Media Release

QANTAS ANNOUNCES

RECORD PROFIT FOR THE YEAR ENDED 30 JUNE 2008

HIGHLIGHTS

- Record profit before tax of $1,408 million
- Net profit after tax of $970 million
- Revenue of $16.2 billion
- Earnings per share of 50.2 cents
- Operating cashflow of $2.1 billion
- Final fully franked ordinary dividend of 17 cents per share

SYDNEY, 21 August 2008: Qantas today announced a record profit before tax of $1,408 million for the full year ended 30 June 2008, a 46 per cent increase on the prior year results.

The Board declared a final fully franked ordinary dividend of 17 cents per share, taking the full year ordinary dividend to 35 cents per share, which represents a dividend payout of approximately 70 per cent.

The Chairman of Qantas, Mr Leigh Clifford, said following an excellent performance across all segments for the first three quarters, the business was starting to see the effects of a slowing economy and rising fuel prices.

“We have benefited from a strong revenue environment, which was supported by major investments in customer service and product. The result was further underpinned by sustained efforts to improve efficiency,” he said.

“Our results were also due to the hard work and commitment of our employees and I thank them for the contribution they made to the company’s success.

“In recognition of this contribution, the Board has approved the awarding of $1,000 worth of shares and a cash bonus of $1,000 to all eligible staff.”

Mr Clifford acknowledged the contribution Geoff Dixon had made to the Group since becoming Chief Executive Officer in 2000.

“Geoff and his senior executive team have done an outstanding job making Qantas stronger during events which have challenged the industry and changed its fundamentals,” he said.

“He has also been working closely with Chief Executive Officer Designate, Alan Joyce in the lead up to the transition at the end of November.”

The Chief Executive Officer of Qantas, Mr Geoff Dixon, said the key drivers of the results were:

- strong domestic and international demand, which led to a 1.2 per cent yield improvement and a 0.8 per cent improvement in seat factor to 80.7 per cent for the Group;

- the continued success of the Group’s two brand strategy, with Qantas Airlines delivering a 21.6 per cent increase in profitability, and continued growth by Jetstar in both international and domestic markets, leading to a profit increase of $37 million, or 44.7 per cent, compared to the previous year;

- improved margin management, with operating expenditure increasing only 5.6 per cent, compared to capacity growth of 4.0 per cent and CPI increases of 3.4 per cent; and

- a further $747 million of efficiencies under the Sustainable Future Program, which resulted in a unit cost reduction of 2.3 per cent.

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

- liquidated damages of $291 million ($98 million prior year) due to delays in the delivery of new aircraft;

- accelerated depreciation and asset write downs of $165 million, which included the retirement of a number of B747-300 and Dash 8-100 aircraft ($45 million prior year); and

- provision for settlements relating to freight cartel of $64 million ($47 million prior year).

The liquidated damages partially offset costs being incurred by Qantas in preparation for new aircraft deliveries, including interest foregone on aircraft progress delivery payments and buyer furnished equipment, crew training, related asset purchases (such as flight simulators) and new aircraft program costs.

The accelerated depreciation and asset write downs of $165 million were primarily the result of the capacity reductions recently announced, which will result in the retirement of over 20 aircraft.

Mr Dixon said a very strong revenue performance had driven the result, underpinned by continued major investment in product and service over the past five years, including:

- an average of $2 billion each year on new aircraft, with a further A$35 billion of aircraft currently on order;

- around $120 million a year in new product, including lounges and aircraft interiors;

- an average of $275 million each year on staff training; and

- more than $300 million on engineering and maintenance facilities, with a further $120 million committed to upgrade engineering systems.

“Our significant investment in product and service has ensured Qantas’ customer satisfaction levels remain high,” he said.

“This has been reconfirmed by our performance in the 2008 Skytrax World Airline Awards, where Qantas was ranked the world’s number three airline, out of a field of more than 160 carriers. Qantas is one of only two carriers to have been listed in the world’s top five airlines for six consecutive years.

“Jetstar, having been named airline of the year in the low cost category in 2007, was placed third this year.

“Qantas’ new $10 million Customer Service Centre of Excellence will open by the end of the year, offering enhanced customer service training for 18,000 frontline staff and management.”

Mr Dixon said the Sustainable Future Program, now in its fifth year, had achieved cumulative $3 billion in efficiency improvements since commencement in 2002/03, with a further $747 million in savings achieved during the year.

“The program is critical to our strategy and to our ability to compete successfully in the international market. To this end we are targeting to achieve further cumulative savings of $1.5 billion by June 2010.”

Mr Dixon said the full year results for the first time included separate reporting for the Qantas Frequent Flyer (QFF) and Qantas Freight businesses as part of the Group’s business segmentation strategy.

“This is in line with our announcement last year that we would position our portfolio businesses for greater growth and diversity outside their traditional aviation areas, and provide alternative ownership options.

“Regarding the loyalty business, Qantas is well advanced in its preparations for a partial Australian IPO subject to market conditions. The Board will consider this issue further in September.”*

Mr Dixon said Qantas had confronted a number of challenges in recent months, including the QF30 decompression incident.

“This serious incident, which remains the subject of official investigations, was superbly handled by the aircraft's flight and cabin crews,” he said.

“This event, coupled with the impact of the recent industrial dispute with the Australian Licensed Aircraft Engineers Association, caused significant disruption for our passengers and impacted Qantas’ financial and operating performance in recent months.

“We understand the level of scrutiny we are being subjected to at present. We will work through these issues and implement any changes that may be required, but our commitment to safety should never be questioned. Qantas has an unrivalled safety record, and safety will always remain our number one priority.”

Mr Dixon said Qantas had one of the most enviable orders of new and fuel efficient aircraft in the world which would assist in achieving fuel savings in the future of up to 20 per cent.

"While delivery of these has unfortunately been delayed due to issues with aircraft manufacturers, we are ready to take delivery of our first A380 in September and the late 2009 delivery timeframe for our first B787 Dreamliner is on track."

In relation to the current operating environment, Mr Dixon said that Qantas, and the airline industry as a whole, was facing major challenges.

"The rapid rise in fuel costs since December last year is unprecedented and the impact has been felt across the aviation industry and the world economy.

"At current prices our fuel expense will be over $1.6 billion higher in 2008/09. We have hedged 81 per cent of our crude oil price exposure at a worst case all-in cost of US$118 a barrel. This cover is all in options, which will allow Qantas to benefit if prices fall," he said.

"A large number of airlines have already announced significant financial losses, capacity reductions and job losses in the face of record high fuel prices and an economic slowdown.

"The strategies we have worked hard to implement over the past few years, including the successful two brand strategy, the segmentation of our business and the continued focus on costs through the Sustainable Future Program, have put us in a strong position to deal with the current challenges."

Mr Dixon said Qantas had built a great deal of flexibility into its various businesses to enable it to effectively handle these challenges.

"We have reacted quickly and have already announced a number of steps to reduce costs, adjust capacity, and increase fares," he said.

Outlook

Although fuel prices have eased over the past month, they have not declined to levels that will sustain the current level of profitability, and fuel and economic conditions continue to be uncertain. However, assuming no further deterioration in economic conditions, Qantas expects its 2008/09 profit before tax to be broadly in line with analyst consensus forecasts.

FINANCIAL COMMENTARY

Accounting Policy Change

Qantas announced in August 2007 that it was early adopting International Financial Reporting Interpretation 13 - Customer Loyalty Programs, as it applied to the Qantas Frequent Flyer Program and the accounting for earned frequent flyer points. The implementation of this change, which is detailed in the Qantas Full Year Report, had the effect of reducing the comparative full year profit before tax from $1,032 million to $965 million and reducing opening retained earnings at 1 July 2007 by $555 million.

Group Revenue

Total revenue for the year was $16.2 billion, an increase of $1.1 billion or 7.5 per cent on the prior year compared to capacity growth, measured in Available Seat Kilometres (ASK), of 4.0 per cent.

Net passenger revenue including fuel surcharge recoveries increased $706 million or 6.2 per cent to $12.1 billion. Traffic, measured in Revenue Passenger Kilometres (RPK), increased by 5.0 per cent while yield improved by 1.2 per cent. Excluding unfavourable foreign exchange rate movements, net passenger revenue was up 8.4 per cent, with yield improving 3.3 per cent.

Other revenue categories increased by $387 million to $3.5 billion, primarily reflecting higher liquidated damages receivable from aircraft manufacturers compared to the prior year.

Expenditure

Total operating expenditure increased by 5.6 per cent or $787 million to $14.8 billion, excluding borrowing costs and hedge ineffectiveness on open derivatives. This was below the combined impact of capacity growth and inflationary price rises.

Employee related costs increased by $199 million or 6.0 per cent. Capacity growth and wage and salary increases were offset by cost saving initiatives and productivity improvements of $186 million under the Sustainable Future Program. Restructuring costs totalled $32 million, with 758 managed redundancies effected or announced during the year.

Total fuel costs of $3.6 billion for the year were $265 million, or 8 per cent, higher than the previous year. The underlying into-plane fuel price was 34 per cent higher, increasing costs by $1,049 million, while increased flying added $142 million. Hedging benefits were $554 million higher than the previous year before adverse hedge accounting ineffectiveness which increased costs by $59 million. Favourable foreign exchange rate movements reduced fuel costs by $431 million. Fuel costs would have been $60 million higher had it not been for SFP initiatives delivered during the year which included renegotiation of fuel contracts, optimised aircraft loading and more direct flight paths.

Aircraft operating variable costs decreased $20 million or 0.8 per cent to $2.6 billion, reflecting increases in landing fees offset by reductions in aircraft operating costs and other cost saving initiatives.

Depreciation and non-cancellable operating lease rentals increased by 5.1 per cent or $91 million, while net financing income was $45 million (compared to a $10 million expense in the previous year) due to higher average cash balances and capitalised interest against aircraft progress payments.

Future (open) hedge positions resulted in ineffective accounting expenses of $12 million due to timing differences from the recognition of future hedge instruments under A-IFRS. This compared to ineffective derivative expenses on open positions of $54 million in the previous year.

Net Impact of Foreign Exchange Rate Movements

The net effect of foreign exchange rate movements on overall profit before tax was a favourable impact of $239 million.

Sustainable Future Program and Group Unit Costs

The Sustainable Future Program has exceeded its cumulative five year, $3 billion target at June 2008. Benefits delivered across the Group under the Program totalled $747 million for the full year. These benefits comprised labour savings of $186 million, fuel savings of $60 million, distribution savings of $194 million and $307 million in fleet, product and overhead initiatives. Sustainable Future Program savings contributed toward a reduction in net expenditure cost per ASK of 2.3 per cent.

Restructuring costs associated with the Sustainable Future Program totalled $117 million.

Qantas Brands

Qantas brands includes QantasLink and other subsidiaries but excludes Freight, Loyalty and Corporate Centre costs which have been separately disclosed.

The Qantas flying operations contributed a PBT of $935 million, which was a $166 million or 21.6 per cent increase on the prior year. Passenger revenue increased by $305 million to $10.7 billion, or 2.8 per cent, despite a 1.3 per cent decrease in capacity due to a shift of some international services to Jetstar. Revenue growth was driven by a 3.5 per cent increase in yield combined with an increase in seat factor to 81.4 per cent.

Net expenditure, excluding fuel, increased by $254 million or 4.0 per cent on a capacity reduction of 1.3 per cent, resulting in a net expenditure unit cost increase of 5.3 per cent.

Other subsidiaries, associates and jointly controlled entities contributed $22 million.

Jetstar Brands

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

Jetstar Australia achieved a PBT of $118.5 million, a 44.7 per cent increase on the prior year.

Passenger revenue increased by $367 million or 35.8 per cent. This was largely driven by a 44.1 per cent increase in capacity arising from the continued expansion of the Jetstar International network.

Despite the significant capacity increase, seat factor increased by 1.4 percentage point to 76.7 per cent while yields reduced by 7.4 per cent reflecting the business mix change with the growth of international operations.

Jetstar’s net expenditure cost per ASK was 4.10 cents, an improvement of 10.4 per cent (excluding fuel) on the previous year comparative. On a total expenditure basis, cost per ASK reduced 9.3 per cent.

Both net expenditure and total expenditure had benefited from capacity increases and productivity improvements. Start-up costs of $9 million were also incurred during the year.

Market Share

Total Qantas Group international market share was 31.6 per cent based on the latest Bureau of Transport and Regional Economics (BTRE) statistics for the April 2008 year to date period, a 0.5 point increase on the prior year.

Total Qantas Group domestic market-share for the eleven months up to May 2008 as reported by the BTRE was 66.4 per cent, a 0.7 point decrease on the previous year.

Qantas Frequent Flyer

The Frequent Flyer Segment reported a PBT of $234 million. The result included revenue of $850 million primarily from the redemption of Qantas Frequent Flyer points for flight and other awards. Total costs for the period were $721 million with the majority of costs being the purchase of airline seats from Qantas Group airline businesses. Interest income attributable to the Qantas Frequent Flyer segment totalled $106 million.

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 $64 million for the year which is $1 million down on the previous year.

Qantas Catering Group

The Qantas Catering Group comprises Q Catering (previously Qantas Catering and Caterair) and SnapFresh. PBT for the full year was $13 million, down $6 million on the previous year after a $15 million market price rebate paid to Qantas Airways during 2008.

Corporate Centre

The Corporate Centre includes the central functions essential for maintaining governance, minimising risk and optimising performance of the Qantas Group portfolio of businesses. The break even result for the full year included the recognition of $291 million of liquidated damages offset by overhead costs and the $64 million provision for freight cartel fines. The underlying cost of the Corporate Centre was $205 million compared to $203 million in the prior year.

Cash Flow and Balance Sheet

Net cash held at 30 June 2008 was $2,599 million, a decrease of $764 million compared to 30 June 2007 primarily due to the on-market share buy-back of 91.1 million (4.6 per cent of shares) during the year at a cost of $506 million.

Cash flow from operations totalled $2,128 million, a decrease of $296 million or 12.2 per cent, primarily due to higher tax payments, working capital movements (including liquidated damages which are receivable on aircraft delivery) and a one-off cash inflow of $188 million in the previous year from the sale of inventory.

Net capital expenditure totalled $1,424 million, up $142 million on the prior year, and included the purchase of four A330-200 aircraft and progress payments on A380, A330, A320, B738 and B787 aircraft, modifications, spares and related equipment. Proceeds from the sale of investments totalled $106 million and included the sale of the investment in Air New Zealand. Although this sale and its associated gain on disposal were recognised in the prior year, the cash proceeds were received in July 2007.

Net cash outflows from financing activities totalled $1,570 million, and included $638 million in dividend payments, net debt repayments of $443 million and the purchase of shares under the buy-back.

The book debt to equity ratio (including operating leases and the hedge reserve) at 30 June 2008 was 43:57 compared to 41:59 at 30 June 2007.

Earnings per share were 50.2 cents per share, a 47.6 per cent improvement on the previous year, which was in line with the improvement in the restated increase in profitability and the lower share base.

In addition to cash held at 30 June 2008, Qantas had access to additional funding of $500 million in stand-by facilities.

Final Dividend

The final dividend of 17 cents per share represents a payout ratio of 69.6 per cent and an annualised fully franked dividend yield of approximately 16.4 per cent (based on the 30 June 2008 share price of $3.04). The final dividend is payable on Wednesday, 1 October 2008 with a record date (books close) of Wednesday, 3 September 2008.

The Dividend Reinvestment Plan (DRP) has been reinstated and will operate for the payment of the final dividend.

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