Media Release

QANTAS

QANTAS ANNOUNCES PROFIT RESULT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

HIGHLIGHTS

- Profit before tax of $288 million
- Net profit after tax of $216 million
- Revenue of $7.9 billion
- Earnings per share of 10.9 cents
- Cash balances on hand of $2.8 billion
- Interim fully franked ordinary dividend of 6 cents per share
- Three new A380s now in service

SYDNEY, 3 February 2009: Qantas today announced a profit before tax of $288 million for the half-year to 31 December 2008, a 68.2 per cent decrease on the prior comparative period and reaffirmed its full year profit before tax (PBT) outlook of around $500 million for the 12 months to 30 June 2009.

The Chairman of Qantas, Mr Leigh Clifford, said that while Qantas was affected by the global economic downturn and the volatility in currency and oil prices, the Group remained strong and profitable, benefiting from the structural flexibility of its two-brand strategy, its diversified portfolio of businesses, and prudent financial management.

“Our revenues have come under pressure, but through calibrating our network, stimulating demand through attractive pricing, maximising the performance of our diversified businesses, and restraining costs, we have achieved a very good result in challenging times,” he said.

The Board declared an interim fully franked ordinary dividend of six cents per share, which represents a 54 per cent payout ratio.

Key drivers of the results were:

- highly volatile prices – crude oil ranging from $US141 per barrel to $US34 per barrel;
- the Australian dollar weakened by 31 percent against the US dollar;
- Qantas Airlines was affected by a downturn in premium and international travel, with a decline in passenger revenue, and the impact of industrial disruption, but nevertheless produced a $199 million profit;
- Jetstar continued to expand its network in Australia and internationally, increasing overall capacity by 13.4 percent. Jetstar produced a $72 million profit before tax; and
- in a volatile environment, the Group's effective financing strategies - encompassing operating cost management, fuel hedging and capital acquisitions - proved significant in containing costs.

The Chief Executive Officer of Qantas Mr Alan Joyce said Qantas was not immune from the challenges posed by current global economic conditions.

"The aviation sector is experiencing a high degree of volatility," Mr Joyce said.

"Numerous airlines have failed over the past year, while many are unable to produce profits and are at risk of becoming unsustainable."

He said the Qantas Group is differentiated in the aviation industry by its high degree of structural flexibility.

"With two flying brands and a diversified portfolio of businesses, the Group has the scale and scope to respond rapidly to market developments and will be well-positioned to resume growth as soon as conditions improve."

The Group continues to hold a leading position in the domestic market, with 65 per cent share (as reported by the Bureau of Transport and Regional Economics for the year to date Nov08).

The Group's international market share was up to 30.1 per cent (BTRE) a 1.8 point increase on the prior year.

"The two flying brands of Qantas and Jetstar continue to give the Group the strategic flexibility to calibrate routes, products and prices to meet and stimulate customer demand and produce the greatest return to shareholders," Mr Joyce said.

He said Qantas Airlines continued to redefine premium airline standards with ongoing investments in fleet, product and service, including:

- a $10 million Centre of Service Excellence, a state-of-the-art Qantas training facility, opened in January 2009;
- Qantas now has three A380s in service and four more are expected by the end of 2009; and
- the ongoing rollout of Premium Economy.

“Our low-cost, value-based airline Jetstar continues to be very important to the Group’s overall strategy, both in the domestic and international markets,” he said.

“Jetstar continues to replace Qantas successfully on some international leisure routes and grow new markets.”

“With aggressive marketing and sustained market leadership on costs, Jetstar is now the fastest growing airline operating to and from Australia and is also now the major Australian carrier serving the Japanese, Thai, and Indonesian markets.”

Mr Joyce said Qantas had already responded to the downturn by significantly reducing planned capacity for the next 18 months.

“We will continue to monitor all our routes and make further decisions as necessary to protect our bottom line,” he said.

“We are accelerating initiatives to reduce costs in the short-term, while continuing to seek permanent efficiency improvements. “

The Group also benefited from a portfolio of businesses which contributed to the diversification of earnings:

- the Frequent Flyer Segment delivered a 20.8 per cent improvement in revenue on the prior half-year result. The relaunch of the Qantas Frequent Flyer program in July 2008, including new Any Seat Awards and a significantly enhanced Frequent Flyer Store, proved successful in increasing revenue and member appeal. In November 2008 a major alliance was also announced with national retailer Woolworths;

- despite strong competition from lower cost freight options, Qantas Freight Enterprises continued to achieve revenue growth; and

- July 2008 saw the merger of Jetset Travelworld Limited with Qantas Holidays and Qantas Business Travel to become the Jetset Travelworld Group, an integrated full service leisure and corporate travel business.

Qantas has separately announced an equity raising offer to shareholders.

Outlook

While fuel prices have eased over the past few months, the offset of weaker demand is mitigating these savings. In the current economic and competitive environment, cost savings have been passed on to passengers where possible, including via reduction of surcharges.

Qantas reconfirms that it expects 2008/09 PBT to be around $500 million. This remains subject to no further significant change in market conditions and fuel prices.

FINANCIAL COMMENTARY

Group Revenue

Total revenue for the half-year was $7.9 billion, an increase of $134 million or 1.7 per cent on the prior half-year compared to capacity growth, measured in Available Seat Kilometres (ASK), of 0.4 per cent.

Net passenger revenue including fuel surcharge recoveries decreased $45 million or 0.7 per cent to $6.4 billion. Traffic, measured in Revenue Passenger Kilometres (RPK), decreased by 2.4 per cent while yield improved by 1.2 per cent.

Other revenue categories increased by $179 million to $1.5 billion, primarily reflecting improvements in Frequent Flyer and Freight revenue as well as the profit on sale of Qantas Holidays.

Expenditure

Total operating expenditure increased by 13.4 per cent or $802 million to $7.6 billion, excluding depreciation and non-cancellable operating lease rentals. This was higher than the impact of capacity growth and inflationary price rises.

Employee related costs increased by $219 million or 12.7 per cent. Wage and salary increases, as well as recovery from industrial action, contributed to the increased costs. The reduction in long term bond rates has had an adverse impact on employee benefit provisions. Redundancy costs totalled $55 million, with approximately 1,000 managed redundancies affected or announced during the half-year.

Total fuel costs of $2.2 billion for the half-year were $486 million, or 28.5 per cent, higher than the previous half-year. The underlying into-plane fuel price was 40 per cent higher, increasing costs by $536 million. Hedging benefits reduced the impact of higher market fuel prices by $179 million, resulting in a net fuel price increase of $357 million. Unfavourable foreign exchange rate movements increased fuel costs by $151 million. Fuel costs would have been $38 million higher had it not been for fuel conservation initiatives delivered under Sustainable Future Program.

Aircraft operating variable costs increased $188 million or 13.7 per cent to $1.6 billion, reflecting increases across all categories, particularly in engineering heavy maintenance as the Group focused on reducing maintenance backlogs and improving on-time performance.

Depreciation and non-cancellable operating lease rentals decreased by 13.8 per cent or $106 million as the prior half-year included higher accelerated depreciation on various aircraft. Net financing income decreased by $9 million due to a lower interest rate environment.

Future (open) hedge positions resulted in ineffective accounting expenses of $1 million due to timing differences from the recognition of future hedge instruments under Australian accounting standards. This compared to ineffective derivative expenses on open positions of $33 million in the previous year.

The net effect of foreign exchange rate movements on overall profit before tax was a favourable impact of $163 million.

Qantas

Qantas which includes Qantas Airlines, QantasLink, Qantas Engineering and our Services businesses (Airports, Catering and Flight Training) achieved a PBT of $199 million.

The result was a $637 million, or 76.2 per cent, reduction compared to the previous half-year and included $86 million profit on sale of Qantas Holidays, asset write-downs and provisions of $73 million. Passenger revenue decreased by $186 million to $5 billion, or 3.4 per cent, together with a 2.7 per cent decrease in seat factor to 80.1 per cent. This is reflective of the 2.0 per cent decrease in capacity from previously announced capacity cuts. Yield however improved by 1.9 per cent per RPK.

Net expenditure, excluding fuel, increased by $421 million or 9.2 per cent. Costs across the business were impacted the industrial action earlier in the half, especially in manpower, as well as other unfavourable impacts such as foreign exchange and a concentration in efforts on maintenance in aircraft operating variable costs.

Jetstar Brands

Jetstar Brands comprises Jetstar's Australia-based operations, Express Ground Handling and Qantas' equity investment in Pacific Airlines and Jetstar Asia.

Jetstar Brands achieved a PBT of $72 million, a 48.2 per cent decrease on the prior half-year.

Passenger revenue increased by $111 million or 15.5 per cent. This was largely driven by a 13.4 per cent increase in capacity arising from the continued expansion of the Jetstar International network and the reallocation of routes from capacity cuts in Qantas.

Despite the capacity increase, seat factor decreased by 0.6 percentage point to 77.9 per cent while yields improved by 2.7 per cent reflecting the growth of international operations.

Jetstar's total expenditure cost per ASK increased 6.7 per cent to 7.5 cents. Excluding fuel and foreign exchange, unit costs reduced 2.4 per cent to 4.93 cents per ASK compared to the prior period.

Passenger volumes had increased 13.7 per cent compared to the prior half-year.

Qantas Frequent Flyer

The Frequent Flyer segment reported a PBT of $119 million up 4.4 per cent which included one-off costs associated with the relaunch of the program.

The result included revenue of $482 million which is a 20.8 per cent improvement on the prior half-year result. Billings from credit card issuers increased 19 per cent.

Qantas Freight Enterprises

Qantas Freight Enterprises (QFE) includes Qantas Cargo, Express Freighters Australia and the Group's equity investments in Star Track Express Holdings Pty Limited and Australian air Express Pty Limited. QFE has reported a PBT of $41 million for the half-year which is $5 million down on the previous comparative period. The result reflected a tough international operating environment offset by yield improvement initiatives.

Jetset Travelworld Group

In July 2008 Qantas Holidays and Qantas Business Travel merged with Jetset Travelworld Limited to form the Jetset Travelworld Group, and reported a PBT of $22 million for the half-year.

Cash Flow and Balance Sheet

Net cash held at 31 December 2008 was $2,831 million, a decrease of $79 million compared to 31 December 2007.

Cash flow from operations totalled $378 million, a decrease of $845 million or 69.1 per cent, primarily due to lower Earnings Before Interest, Taxation, Depreciation, Amortisation and Rentals (EBITDAR) by $668 million and working capital movements including reduced revenue received in advance and lower tax provisions.

Net capital expenditure totalled $1,380 million, up $562 million on the prior half-year, and included the purchase of the first three A380 aircraft, progress payments on A380, A330, A320, B738 and B787 aircraft, modifications, spares and related equipment. Proceeds from disposals increased to $373 million, up $361 million from the prior half-year, as a result of sale and lease back transactions.

Net cash inflows from financing activities totalled $845 million which included funding of aircraft purchases of $1,198 million offset by $139 million in dividend payments (reflecting $183 million cash conserved by the DRP portion of the final 2007/08 dividend), net debt repayments of $154 million and other financing activities of $60 million. The prior half-year included the repurchase of 91.1 million shares under the share buy-back.

In addition to cash held at 31 December 2008, Qantas had access to additional funding of $500 million in stand-by facilities.

Earnings per share (EPS) were 10.9 cents per share, a 65.5 per cent decrease compared to the previous half-year, reflecting the decline in net profit and the higher share base as a result of the 60 per cent participation in the DRP for the final 2007/08 dividend.

The gearing ratio as at 31 December 2008 adjusted for foreign currency impact on gross debt was 52 per cent compared to 47 per cent at 30 June 2008.

Interim Dividend

An interim dividend of 6 cents per share represents a payout ratio of 54 per cent and an annualised fully franked dividend yield of approximately 6.5 per cent (based on the 31 December 2008 share price of $2.63). The interim dividend is payable on Wednesday, 8 April 2009 with a record date (books close) of Friday, 6 March 2009.

The Dividend Reinvestment Plan (DRP) was reinstated last year and will continue to operate.

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