Media Release

QANTAS RESULTS

FOR THE YEAR ENDED 30 JUNE 2006

HIGHLIGHTS

- Profit before tax of $671 million
- Net profit after tax of $480 million
- Revenue of $13.6 billion
- Final dividend of 11 cents per share fully franked, taking total fully franked dividends for the year to 22 cents
- Earnings per share of 24.9 cents

Media Release

QANTAS REPORTS FULL YEAR PROFIT OF $671 MILLION

SYDNEY, 17 August 2006: Qantas today announced a profit before tax of $671 million for the year ended 30 June 2006, a 26.6 per cent decrease on the year to 30 June 2005.

The result was achieved in an environment where jet fuel prices increased costs by almost $1.1 billion before hedging benefits of $282 million.

Profit before tax included one-off restructuring costs of $182 million under the airline's Sustainable Future Program and the recognition of $104 million in liquidated damages from Airbus due to the delayed delivery of the A380.

Net profit after tax was $480 million, a 30.4 per cent decrease on the previous year. Prior year tax was lower following the Group's entry into Tax Consolidations and the utilisation of previously unrecognised capital losses.

The Directors declared a fully franked final dividend of 11 cents per share. The dividend for the full year was 22 cents, 2 cents higher than the prior year.

The Chairman of Qantas, Ms Margaret Jackson, said that, despite the difficult operating conditions, the company's fundamentals were strong.

"We have strong revenues and operating cashflows, improved gearing, world-class customer service recognition, the right aircraft for the future and a new airline in Jetstar that has delivered strong earnings growth and industry benchmark cost containment."

Ms Jackson said Qantas was pleased to be able to reward shareholders by paying fully franked dividends.

"All of our employees can be justifiably proud of what they have achieved in an environment of unrelenting pressure.

"Very few businesses have had to face a challenge on the same scale as airlines confronting fuel price increases, which at Qantas have increased from 17 per cent of net operating costs to around 30 per cent in just two years.

"The difficulties faced by end-of-line carriers like Qantas were highlighted with the recent decision by Austrian Airlines – the last continental European carrier still flying to Australia – to pull out of the market. Austrian was the sixth European carrier to withdraw from the route in the past ten years, reflecting the pressures of fuel costs and intense competition from hub carriers based in Asia and the Middle East, which enjoy substantial geographic and other structural advantages."

Ms Jackson said Qantas had held its position as the number two customer service airline in the world for the second consecutive year in the 2006 Skytrax survey at a time when some strong competitors experienced a fall in their ratings.

"This reflects our extensive investment in product and the professionalism of our staff. Maintaining these high standards is critical to our success in our intensely competitive markets, and will continue to be a priority for the Group."

The Chief Executive Officer of Qantas, Mr Geoff Dixon, said that the Group's airlines were carrying more people than ever before and revenues were at record levels.

"However, the stark reality is that without the cost savings we have achieved through our Sustainable Future Program, we would not be in the profitable position we are today."

Mr Dixon said the underlying unit cost reduction during the year of 2.2 per cent, excluding fuel and restructuring costs, while affected by a six month delay in finalising decisions surrounding the transformation of the Group's engineering and catering operations and lower capacity growth than in previous years, was not enough in the current environment.

Mr Dixon said the main contributors to the full-year result were:

- an improvement in yield of 5.8 per cent (including the unfavourable impact of foreign exchange rate movements) and a 0.7 percentage point improvement in seat factor to 77.0 per cent;

- capacity growth of 3.6 per cent predominantly within the domestic leisure market as Jetstar took delivery of its 23rd A320 aircraft;

- strong cashflow from operations despite the decline in profit which, after capital investments and other financing costs, saw the airline's cash position improve by $998 million to just over $2.9 billion;

- a further $501 million of savings under the Sustainable Future Program. This meant the business achieved its initial three year target of $1.5 billion in savings by 2005/06; and

- superior and award winning product and customer service in both the international and domestic airlines.

Mr Dixon said that, along with the uncertain security environment, the cost of fuel remained the single biggest challenge for the industry and for Qantas.

"Fuel costs for Qantas in 2005/06 totalled $2.8 billion – a 45.1 per cent increase on the prior year. While nobody can predict how high fuel prices will go or how long they will stay at these levels, we are forecasting a total fuel bill of $3.9 billion for 2006/07.

“In February this year, I said our business transformation would need to be predicated on a fuel cost of above US$60 a barrel for crude oil. That figure is now more than US$70 a barrel.

“In addition, we have spent over $1 billion since 2000/01 on security and related insurance. Given the events of last week, this will continue to represent an increasing and significant cost for the Group.

“The next year will be tough. However, it is imperative that the Qantas Group continues to grow to maintain a competitive network proposition, and that growth must be profitable.”

Mr Dixon said this meant Qantas could not be satisfied with incremental change – it needed to make fundamental structural change on a much greater scale than it had in the past.

“A key reason we have been able to achieve the reforms we have to date is the increased transparency of individual business performance made possible by Segmentation.

“Since 2003, we have been working towards developing our various businesses into separate segments – including engineering, airports, catering, each of the flying businesses and freight – which has given greater clarity around cost structures.

“The next phase of this process will involve transitioning each business from a cost centre to a profit centre.

“Each and every part of the Qantas Group must eventually stand on its own, recover its own cost of capital and compete internally for investment.”

Mr Dixon said the level of separation that Qantas’ value based carrier Jetstar already enjoyed was a guide to where each segment would need to head over the near term.

He said the changes would involve:

- the aggressive growth of Jetstar international and QantasLink into markets where their costs and model better suited the customer base;
- developing a range of alternative structures to give business units greater independence;
- a significant net reduction in staff numbers, including over 1,000 management and support positions, with a 2006/07 restructuring cost of more than $200 million; and
- exiting businesses that cannot achieve required returns.

Mr Dixon said Qantas would also:

- defend the Group’s strong position in the domestic aviation market;
- develop new international point-to-point services in growth markets such as China;

- integrate the Jetstar group operations, including domestic, the Singapore-based Jetstar Asia and the new long haul international operations;

- pursue growth in the Asia value-based market, including evaluating opportunities for joint ventures to complement Jetstar's existing Singapore-based operation;

- implement the restructure of catering, which would deliver a significant improvement in profitability within two years; and

- finalise the review of narrow-body heavy maintenance, with a decision expected soon, as part of the transformation of Qantas Engineering to achieve world best practice efficiency.

Mr Dixon said Qantas would move to accelerate its diversification strategy, with a major focus on the freight market.

"We will consolidate and then separate our existing freight interests, including our international and domestic freight line haul operations, air freight terminals around Australia, logistics centres, our 50 per cent interests in Star Track Express and Australian air Express, and our new domestic freighter operation, Express Freighters Australia.

"These interests currently have revenues of $2.25 billion and have excellent growth prospects.

"The coordination of each of these interests will better serve our customers and provide further opportunities for growth.

"The general freight market in Australia is currently undergoing significant consolidation and we remain interested in pursuing opportunities as they arise."

Mr Dixon said Qantas was continuing preparations for the delivery, from late 2007, of the Airbus A380, which remains the optimal aircraft for flying between hubs and on dense point to point routes.

"We also look forward to the arrival of the Boeing 787 Dreamliner, which is expected to use 20-25 per cent less fuel per seat than equivalent existing aircraft, from 2008.

"In addition, the Qantas Group has confirmed orders for four additional A330-200 aircraft for delivery from 2007, including two for Jetstar and two for Qantas' use in growing point-to-point markets."

"We remain confident that we can finance our investment program through business cashflows and existing facilities."

Mr Dixon said over the next 12 months, Qantas would also concentrate on:

- further investment to upgrade product, including internet check-in later this year and new International First and Business Qantas Club lounges in Sydney and Melbourne in the first half of 2007;

- working to secure regulatory approval for the Qantas/Air New Zealand Tasman Network Agreement, with the aim of achieving a more sustainable structure for trans-Tasman flying; and

- fuel conservation, with a program in place to save $100 million over three years.

Mr Dixon said the Qantas Group would implement its business transformation in the coming year with sensitivity.

“There were 1,245 managed retrenchments during 2005/06, with very few forced redundancies.

“This included 370 engineering employees who requested redundancy following the closure of the Sydney heavy maintenance base in June 2006. All but 20 of the remaining staff have been placed within the Group.”

Mr Dixon said the reality for Qantas, was that fuel and people now represented around 60 per cent of the Group’s operating costs.

“Many airlines are now achieving substantial cost improvements through Chapter 11 bankruptcy protection, consolidation and mergers and government support – avenues not available to Qantas.

“While we will continue with existing efficiency programs, unfortunately much of our savings over the next two years must come from labour costs, which totalled $3.3 billion in 2005/06.

“This will involve, as already outlined, job losses and significant changes to achieve greater productivity and flexibility.”

Mr Dixon said Qantas and Jetstar would, in the future, use a variety of industrial instruments to improve overall efficiency, including Australian Workplace Agreements (AWAs).

“The AWAs will be fair and reasonable and will reflect the need for Qantas and Jetstar to achieve outcomes that will enable profitable growth in markets where our competitors have significant cost and structural advantages.

“This is a fact of life for the Group. Any other strategy will result in the eventual ceding of significant markets to our lower cost competitors, particularly in Asia.”

Mr Dixon said the Board and Management of Qantas realised that these changes were not without real challenges.

“That said, we are determined to establish a cost base that will enable future growth, which will protect the great majority of the Group’s 37,000 jobs.”

Outlook

As outlined above, high fuel prices are continuing to have a severe impact on the company. While we expect the acceleration of reforms throughout the Group to continue to improve productivity and efficiency, they will have a cost. Nevertheless, we remain confident that after these higher costs, the Group will deliver a result in line with the 2005/06 result.

Australian International Financial Reporting Standards (A-IFRS)

These results are the first full year results where Qantas has reported under A-IFRS. Full details of the impact of transitioning to A-IFRS are contained within Qantas' Preliminary Final Report as lodged with the Australian Stock Exchange (ASX).

Group Revenue

Total revenue for the year was $13.6 billion, an increase of $1,083 million or 8.6 per cent on the prior year compared to capacity growth, measured in Available Seat Kilometres (ASK), of 3.6 per cent. Excluding the unfavourable impact of foreign exchange rate movements, total revenue increased by 9.4 per cent.

Net passenger revenue, including fuel surcharge recoveries, increased by $932 million or 9.7 per cent to $10.5 billion with Revenue Passenger Kilometres (RPK) increasing by 4.5 per cent and yield improving by 5.8 per cent. Excluding unfavourable foreign exchange rate movements, net passenger revenue was up 10.7 per cent, with yield improving 6.9 per cent.

Other revenue categories increased by $151 million or 5.0 per cent largely due to increased freight revenue from additional wet-leased freighter capacity of $128 million.

Expenditure

Total expenditure, excluding borrowing costs, increased by 11.9 per cent or $1,371 million to $12.9 billion. Excluding the favourable impact of foreign exchange rate movements, total expenditure increased by 12.7 per cent.

This increase reflected the impact of higher total fuel costs and business restructuring costs. After adjusting for these items, total expenditure was up by 3.3 per cent compared to ASK growth of 3.6 per cent.

The total fuel cost increase of $871 million included the effect of fuel price rises, which increased costs by $1,066 million before hedging benefits of $282 million. This reflected an average into-plane fuel price rise after hedging of 42.5 per cent. Higher consumption from the 3.6 per cent increase in capacity increased costs by $90 million. Favourable foreign exchange rate movements reduced fuel costs by $3 million.

Manpower and staff related costs increased by $158 million or 5.0 per cent, including $134 million in business restructuring costs. Activity growth and a 3.0 per cent EBA wage increase were largely offset by productivity and other cost improvement initiatives. Full-time equivalent employees (FTEs) decreased by 1.9 per cent on the prior year.

Aircraft operating variable costs increased by 6.5 per cent or $155 million. This reflected increased engine maintenance costs, higher en-route charges and airport fees, particularly in the domestic market, and higher security charges including additional airside screening requirements.

Financing charges, including depreciation, non-cancellable operating lease rentals and net interest, increased by 3.2 per cent or $52 million, which was broadly in line with capacity growth. The increase in operating lease charges reflects a change in the aircraft financing mix from debt funded to operating lease, as seen in the 0.7 per cent increase in depreciation and 45.2 per cent reduction in net interest cost.

Net Impact of Foreign Exchange Rate Movements

The net effect of foreign exchange rate movements on overall profit before tax was an unfavourable impact of $2 million.

Sustainable Future Program

Benefits delivered across the Group under the Sustainable Future Program totalled $501 million in the year. The program is on course to deliver the extended target of $3 billion in benefits over the five years to 2007/08. The savings delivered in the current year comprised labour savings of $138 million, distribution savings of $126 million and $237 million in fleet, product and overhead initiatives.

Restructuring costs associated with the Sustainable Future Program totalled $182 million, including $109 million in redundancy costs.

Group Unit Costs

Net expenditure cost per ASK increased by 10.9 per cent. After eliminating the impact of unfavourable fuel cost movements and restructuring expenses, unit costs improved by 2.2 per cent.

Qantas Mainline

PBT for Qantas Mainline operations (including QantasLink and Australian Airlines) totalled $542 million, a decline of $203 million or 27.3 per cent on the prior year.

Passenger revenue increased by 9.0 per cent, including fuel surcharge recoveries reflecting a 7.9 per cent improvement in yield (excluding unfavourable foreign exchange rate movements) and a 1.0 point increase in seat factor to 77.2 per cent.

Capacity increased by 0.8 per cent reflecting the commencement of services to Beijing and San Francisco, transfer of some trans-Tasman and domestic flying to Jetstar, and the new Dash 8-Q400 turboprop aircraft within QantasLink.

Net expenditure increased by 11.0 per cent, predominantly due to the impact of fuel price increases. Mainline net expenditure also includes the majority of the $182 million in restructuring costs and the $104 million in liquidated damages from Airbus.

Jetstar

Jetstar reported a PBT of $11 million, after $4 million of start-up costs for trans-Tasman operations and $10 million in costs associated with the launch and set-up of Jetstar International. Excluding these costs, Jetstar PBT was $25 million, which was a decline of $11 million on the prior year reflecting the impact of fuel price rises and higher operating lease charges following the transition to an all-A320 fleet.

Passenger revenue improved by 40.2 per cent. Yield (excluding foreign exchange rate movements) declined by 4.8 per cent, which is a solid performance given the significant capacity increase. Seat factor improved by 1.6 points to 74.0 per cent.

Operating profit (excluding Jetstar international launch and set up costs) improved by 43.6 per cent, which was in line with capacity growth of 44.3 per cent, reflecting the expansion of the Jetstar network in both the domestic and international markets as the airline progressively took delivery of its fleet of 23 A320s.

Total expenditure per ASK, including operating lease costs and excluding international start up costs was 7.87 cents.

Market Share

Total Qantas Group international market share fell by 1.0 percentage point to 31.1 per cent based on the latest Bureau of Transport and Regional Economics (BTRE) statistics for the ten months ended April 2006. This reflected continued expansion by government owned carriers despite the introduction of additional services to Beijing and San Francisco by Qantas.

Total Qantas Group domestic market-share for the 11 months to May 2006 as reported by the BTRE was 66.3 per cent.

Qantas Holidays

Qantas Holidays contributed $45 million in PBT for the year, a decrease of $19 million or 29.1 per cent. This result was driven by lower air travel customers, particularly in the domestic market, where the continued unbundling of product offerings accrued through the increased use of on-line bookings. The result also reflects the impact of the Bali bombings, which saw bookings decline to this destination by an average of 70 per cent over the year.

Qantas Flight Catering Group

Qantas Flight Catering Group PBT increased by $13 million or 51.6 per cent to $37 million. After adjusting for $12 million of favourable inter-company charges, underlying PBT growth was $1 million or 3.3 per cent compared to a sales revenue reduction of 3.1 per cent.

This result was achieved by reduced material spend of $10 million, due to a number of material-management initiatives, while underlying labour costs decreased by $3 million with lean manufacturing programs offsetting a 3.0 per cent EBA increase.

External revenue decreased by $6 million largely due to the loss of Malaysia Airlines and Queensland Rail and reduction of Thai Airways flights. This was partially offset by the expansion of Emirates and Singapore Airlines volume. Internal revenue decreased by $15 million largely due to the transferring of a number of domestic and international sectors to Jetstar and a transfer price reduction of $5 million to Qantas.

Balance Sheet and Cash Flow

Net cash held at 30 June 2006 was $2.9 billion, which was almost $1.0 billion higher than at 30 June 2005.

Cash flow from operations before tax payments totalled $2,309 million, a decrease of $42 million or 1.8 per cent. This is lower than the reduction in PBT due to higher revenue received in advance held at 30 June 2006 reflecting strong booking intakes in the last quarter of 2005/06 for travel predominantly in the first half of 2006/07 and the ongoing success of working capital improvement initiatives.

Net capital expenditure on new aircraft, aircraft reconfiguration and spares totalled $1,527 million, including the delivery of new A330-300 and B737-800 aircraft, modifications and related equipment. Jetstar A320 aircraft delivered in the year were financed directly via operating lease. In addition, a number of B737-800 aircraft were refinanced under sale and operating leaseback arrangements.

Net cash outflows from financing activities totalled $138 million including dividend payments of $212 million net of reinvestment under the Dividend Reinvestment Plan. This compares to a net cash outflow in the prior year of $44 million. New borrowings in the year included US$400 million from a 144A debt raising in the United States, the proceeds of which were used for general corporate purposes including investment in fleet and product and also to retire debt.

The book debt to equity ratio (including off Balance Sheet debt) at 30 June 2006 was 44:56 after inclusion of the new financial instruments Hedge Reserve. The gearing ratio at June 2005 as determined under the former AGAAP was 47:53.

Earnings per share decreased by 32.5 per cent to 24.9 cents per share reflecting the decline in profit after tax.

Final Dividend

The final ordinary dividend has been declared at 11 cents per share. The full year fully franked dividend of 22 cents per share reflects a fully franked dividend yield of 10.6 per cent.

The dividend is payable on Wednesday, 4 October 2006, with a record date (books close) of Wednesday, 6 September 2006.

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