per cent excluding foreign exchange rate movements) and a one percentage point improvement in seat factor to 77.5 per cent.

- the major flying businesses, particularly Qantas Domestic, QantasLink and Jetstar, which had performed well in the face of competition and cost pressures;

- the channelling of a 2.9 percent capacity increase between profitable and growing markets (eg, Australian domestic and USA/Australia), domestic leisure markets (using Jetstar) and development markets (eg, Shanghai, Beijing and India);

- very high customer and product satisfaction ratings in all segments of the airline;

- successful product differentiation between the premium business brand Qantas and the value-based Jetstar, which grew capacity by 46 per cent as it took delivery of its 17th A320 aircraft; and

- a strong cashflow from operations which, after capital investments and other financing costs, saw the airline's cash flow position improve by $300 million to just over $2.2 billion.

Mr Dixon said Qantas had to further accelerate the transformation of the company that began at privatisation some 10 years ago.

“The continual changes in our industry mean, more than ever before, that we cannot stand still and the change over the past 10 years will be ongoing.

“The fundamentals of Qantas are strong and we are one of the more competitive airlines in an industry where competition is distorted, whatever some may think, by widespread Government ownership of national flag carriers.

“However, without the efforts of the past we would not now be able to report today’s profit. But more is required.

“As we make these changes, job losses across various areas of the business will be inevitable. Importantly, job growth will also occur in other areas as our major investments grow the company,” he said.

Mr Dixon said Qantas supported the Australian Government’s Work Choices Legislation as it provided greater certainty for investment in new and established businesses, which in turn would also drive employment growth.

“The Legislation is also likely to provide greater flexibility in industrial agreements, which will assist Qantas to be more competitive.”

Mr Dixon said there was no doubt that the restructuring process was unsettling to staff and Qantas was well aware of and sensitive to the personal impact of restructuring.

“In the six months to December 2005, just on 600 jobs have been lost as part of restructuring. Virtually all the non-management job losses were handled on the basis of ‘expressions of interest’. There were very few compulsory redundancies, which was in line with previous experience at Qantas.”

Mr Dixon said Qantas had programs and initiatives in place and planned over the next two years to “lock-in” its competitive strength and a viable cost base.

These programs and initiatives include:

- The development of two distinct and competitive brands – Qantas and Jetstar in the premium/leisure market and in the value based market.

  The Jetstar strategy involves expanding the domestic network, launching international operations and bringing the Jetstar Asia operation closer to the Jetstar Group. New Jetstar joint ventures are also planned for other parts of the world.

  This will mean considerable growth for both brands, especially Jetstar internationally in the next three years, Qantas in new international markets, and the movement of Australian Airlines into the Qantas Airlines structure.

- Large scale investment in more fuel efficient and latest technology aircraft, particularly the A380 from April 2007 for Qantas and the B787 from 2008 for Jetstar.

- The Sustainable Future Program, which is on target to achieve its initial saving target of $1.5 billion by the end of 2005/06. Over $1 billion of the extended target of another $1.5 billion in savings by 2007/08 has already been identified, including:

  - An $80 million reduction in Qantas' cost of sale over the next 12 months, following the 25 per cent reduction already achieved over the past three years, in tandem with a program to accelerate the Group's domestic online bookings from 44 per cent of total bookings to 60 per cent. Group online domestic bookings have increased fivefold in the past four years.

  - Significant restructuring of Qantas Engineering to establish stand-alone businesses that can compete with the major maintenance repair and overhaul providers (MROs) being set up in North America, Asia and Europe.

- Acceleration of the segmentation of the Qantas Group to provide more flexibility and efficiencies. This will involve a major reorganisation of the current organisational structure (see separate release).

- The sale of Qantas' Catering operations this financial year or, if this is not proceeded with, a substantial restructure of the catering operations over the next 18 months.

- Continued investment in new domestic and international Qantas Club lounges, new inflight product for the A380s, and new technology, with Internet check-in and expanded inflight connectivity planned.

Outlook

As we said at the start of the 2005/06 financial year, the changes we have made to improve the efficiency of our business have been significant. However, the extraordinary cost of fuel will have a substantial ongoing impact on the company. While further reforms in the business are under way, and coupled with the high fuel price, we do not expect to achieve the same levels of profitability in the current financial year.

Australian International Financial Reporting Standards (A-IFRS)

This is the first financial period where Qantas has reported under A-IFRS. Full details are contained within the Australian Stock Exchange (ASX) Appendix 4D.

Group Revenue

Total revenue for the half-year was $6.8 billion, an increase of $538.7 million or 8.5 per cent on the prior half-year compared to capacity growth, measured in Available Seat Kilometres (ASK), of 2.9 per cent. Excluding the unfavourable impact of foreign exchange rate movements, total revenue increased by 10.0 per cent.

Net passenger revenue, including fuel surcharge recoveries, increased by $484.1 million or 10.1 per cent to $5.3 billion with Revenue Passenger Kilometres (RPK) increasing by 4.3 per cent and yield improving by 5.4 per cent. Excluding unfavourable foreign exchange rate movements, net passenger revenue was up 11.7 per cent, with yield improving 7.1 per cent.

Other revenue categories increased by $54.6 million or 3.6 per cent largely due to increased freight revenue from additional wet-leased freighter capacity and the release of surplus revenue provisions of $52.1 million in the comparative half-year.

Expenditure

Total expenditure, including borrowing costs, increased by 9.6 per cent or $555.8 million to $6.4 billion. Excluding the favourable impact of movements in foreign exchange rates, total expenditure increased by 11.6 per cent.

This increase reflected the impact of higher fuel costs, which increased by $494.6 million or 58.0 per cent. Underlying fuel costs increased by $689.8 million before hedging benefits of $214.7 million reflecting an average into-plane fuel price rise of 57.9 per cent. Consumption increased costs by $74.9 million due to a 6.8 per cent increase in barrels consumed reflecting a 5.8 per cent increase in flying hours including freighter aircraft. Favourable foreign exchange rate movements contributed to offset the increase in fuel costs by $55.4 million.

After adjusting for total fuel price increases after hedging, total expenditure was up by 1.4 per cent compared to ASK growth of 2.9 per cent.

Manpower and staff related costs increased by $51.8 million or 3.2 per cent driven predominantly by $46.7 million in redundancy costs under the Sustainable Future Program. Activity growth and a 3.0 per cent Enterprise Bargaining Agreement (EBA) wage increase were largely offset by productivity and other cost improvement initiatives. Full-time equivalent employees (FTEs) decreased by 0.4 per cent on the comparative half-year.

Aircraft operating variable costs increased by 7.8 per cent or $92.8 million. This reflected higher airport fees and en-route charges, particularly in the domestic market, increased engine maintenance costs and higher security charges.

Financing charges, including depreciation, non-cancellable operating lease charges and net interest, decreased by 3.9 per cent or $32.1 million. This reflected lower depreciation costs offset by higher lease costs as new B738 and A320 aircraft were funded under operating leases, and a reduction in net interest due to a higher cash balance, lower debt and interest rate gains from a favourable debt currency mix.

The share of net profit in associates and joint ventures decreased by $4.8 million largely reflecting lower profits in Australian air Express and increased losses in Jetstar Asia, offset by increased contributions from Star Track Express and Travel Software Solutions.

Sustainable Future Program

In total, the Sustainable Future Program delivered $215 million in benefits across the Group in the half-year, bringing the total benefits delivered under the program to over $1.27 billion. The savings delivered in the current half-year comprised labour savings of $73 million, distribution savings of $50 million and $92 million in fleet, product and overhead initiatives.

Restructuring costs associated with the extended Sustainable Future Program, which is on track to deliver $3 billion in benefits over the five years to 2007/08, totalled $69.6 million.

This included $46.7 million in one-off retrenchment costs, including a reduction in the number of management positions by 15 per cent and other voluntary redundancy programs.

Group Unit Costs

Net expenditure cost per ASK increased by 8.5 per cent (11.3 per cent excluding foreign exchange rate movements). After eliminating the impact of unfavourable fuel cost movements and one-off restructuring expenses, unit costs improved by 5.7 per cent (3.9 per cent excluding foreign exchange rate movements).

Net Impact of Foreign Exchange Rate Movements

The net impact of foreign exchange rate movements on the overall profit before tax was a favourable $36.3 million.

Qantas Mainline

EBIT for Qantas Mainline operations totalled $404.4 million a decline of $63.5 million or 13.6 per cent on the comparative half-year.

The Mainline EBIT result includes the majority of the $69.6 million of restructuring costs while the comparative half-year EBIT benefited from the release of the $52.1 million surplus revenue provision. Adjusting the EBIT for these items was an improvement in performance of $58.2 million or 14.0 per cent.

Passenger revenue increased by 8.4 per cent, including fuel surcharge recoveries. This reflected an increase in RPKs of 2.0 per cent resulting in a 1.4 percentage point improvement in seat factor and a yield improvement of 6.2 per cent (8.0 per cent excluding the unfavourable impact of foreign exchange rate movements).

Capacity increased by only 0.1 per cent reflecting a stable fleet and the transfer of some Trans-Tasman (Christchurch) flying to Jetstar in December 2005.

This result was achieved in an environment of continued international competitor growth, with competitor capacity increasing by approximately 7 per cent over the period.

Net expenditure increased by 8.5 per cent predominantly due to fuel costs and the one-off restructuring costs.

QantasLink

QantasLink contributed $35.8 million in EBIT, an increase of $6.6 million or 22.7 per cent. The result reflected strong performance from the Dash 8 business, particularly on the Canberra routes and the Queensland network generally due to the strong resources sector.

Capacity increased by 10.4 per cent, reflecting the transition from BAe146 to B717 flying within Airlink, while RPKs increased 5.2 per cent for a seat factor decline of 3.4 percentage points. Yield, excluding foreign exchange rate movements, improved by 7.7 per cent.

Net expenditure increased by 11.7 per cent, reflecting capacity growth and the impact of fuel prices. Included within the net expenditure increase were one-off mobilisation costs of $9.9 million associated with the transition of BAe146 flying with B717 aircraft and the introduction of the new Dash 8-Q400 turboprop.

Jetstar

Jetstar reported an EBIT of $27.7 million, up $8.7 million or 45.6 per cent on the comparative half-year, which was in line with capacity growth of 46.0 per cent following the expansion of the Jetstar network in both the domestic and international markets.

RPKs increased by 51.8 per cent resulting in an increase in seat factor of 2.9 percentage points to 75.7 per cent. This was partially offset by a decline in yield of 5.6 per cent (excluding foreign exchange rate movements).

Total expenditure increased by 41.6 per cent, which included $3.9 million in start-up costs associated with the introduction of Trans-Tasman services. Jetstar's total expenditure per ASK improved to 8.20 cents which, despite the increase in fuel prices, was below the cost target of 8.25 cents per ASK previously advised.

Australian Airlines

Australian Airlines reported an EBIT loss of $6.9 million compared to a profit of $8.5 million for the comparative half-year. The result reflected tough trading conditions, particularly within the Japan market, the impact of schedule cancellations following the October 2005 Bali bombings and higher fuel costs.

Capacity declined by 1.9 per cent, reflecting the cancellation of Bali flights and the suspension of services to Sabah from April 2005 while traffic declined 7.2 per cent for a decrease in seat factor of 3.9 percentage points. The traffic decrease was partially offset by an improvement in yield of 5.8 per cent (excluding foreign exchange rate movements).

Market Share

Total Qantas Group international market share fell by 1.2 percentage points to 31.3 per cent based on the latest Bureau of Transport and Regional Economics (BTRE) statistics for the four months ended October 2005. This reflected an aggressive 7 per cent market capacity growth over the comparative period by predominantly government owned mid-point carriers.

Total Qantas Group domestic market share for the four months to October 2005 as reported by BTRE was 66.1 per cent.

Qantas Holidays

Qantas Holidays contributed $18.4 million in EBIT for the half-year, a decrease of $8.7 million or 32.1 per cent. This result was driven by lower passenger activity of 4 per cent, unfavourable exchange movements, higher domestic commissions and competitive pressure on margins in a soft market.

In both the domestic and outbound markets the effect of unbundling due to the increased use of direct on-line bookings has seen air land revenues fall by 20 per cent compared to comparative half-year. Some outbound destinations have performed well, however many have been adversely impacted by global events, including the October 2005 Bali bombings which saw bookings decline to this destination by an average of 77 per cent over the October to December 2005 period.

Qantas Flight Catering Group

Qantas Flight Catering Group reported an EBIT of $16.1 million for the half-year, an increase of $4.1 million or 34.2 per cent. After adjusting for $2.8 million of inter-company IT and manpower charges, the underlying EBIT growth was $1.3 million or 10.8 per cent compared to a sales revenue reduction of 1.0 per cent.

External revenue increased by $1.1 million largely due to the expansion of Emirates and Singapore capacity, partially offset by the loss of Cathay Pacific and Queensland Rail. Internal revenue decreased by $3.8 million largely due to the transferring of a number of domestic and international sectors to Jetstar and the descoping of the domestic offering, following the initial launch of the New Domestic Product (NDP) in August 2004.

Material spend has decreased by $2.7 million, due to a number of material management initiatives, while underlying labour costs decreased by $1.0 million with lean manufacturing programs offsetting a 3.0 per cent EBA increase.

Balance Sheet and Cash Flow

Net cash held at 31 December 2005 was $2.2 billion, which was $300.2 million higher than at 30 June 2005.

Cash flow from operations totalled $985.5 million, a decrease of $105.4 million or 9.7 per cent, which largely reflects the reduction in EBDRIT of $49.2 million and higher operating lease rentals of $50.0 million.

Net capital expenditure on new aircraft, aircraft reconfiguration and spares totalled $820.0 million, including delivery of new A330-300 aircraft, A320-200 aircraft for Jetstar, progress payments for A380 aircraft and related equipment.

Net cash outflows from financing activities totalled $240.8 million including dividend payments of $92.2 million net of reinvestment under the Dividend Reinvestment Plan. This compares to a net cash inflow in the prior half-year of $541.0 million, which included the drawdown of $630.0 million under the refinanced syndicated loan facility.

The book debt to total capital ratio, including operating leases and hedges, improved from 47:53 at 30 June 2005 to 43:57 at 31 December 2005. This improvement reflected the increase in cash reserves, reduction in total debt and the first time recognition of a Financial Instruments equity reserve of $330.0 million under Australian Accounting Standard 139 – Financial Instruments from 1 July 2005.

Earnings per share decreased 12.3 per cent to 18.4 cents per share reflecting the decline in profit after tax.

Interim Dividend

The interim dividend has been increased by 1 cent to 11 cents per share. This reflects a payout ratio of 60.2 per cent and an interim dividend yield (including franking credits) of 3.9 per cent.

The increased dividend reflects Qantas' objective of rewarding shareholders while continuing to invest in growth, including the recently announced purchase of up to 115 B787 aircraft. This objective is underpinned by the various strategies currently being implemented to deliver continued strong earnings in the future. These include the acceleration of the Sustainable Future Program announced in August 2005, and the continued Segmentation of the business to focus on internal costs and an enhanced ability of our flying businesses to meet customer needs.

With the continued operation of the Dividend Reinvestment Plan and careful management of capital expenditure, the increased dividend meets the dual objective of providing a high dividend yield whilst maintaining an investment grade credit rating.

The fully franked final ordinary dividend of 11 cents per share is payable on Wednesday, 5 April 2006, with a record date (books close) of Wednesday, 8 March 2006.

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