Media Release

QANTAS 2011/2012 FINANCIAL RESULT

Key points:

- Underlying Profit Before Tax[1] of $95 million.
- Statutory Loss After Tax of $244 million.
- Record results for Jetstar and Qantas Frequent Flyer[2].
- Underlying EBIT for Qantas and Jetstar domestic networks outperformed prior year.
- Free cash flow positive[3] in second half: $206 million.
- Substantial liquidity: $3.4 billion cash.
- Operating cash flow improved to $1.8 billion.
- No final dividend declared.

SYDNEY, 23 August 2012: Qantas Group today announced Underlying Profit Before Tax of $95 million for the year ended 30 June 2012.

The Group's portfolio of businesses faced a challenging year – however, it is well-positioned for a strong, sustainable future.

The result was materially impacted by record high fuel costs ($4.3 billion, up $645 million) and industrial action culminating in the grounding of the Qantas fleet ($194 million). Operating conditions for the global aviation industry deteriorated significantly during the year, affecting most major airline businesses.

There were also one-off costs of $398 million, which are not included in Underlying PBT, as the Group initiated a turnaround plan for Qantas' international network and addressed its legacy cost base.

As a result, the Group reported a Statutory Loss After Tax of $244 million for the year.

All parts of the Group were profitable with the exception of Qantas' international network. Jetstar and Qantas Frequent Flyer achieved record results[2] and Qantas' domestic operations outperformed the prior year. The Group holds a leading position in the Australian domestic market while Jetstar continues to expand in Asia, including through the successful launch of Jetstar Japan.

In line with previous market guidance, Qantas' international network made an Underlying EBIT loss of approximately $450 million and Qantas and Jetstar's domestic networks together delivered Underlying EBIT of approximately $600 million.

Qantas Group CEO Alan Joyce said the Group had launched the biggest transformation program since privatisation in extremely challenging circumstances.

"Qantas has been through an exceptional period in its history over the past 12 months," Mr Joyce said.

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[1] Underlying Profit Before Tax (Underlying PBT) is a non-statutory measure and is the primary measure used by the Group's chief operating decision-making bodies for the purposes of assessing the financial performance of the Group. All line items in the Media Release are reported on an Underlying basis. A detailed reconciliation of Statutory and Underlying PBT is included in the Review of Operations.

[2] Jetstar result based on Underlying EBIT. Qantas Frequent Flyer result based on Normalised EBIT, which is Underlying EBIT normalised for prior period changes in accounting estimates. Refer to the Review of Operations for a reconciliation of Normalised EBIT to Underlying EBIT.

[3] 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.

"Over the course of the year we made significant progress in advancing the Group's strategy – building on our strong domestic business and frequent flyer program and growing Jetstar across Asia. Qantas' international turnaround plan is on track and set for improvement in 2012/13.

"We are now coming off a period of high capital expenditure that has given us the youngest fleet since Qantas became a public company in 1995 – an average age of 8.3 years for passenger aircraft[4]. Our Boeing 747 reconfiguration program is nearly complete, with the aircraft receiving outstanding customer feedback, and from this October we will also upgrade our domestic Boeing 767 fleet.

"We will continue to invest capital efficiently as we target greater competitiveness and customer satisfaction to deliver a stronger Qantas Group."

The Group improved cash flow during the year, achieving a free cash flow positive position of $206 million in the second half of 2011/12. Cash held at 30 June 2012 was $3.4 billion with access to a $300 million undrawn standby facility, and the Group retained an investment-grade credit rating. Ten narrow-body aircraft were purchased with cash, meaning the Group has added 18 new unencumbered aircraft over the past two years.

During the year the Group took steps to reduce planned 2012/2013 capital expenditure to $1.9 billion, and expenditure will remain at that level through 2013/2014.

Fleet renewal is substantially complete after the delivery of 114 new aircraft over the past four years and the Group will now shift its focus to debt reduction. The Group's future fleet delivery profile has been restructured with a reduction in potential commitments for the Boeing 787-9 from 85 to 50 (announced separately today), available from 2016.

Segment performance

Qantas reported an Underlying EBIT loss of $21 million, down $249 million compared with 2010/11, reflecting the poor performance of the international network. The Qantas segment result was also severely impacted by record fuel costs and industrial action.

Customer satisfaction in the domestic market is at its highest level in over three years and the Group continues to invest in Qantas' domestic network, product and service. It remains the airline of choice for corporate travellers with strong double-digit corporate revenue growth and an estimated 84 per cent share of the domestic corporate travel market.

Significant progress was made in Qantas' international turnaround plan launched in August 2011. Qantas increased capacity to its Dallas/Fort Worth and Santiago hubs, reconfigured seven out of a planned nine Boeing 747 aircraft with award-winning A380 interiors, strengthened alliance relationships and withdrew from major loss-making routes. Major business transformation initiatives, including heavy maintenance consolidation, were commenced during the year.

The benefits from these initiatives have started to flow and will deliver annual savings of approximately $300 million when all measures announced to date have been implemented.

Jetstar reported record Underlying EBIT of $203 million, up $34 million or 20 per cent on the prior year. Ancillary revenues grew by 27 per cent and unit costs were reduced to record lows. Domestically, Jetstar continues to hold a clear leadership position in the price-sensitive market.

Despite challenging operating conditions, Jetstar achieved capacity and passenger growth in all markets. Jetstar Japan was established during the year and commenced operations in July 2012, five months ahead of schedule, complementing airlines based in Singapore (Jetstar Asia) and Vietnam (Jetstar Pacific) – with Jetstar Hong Kong to be added in 2013, subject to regulatory approval. Each of these investments draws on Jetstar's well-established brand, world-class ancillary revenue model and strong local partners.

[4] Average fleet age of the Group's scheduled passenger fleet based on manufacturing dates.

Qantas Frequent Flyer achieved a record result, with Normalised Underlying EBIT of $231 million, up 14 per cent compared with 2010/11. The continued expansion and enhancement of the program saw billings increase by 14 per cent to $1.2 billion. Membership now stands at 8.6 million members, with over 500 program partners.

The acquisition of Wishlist Holdings Ltd, establishment of a new membership tier (Platinum One) and addition of major new partners such as Optus all contributed to Qantas Frequent Flyer's strong performance.

Qantas Freight's Underlying EBIT was $45 million, down $17 million compared with the prior year. The result reflects a broader downturn in global air freight markets, plus adverse fuel price and foreign exchange impacts that were only partially offset by yield improvements.

Outlook

The Group's operating environment and economic outlook for the first half of 2012/2013 remains challenging, volatile and dependent on a number of uncontrollable external factors.

Group capacity is expected to increase by 3-4 per cent in the first half of 2012/2013 compared to the first half of 2011/2012, while maintaining flexibility.

The Group aims to maintain a profit-maximising 65 per cent domestic market share. Given current market conditions, Group domestic capacity is expected to increase by 9-11 per cent in the first half of 2012/2013 compared to the first half of 2011/2012. However, the Group has significant flexibility to adjust domestic capacity should current market conditions change.

Underlying fuel costs (excluding carbon tax) for the Group are expected to be approximately $2.3 billion[5] in the first half of 2012/2013 compared to $2.2 billion in the first half of 2011/2012, due to higher forward market jet fuel prices and increased flying.

No Group profit guidance is provided at this time due to the high degree of volatility and uncertainty in global economic conditions, fuel prices, exchange rates, as well as the major transformational change agenda underway.

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[5] As at 15 August 2012.

The Qantas Group reported an Underlying PBT[6] of $95 million, a Statutory Loss Before Tax of $349 million and a Statutory Loss after Tax of $244 million for the year ended 30 June 2012.

Highlights of the full-year result include:

- A challenging year of major transformational change. The Group's portfolio of businesses performed well except for Qantas' international network:
  - Record result[7] for Jetstar and Qantas Frequent Flyer
  - Underlying EBIT[8] of Qantas and Jetstar domestic networks both outperformed prior year notwithstanding the impact of record fuel costs, industrial action and significant transformational change
  - Statutory Loss driven by significant transformation costs
- Improving Cash Flow and Liquidity
  - Free cash flow[9] positive ($206 million) in second half
  - Operating cash flow improved on prior year
  - Fleet delivery profile strategically realigned
  - Fleet renewal substantially complete resulting in the lowest average fleet age (8.3 years)[10] since privatisation
  - Substantial surplus liquidity, $3.4 billion cash with $300 million undrawn standby facility
- Successful execution of the Group's strategic objectives
  - Leading domestic market position
  - Jetstar growth in Asia, with successful launch of Jetstar Japan
  - Qantas International Transformation on track

Underlying Performance

Segment Performance Summary		June 2012	June 2011	Change	% Change
Qantas	$M	(21)	228	(249)	>(100)
Jetstar	$M	203	169	34	20
Qantas Frequent Flyer	$M	231	342	(111)	(32)
Qantas Freight	$M	45	62	(17)	(27)
Other Businesses	$M	-	3	(3)	(100)
Corporate/Unallocated	$M	(191)	(189)	(2)	(1)
Eliminations	$M	(2)	29	(31)	>(100)
Underlying EBIT	$M	**265**	**644**	**(379)**	**(59)**
Net Finance Costs [11]	$M	(170)	(92)	(78)	(85)
Underlying PBT	$M	**95**	**552**	**(457)**	**(83)**

The Group's Underlying PBT of $95 million was achieved in a year of significant challenges and major transformational change.

The industrial action and subsequent grounding in the first half of 2011/2012 had an unfavourable impact on the Group of $194 million. In addition, in 2011/2012 the Group recorded its highest ever fuel bill of $4,329 million, 18 per cent ($645 million) higher than 2010/2011.

[6] Underlying Profit/Loss Before Tax (PBT) is a non-statutory measure used by Management and the Group's chief operating decision-making bodies as the primary measure to assess the financial performance of the Group. All line items in the Review of Operations are reported on an Underlying basis. A detailed reconciliation of Statutory and Underlying PBT is provided on page 12.

[7] Jetstar result based on Underlying EBIT. Qantas Frequent Flyer result based on Normalised EBIT which is Underlying EBIT normalised for prior period changes in accounting estimates. Refer to page 10 for a reconciliation of Normalised EBIT to Underlying EBIT.

[8] Underlying Earning Before Net Finance Costs and Tax (EBIT) is the primary reporting measure for all segments except Corporate.

[9] Free cash flow – Operating cash flows less investing cash flows. Free cash flow is a measure of the amount of operating cash flows available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.

[10] Average Fleet age of the Group's scheduled passenger fleet based on manufacturing dates.

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

Strong performances were achieved by all parts of the Group except Qantas' international network. Jetstar and Qantas Frequent Flyer demonstrated their value to the Group's portfolio by again achieving record results[12]. Overall domestic network Underlying EBIT improved on prior year, with Qantas and Jetstar remaining the most profitable domestic airlines in Australia.

Qantas was the most on-time domestic airline[13]. Qantas' domestic network[14] and QantasLink[15] were awarded Airline of the Year in their respective categories and Qantas domestic customer satisfaction is at its highest level in over three years. Qantas remains the airline of choice for corporate travellers with strong double digit corporate travel revenue growth. During the year 171 large-market corporate accounts were renewed and 48 new corporate accounts[16] added, including nine won back as preferred airline.

Jetstar achieved a record Underlying EBIT of $203 million. Jetstar delivered capacity growth of 14 per cent in 2011/2012 and improved Underlying EBIT by 20 per cent. On 3 July 2012, Jetstar Japan was successfully launched five months ahead of schedule.

Qantas Frequent Flyer also delivered a record performance[12] with Underlying EBIT of $231 million up 14 per cent on prior year Normalised EBIT[12]. This result was achieved through 9 per cent member growth, increased partner engagement and enhanced product offerings. As Australia's leading loyalty program, membership continues to grow averaging more than 2,000 new members per day.

The performance of Qantas' international network weighed heavily on the Group's result. The impact of industrial action, negative global economic factors, an increase in fuel costs and a high Australian dollar have resulted in a decline in Underlying EBIT compared to prior year. Savings generated by the Qantas International Transformation program are expected to drive improvements in future results.

Increase in Net Finance Costs represents increased Net Debt and movements in interest rates.

Group Underlying Income Statement Summary		June 2012	June 2011	Change	% Change
Net passenger revenue	$M	12,494	12,042	452	4
Net freight revenue	$M	784	842	(58)	(7)
Other	$M	2,446	2,010	436	22
Revenue	$M	**15,724**	**14,894**	**830**	**6**
Operating expenses (excluding Fuel) [17]	$M	9,197	8,751	446	5
Fuel [17]	$M	4,329	3,684	645	18
Depreciation and amortisation	$M	1,384	1,249	135	11
Non-cancellable aircraft operating lease rentals	$M	549	566	(17)	(3)
Expenses	$M	**15,459**	**14,250**	**1,209**	**8**
Underlying EBIT	$M	**265**	**644**	**(379)**	**(59)**
Net finance costs [17]	$M	(170)	(92)	(78)	(85)
Underlying PBT	$M	**95**	**552**	**(457)**	**(83)**

[12] Jetstar result based on Underlying EBIT. Qantas Frequent Flyer result based on Normalised EBIT which is Underlying EBIT normalised for prior
[12] period changes in accounting estimates. Refer to page 10 for a reconciliation of Normalised EBIT to Underlying EBIT.
[13] Source: June 2012 BITRE data, Qantas most on time major domestic airline for jet operations greater than 10,000 sectors.
[14] 2012 Australian Federation of Travel Agents National Industry Awards.
[15] 2012 Air Transport World (ATW) awards.
[16] Corporate accounts refers to large-market accounts.
[17] 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 12 for a reconciliation of Statutory and Underlying PBT.

Operating statistics		June 2012	June 2011	Fav/ (Unfav) Change	Fav/ (Unfav) % Change
Available Seat Kilometres (ASKs) [18]	M	139,423	133,281	6,142	5
Revenue Passenger Kilometres (RPKs)[19]	M	111,692	106,759	4,933	5
Passenger Numbers	'000	46,707	44,456	2,251	5
Seat Factor	%	80.1	80.1	0.0 pts	-
Yield (Excluding FX) [20]	c/RPK	10.99	10.71	0.28	3
Net Underlying Unit Cost[21]	c/ASK	5.58	5.60	0.02	0.4
Comparable Unit Cost[22]	c/ASK	5.37	5.53	0.16	3

Overall, the Group continued to deliver improvements in yield and unit cost compared to prior year.

Average Group yield excluding foreign exchange (FX) improved 3 per cent. This was driven by yield improvement of 4 per cent on the Group domestic network and 2 per cent on the Group international network.

Comparable Unit Cost reduced 3 per cent compared to prior year.

Improving Cash Flow and Liquidity

Cash Flow Summary		First Half 2011/ 2012	Second Half 2011/ 2012	Year ended June 2012	Year ended June 2011	Change	% Change
Cash at beginning of period	$M	3,496	3,342	3,496	3,704	(208)	(6)
Operating cash flows	$M	823	987	1,810	1,782	28	2
Investing cash flows	$M	(1,501)	(781)	(2,282)	(2,478)	196	8
Free cash flow[23]	$M	**(678)**	**206**	**(472)**	**(696)**	**224**	**32**
Financing cash flows	$M	525	(155)	370	508	(138)	(27)
Effect of foreign exchange on cash	$M	(1)	5	4	(20)	24	>100
Cash at period end	$M	**3,342**	**3,398**	**3,398**	**3,496**	**(98)**	**(3)**

Operating cash flows grew to $1,810 million for the year ended 30 June 2012, an increase of 2 per cent on the prior year result of $1,782 million.

The Group achieved free cash flow of $206 million for the second half of 2011/2012.

Investing cash flows decreased to $2,282 million for the year ended 30 June 2012, a reduction of 8 per cent on the prior year of $2,478 million. This result reflects the disciplined management of capital expenditure through the year in light of a weaker general economic outlook. Given the Group's fleet renewal program is substantially complete, focus has turned to deleveraging and strengthening the Group's credit metrics.

[18] ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
[19] RPK - total number of passengers carried, multiplied by the number of kilometres flown.
[20] Yield and unit cost calculations are adjusted to treat fee revenue from Jetstar product bundles (launched in May 2011) as passenger revenue to ensure comparability between periods.
[21] Net Underlying Unit Cost – Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate per ASK.
[22] Comparable Unit Cost – Net Underlying Unit Cost adjusted for the impact of Industrial Action (2011/2012) and natural disasters (2010/2011) and movements in average sector length.
[23] 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.

Debt and Gearing Analysis		June 2012	June 2011	Change	% Change
Net Debt[24]	$M	3,558	2,971	587	20
Net Debt Including Off Balance Sheet Debt[25]	$M	7,544	6,970	574	8
Equity (Excluding Hedge Reserves)	$M	5,848	6,071	(223)	(4)
Gearing Ratio[26]		56:44	53:47	3 pts	6

Qantas Group cash was $3,398 million at 30 June 2012. Net Debt including Off Balance Sheet Debt[25] was $7,544 million as at 30 June 2012, a decrease of $243 million from 31 December 2011 and an increase of $574 million from 30 June 2011. As at 30 June 2012, the Group's gearing ratio was 56 per cent.

For 2012/2013, the Group is forecasting capital expenditure of $1.9 billion.

Successful execution of the Group's strategic objectives

- Domestic strength
- Jetstar growth in Asia
- Significant International Transformation
  - Strengthening alliances and exiting loss-making routes
  - Qantas international fleet reconfiguration (A380/B747)
  - Fundamental reform of legacy cost base

Domestic strength - achieved through successful execution of multi brand strategy

The multi brand strategy allowed the Group to position Qantas' domestic network as 'best for business and premium travel' supported by Jetstar offering consistently low fares. The successful execution of the strategy is evidenced by Qantas and Jetstar continuing to be the two most profitable Australian domestic networks, maintaining the Group's profit maximising 65 per cent market share.

This domestic strength was further reinforced by additional Frequent Flyer program product offerings through the acquisition of Wishlist, development of epiQure by Qantas Frequent Flyer and launch of CBA Diamond Direct, Woolworths Qantas card and the NAB Qantas Business card.

Jetstar Growth in Asia

Significant milestones were achieved in the execution of Jetstar's pan-Asian strategy. Jetstar Asia grew capacity by 38 per cent in 2012. Jetstar Japan launched five months ahead of schedule on 3 July 2012. In addition, a joint venture with China Eastern Airlines (Jetstar Hong Kong) was announced and is planned to launch in mid 2013. Jetstar Pacific has been restructured for growth with new local partner, Vietnam Airlines.

Qantas International Transformation

The Qantas International Transformation is on track. Significant progress has been made on announced initiatives including:

- The exit of the following international routes:
  - Bangkok and Hong Kong to London
  - Singapore to Mumbai
  - Auckland to Los Angeles

  These changes result in the early retirement of six Boeing B747-400 aircraft

- Deepening and broadening alliances

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

[25] Net Debt Including Off Balance Sheet Debt includes Net Debt and non-cancellable operating leases. This measure reflects the total debt funding used by the Group to support its operations. Non-cancellable operating leases are a representation assuming assets are owned and debt funded and is not consistent with the disclosure requirements of AASB117: Leases.

[26] Gearing Ratio is Net Debt including Off Balance Sheet Debt to Net Debt including Off Balance Sheet Debt and Equity (excluding hedge reserves). The gearing ratio is used by Management to represent the Qantas Group's entire capital position by measuring the proportion of the Group's total net funding provided using debt both on and off balance sheet debt.

  - Antitrust immunity received for a Joint Business Agreement with American Airlines
  - Network enhancements linking directly with the American Airlines hub in North America (Dallas-Fort Worth) and the LAN hub in South America (Santiago)
  - Enhanced network with British Airways

- Seven B747s (out of a planned nine) upgraded to the award-winning A380 product standard. Twelve A380s in the process of being reconfigured by adjusting the cabin layout and seating mix to better suit customer demand for different classes of travel.

- In addition, there were a number of announcements through the year including:
  - Streamlining heavy maintenance and engineering via:
    - Closure of the Melbourne Heavy Maintenance facility
    - Closure of Sydney Component Maintenance
    - Consolidation of a number of support activities into the remaining maintenance facilities
    - Streamlining of engineering practices through implementation of Maintenance on Demand
  - Decision to close the Adelaide catering facility in 2013, and
  - Agreement to sell the Cairns and Riverside catering facilities

These initiatives are expected to contribute around $300 million in annual benefits once fully implemented.

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 strong complementary flying brands, whilst retaining significant flexibility to respond to changes in market conditions.

At 30 June 2012, the Qantas Group fleet comprised 308 aircraft. During the year, the Group acquired 37 owned aircraft (34 purchased, three purchased ex-lease) and five leased aircraft:

- Qantas – two A380s, 13 B737-800s, three Bombardier Q-400s, 10 F100s, three ex-leased B767-300s and two B717-200s
- Jetstar (including Jetstar Asia) – seven A320-200s, two A330-200s

The Group retired 14 aircraft during the year (five B747-400s, two B767-300s and seven B737-400s).

Qantas

- Underlying EBIT $(21) million
- $404 million QFuture benefits
- Impact of industrial dispute and increase in fuel price
- Revenue and capacity growth
- Continued domestic strength
  - Improved domestic performance on last year
  - Superior on-time performance[27]
  - Domestic fleet renewal
  - High levels of customer satisfaction
  - Strategic growth of QantasLink
  - Expansion of fly-in fly-out business
- Qantas International Transformation on track

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	11,833	11,315	518	5
Seat Factor	%	80.5	81.0	(0.5) pts	(0.6)
Underlying EBIT	$M	(21)	228	(249)	>(100)

Qantas' Underlying EBIT was $(21) million for the year ended 30 June 2012, a decrease of $249 million on the prior year. The result was impacted by the $194 million financial impact of the industrial dispute and a 19 per cent increase in average USD fuel prices.

[27] Source: June 2012 BITRE data, Qantas most on-time major domestic airline for jet operations greater than 10,000 sectors.

Qantas achieved $404 million of QFuture benefits in the year, culminating in a total $1.4 billion over three years.

Domestically, Qantas achieved a higher Underlying EBIT relative to 2010/2011. The result was achieved by building on the existing fundamental domestic network advantage and delivering the best average on-time performance of any major Australian domestic airline for the last three years.

Qantas aims to provide the world's best domestic travel experience. This is supported by continued investment in its award-winning product and service offering. Faster, smarter check-in technology has now been rolled out at all major capital city ports, a wide range of regional ports and for many trans-Tasman services.

The domestic fleet renewal program continues with the introduction of B737-800 NG (next generation) aircraft, new in-seat entertainment and the trial of Q-streaming on some domestic routes.

Domestic customer satisfaction is at its highest level in over three years. These results have been recognised by continued customer support. 48 new large-market corporate accounts have been signed, including nine won back as preferred airline, and 171 renewed during the year. Despite aggressive competition only four large-market corporate accounts have been lost.

QantasLink made a significant contribution to Qantas' domestic performance. Capacity growth of 7 per cent was supported by investment in new aircraft and enhanced scheduled network services. QantasLink was awarded 'Regional Airline of the Year' 2012 by Air Transport World magazine.

In addition there was investment in Network Aviation's fly-in fly-out business with the addition of 10 F100 aircraft to support Australia's resource sector.

Internationally, Qantas remains an iconic business operating the flagship aircraft of the Qantas fleet. The fleet renewal program was substantially completed during the year and Qantas continues to operate a modern international fleet with consistent award-winning product offerings.

Qantas' International Transformation program has been initiated to improve business economics and transform the cost base in order to develop a strong and viable business. This will be achieved by enhancing customer offerings to provide the best service for global travellers, building on existing partnerships and new alliances, and ongoing business improvement initiatives to reduce the cost base.

Jetstar

- Record Underlying EBIT $203 million, up 20%
- Record Ancillary Revenue up 27%[28]
- Unit cost[29] down 2% to record lows
- Strong performance across domestic network
- Growth in Asia including launch of Jetstar Japan

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	3,076	2,613	463	18
Seat Factor	%	79.2	77.8	1.4 pts	1.8
Underlying EBIT	$M	203	169	34	20

Jetstar achieved a record Underlying EBIT result of $203 million for the year ended 30 June 2012, an increase of $34 million (20 per cent) on the prior year result of $169 million. This result was driven by an 18 per cent increase in total revenue and sustained improvements in unit cost offsetting increases in fuel prices.

Jetstar's strong domestic results highlight the benefits of the Qantas Group's two complementary flying brands and Jetstar's strong competitive position in the Australian market.

[28] Ancillary revenue per passenger.
[29] Unit cost – Jetstar unit cost is measured based on controllable unit cost. Controllable unit cost is calculated as total expenses excluding fuel per ASK.

Despite challenging market conditions, Jetstar has been able to maintain growth in capacity and passengers in all markets. Jetstar grew overall capacity by 14 per cent compared to 2010/2011. This includes growth in domestic capacity of 7 per cent, international capacity of 12 per cent and Jetstar Asia capacity of 38 per cent. Overall, load factors improved to 79.2 per cent, an increase of 1.4 points compared to 2010/2011. At the same time, Jetstar has been able to improve yields, most notably across domestic leisure markets in the second half.

Unit cost has improved to record lows with a 2 per cent reduction compared to prior year.

Jetstar achieved record ancillary revenue of $31 per passenger driven by the addition of new product streams and increased sales of fare bundles and pre-paid baggage.

During the year Jetstar completed the retrofit of 32 A320 aircraft with a new lightweight seat that provided an additional three seats per aircraft and improved fuel efficiency.

Jetstar is committed to growth in Asia and continues to strengthen its position as a pan-Asian carrier. Within Asia, there are now Jetstar branded franchises based in Singapore, Vietnam and Japan, with Hong Kong to be added in 2012/2013 subject to regulatory approval.

Jetstar Japan was successfully launched in July 2012, five months ahead of schedule, with strong local partners JAL, Mitsubishi Corporation and Century Tokyo Leasing Corporation. The airline has a fleet of four A320s flying to five destinations within Japan: Tokyo, Osaka, Sapporo, Fukuoka and Okinawa. Jetstar Japan is expected to grow to 13 aircraft by June 2013 with funding committed for a total of 24 aircraft. International services will commence in the second half of 2012/2013 subject to regulatory approval.

In addition, the Group has formed a strategic alliance with China Eastern Airlines for the establishment of a 50:50 joint venture in Jetstar Hong Kong. Jetstar Hong Kong will be the first ever foreign joint venture with a Chinese airline. Jetstar Hong Kong plans to commence services in late 2012/2013 (subject to regulatory approval).

Jetstar's international network will leverage the growth of these Jetstar branded airlines to provide traffic flow between Australia and Asia and reinforce the Group's strong competitive position in the leisure travel markets across Asia-Pacific.

Qantas Frequent Flyer

- Record Normalised EBIT of $231 million, up 14%
- Normalised EBIT CAGR[30] of 16% over the last four years
- 8.6 million members, up 9%
- Billings $1,187 million, up 14%
- 5.1 million awards redeemed, up 16%
- New Partnerships and Products

		June 2012	June 2011	Change	% Change
Members	M	8.6	7.9	0.7	9
Billings	$M	1,187	1,042	145	14
Underlying EBIT	$M	231	342	(111)	(32)
Normalisation Adjustment	$M	-	(140)	140	(100)
Normalised EBIT[31]	$M	231	202	29	14

Qantas Frequent Flyer's Normalised EBIT was $231 million for the year ended 30 June 2012. The result was a 14 per cent improvement compared to prior year Normalised EBIT. Membership has grown 9 per cent to 8.6 million, averaging more than 2,000 new members each day.

Qantas Frequent Flyer has developed into the premier loyalty business in Australia. The acquisition of Wishlist Holdings Ltd with over 100 loyalty programs has broadened the business into the employee reward and recognition market.

[30] CAGR – Compound Annual Growth Rate.
[31] Normalised EBIT is a non-statutory measure which creates a comparable basis for the presentation of results. It adjusts Qantas Frequent Flyer Underlying EBIT for the effect of change in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009. The effect of this difference was that revenue for the year ending 30 June 2011 was $140 million higher than it would have been had the deferred value per point been the same as that applied in the current period.

Program enhancements and alliances combined with continued growth in membership have allowed the business to generate billings growth of 14 per cent. Customer satisfaction measured through the Qantas Frequent Flyer Net Promoter Score is higher than levels recorded before the industrial dispute.

The Qantas Frequent Flyer program was further enhanced during the year through:

- Improved tier and cabin benefits
- The launch of "Platinum One" a level of recognition for the most valuable frequent flyers
- Improved access to classic award seats and upgrades
- Expanded Jetstar earn and redeem options
- A new look Qantas Frequent Flyer Store with over three thousand products, experiences and vouchers
- A simplified reward option where members can register to receive quarterly retail vouchers delivered to their home

Significant partner expansion was also achieved through the launch of Optus and new credit card partners Bankwest, Jetstar Mastercard and Qantas Staff Credit Union. Qantas Frequent Flyer has over 500 partners through which members can now earn points.

Qantas Freight

- Underlying EBIT $45 million, down $17 million
- Continued growth in Asia
- Weakness in worldwide airfreight markets

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	1,013	1,054	(41)	(4)
Underlying EBIT	$M	45	62	(17)	(27)
Load Factor	%	53.5	58.6	(5.1) pts	(9)

Qantas Freight's Underlying EBIT was $45 million for the year ended 30 June 2012, a decrease of $17 million on the prior year.

The downturn in global airfreight markets resulted in a 9 per cent reduction in load. Significant increases in fuel price and an unfavourable foreign exchange impact was partially offset by a 2 per cent improvement in yield.

Capacity in the Asian market is growing through Jetstar's international network and the Jetstar branded franchises in Asia. Freighter operations from Australia to Chongqing commenced in April 2012.

Reconciliation of Underlying PBT to Statutory PBT

Statutory PBT has declined to a loss of $349 million for the year ended 30 June 2012 from a profit of $323 million in the prior year.

Underlying PBT

Underlying PBT is a non-statutory measure, and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Executive Committee and the Board of Directors. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of the Group.

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.

Reconciliation of Underlying to Statutory PBT	June 2012 $M	June 2011 $M	Change $M	Change %
Underlying PBT	**95**	**552**	**(457)**	**(83)**
Items not included in Underlying PBT				
- AASB 139 mark-to-market movements relating to other reporting periods	**(46)**	**(122)**	**76**	**62**
Qantas International Transformation costs				
- Impairment of property, plant & equipment	(147)	-	(147)	>(100)
- Redundancies and restructuring	(198)	-	(198)	>(100)
- Impairment of goodwill	(18)	-	(18)	>(100)
- Write down of inventory	(13)	-	(13)	>(100)
	(376)	**-**	**(376)**	**>(100)**
Other Items				
- Redundancies and restructuring	(5)	(28)	23	82
- Net impairment of property, plant & equipment	-	(34)	34	100
- Net impairment and net losses on disposal of investments	(19)	(20)	1	5
- Legal provisions	2	(25)	27	>100
	(22)	**(107)**	**85**	**79**
Statutory PBT	**(349)**	**323**	**(672)**	**>(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 are currently redrafting 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.

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.

The key initiatives resulting in the Qantas International Transformation costs not included in Underlying PBT are discussed in detail on page 7.