Media Release

QANTAS ANNOUNCES PROFIT RESULT – YEAR ENDED 30 JUNE 2010

RECOVERY ON TRACK, WITH STRONG PERFORMANCE BACKED BY TWO BRAND AND PORTFOLIO BUSINESS STRATEGY

KEY POINTS

- Underlying Profit Before Tax[1] of $377 million
- Revenue of $13.8 billion
- Operating cashflow of $1.3 billion
- Cash balance of $3.7 billion
- Unit costs down 4.3% across the Qantas Group, excluding fuel

SYDNEY, 12 August 2010: Qantas today announced an Underlying Profit Before Tax (Underlying PBT) of $377 million for the full-year ended 30 June 2010.

The Underlying PBT result was in line with guidance of between $300 million and $400 million.

Qantas Chief Executive Officer, Mr Alan Joyce, said the result indicated the Qantas Group had performed well during tough trading conditions.

“While global trading conditions remained challenging, they continued to improve, and the Qantas Group has delivered a strong result, more than tripling its full year profit year-on-year,” Mr Joyce said.

“Qantas is one of the few airlines to record successive full-year profits and continues to hold an investment grade credit rating.

“The overall strength and diversity of our operations, backed by our two airline brands and portfolio business strategy, and an ongoing focus on cost and prudent financial management, saw us through the crisis and will continue to drive our business.

“The Group’s two complementary airlines, Qantas and Jetstar, provided flexibility to adapt to the changing market conditions and delivered responsive and timely capacity management.

“The result was underpinned by strong performances across the Qantas Group with Qantas Airlines returning to its position as the most profitable domestic airline, and both Jetstar and Qantas Frequent Flyer had record profits.”

Mr Joyce said the Qantas Group was well-placed to capitalise on the recovering international and domestic markets.

“International demand and yield across the business and leisure sectors continue to improve and domestic business demand is also strengthening,” he said.

“The domestic leisure market continues to be highly competitive; however we expect this too will improve in the first half of the year.

[1] Underlying PBT is the primary reporting measure used by management and the Board to assess the financial performance of the Group. Refer appendix for reconciliation to Statutory PBT.

The Group expects to increase capacity in the first half of FY11 by 9.6 per cent compared to first half FY10, whilst retaining flexibility to optimise.

Segment Performance
Mr Joyce said all segments of the Qantas Group were profitable for the year ended 30 June 2010.

"Qantas Airlines performance continues to improve (Underlying EBIT of $67 million) and it was the most profitable, and most reliable domestic airline," Mr Joyce said. "The airline's international business also improved, despite the impact of the Icelandic volcano on international operations, which resulted in lost revenue and additional costs of $46 million.

"Last year Qantas announced a three year transformation program, QFuture, to identify and deliver sustainable margin improvements, while maintaining high customer product service standards. In its first year, the program delivered $533 million in benefits across a range of business areas and is on track to deliver $1.5 billion in benefits over three years."

Mr Joyce said Jetstar delivered a record profit (Underlying EBIT of $131 million), despite a challenging fourth quarter which was driven by expanding international and domestic networks, significant growth in passenger numbers and reduced unit costs.

"Jetstar has cemented its position as one of the leading low fares airlines in Australia and Asia – the world's fastest growing aviation market," Mr Joyce said. "Jetstar has been profitable every year since its launch in 2004 and this year Jetstar Asia made a profit of S$6.9million.[1]"

"Qantas Frequent Flyer (Underlying EBIT of $328 million) delivered a record result and now has over 7 million members. The program continued to build new partnerships and benefit from the ongoing success of the Woolworths Group alliance.

"Qantas Freight also delivered improved results in what remains a highly competitive industry."

Investment in fleet and customer initiatives
Mr Joyce said significant investments in fleet and new customer initiatives remained a strategic imperative to ensure the Group continues to grow while maintaining a focus on customer care and sound environmental outcomes.

"Our multi-billion dollar fleet plan is core to providing for capacity expansion and the opening up of new routes, as well as improving the customer experience," Mr Joyce said.

"Around 160 aircraft are on order for delivery over the next ten years, including the Boeing 787 Dreamliner, for Jetstar and Qantas, and additional A380s for Qantas.

"We will also focus on investing in customer product and service, innovation and technology to complement the fleet renewal plan. Our latest industry-leading initiative is Qantas' Next Generation Check-in which has launched in Perth, ahead of a wider roll-out later this year."

Outlook
Mr Joyce said if present conditions continue, first half Underlying PBT for FY11 may be materially stronger than first half FY10. However, changes in fuel prices, FX rates and general trading conditions could rapidly impact earnings. It is therefore not possible to provide a more specific forecast at this time given the volatility and uncertainty of the aviation market.

Dividend
The Board is committed to the resumption of dividend payments. The quantum and timing of this will depend on trading results, prevailing market conditions, the maintenance of an investment grade credit rating and the level of capital expenditure commitments.

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[1] Unaudited Statutory Singapore Result

The Board remains focused on balancing funding requirements of the business and investing for future growth with providing dividends for shareholders.

In this context, coupled with significant capital expenditure program associated with fleet renewal, the Board considers it prudent not to pay a final dividend. Future dividends will be assessed against ongoing earnings performance and capital requirements.

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APPENDIX

Aviation Market

With FY10 including periods covered by the worst impacts of the global economic crisis, the aviation industry still remained highly competitive, both domestically and internationally.

The first signs that the impact on the industry had bottomed, particularly in terms of international premium cabin demand, came in mid 2009, and slow but steady improvements have been the trend since then. As the operating environment improved, the Qantas Group's two flying brands competed vigorously in terms of their different market segments – the full service Qantas and the low fare Jetstar.

Internationally, the crisis led to premium cabin demand, in particular, reaching historic lows. As a result, airlines reduced capacity and lowered fares to address shifts in customer demand. This impacted yields and profitability for many airlines.

The combination of returning demand and careful capacity management has resulted in industry load factors above those before the economic crisis. As demand has remained strong in recent months, the need to maintain a strong focus on capacity growth remains critical.

In the Australian domestic market, business demand was also adversely affected. Domestic capacity was managed carefully over the year but, as market conditions improved, airlines have returned capacity. While business demand continues to improve, this capacity growth has placed some pressure on the low fare end of the leisure market.

Qantas Group Strategy

The two brand strategy, supported by a portfolio of other assets and an unwavering focus on safety, remains central to the Group's future growth plans and success.

The two complementary airline brands – Qantas and Jetstar – and investment in both, continue to enhance the Group's domestic and international footprints and meet the needs of different market segments. They give the Group an optimal 65 per cent Australian domestic market share, and provide the best opportunities to develop an expansive and profitable international network. It is the Group's intention to maintain this strong position in the domestic market.

The Group's portfolio businesses – Qantas Frequent Flyer, Qantas Freight Enterprises and Jetset Travelworld Group – and a range of investments continue to provide strategic flexibility and earnings diversification.

Summary

Underlying Income Statement Summary[1]

$M	FY10	FY09	VLY
Net passenger revenue	10,938	11,604	(666)
Net freight revenue	821	764	57
Other	2,013	2,014	(1)
Revenue	**13,772**	**14,382**	**(610)**
Operating expenses	11,577	12,545	968
Depreciation and amortisation	1,200	1,251	51
Non-cancellable operating lease rentals	527	450	(77)
Expenses	**13,304**	**14,246**	**942**
Underlying EBIT	**468**	**136**	**332**
Net finance costs	(91)	(36)	(55)
Underlying PBT	**377**	**100**	**277**

1 Underlying PBT is the primary reporting measure used by management and the Board to assess the financial performance of the Group. All line items are adjusted to reflect the underlying result. Refer to the Statutory Result section of the Appendix for a reconciliation of Underlying PBT to Statutory PBT.

Underlying PBT has more than tripled to $377 million. All business segments have remained profitable, demonstrating yield improvements from lows resulting from the global economic downturn and robust cost saving achievements for the year. The Qantas, Jetstar, Freight and Qantas Frequent Flyer businesses have all delivered double digit percentage growth in underlying earnings compared to the prior year, with both Jetstar and Frequent Flyer delivering record results.

Segment Performance Summary

$M	**FY10**	**FY09**	**VLY**
Qantas	67	4	63
Jetstar	131	107	24
Qantas Frequent Flyer	328	226	102
Qantas Freight	42	7	35
Jetset Travelworld Group	14	16	(2)
Corporate/Eliminations	(114)	(224)	110
Underlying EBIT	**468**	**136**	**332**

Key drivers of the result, compared to FY09 were:

- Passenger yields falling 7 per cent
- Net underlying unit cost savings of 4 per cent, including QFuture benefits of $533 million
- Significant improvements in earnings from Frequent Flyer and Freight businesses

The Group continues to benefit from a strong balance sheet and cash position, supported by improving operating cash flows of $1.3 billion. This underpins Qantas' continued investment grade credit rating.

Lower But Improving Passenger Yields

Total revenue (excluding non-recurring items) for the year was $610 million lower than the prior year, reflecting the full year impact of the global financial crisis on travel demand. As a result of initiatives to stimulate demand, average passenger yields (excluding foreign exchange) have declined 7 per cent compared to 2009.

Yields are improving off their global financial crisis lows and business related travel is recovering. However, domestic leisure competition in the last quarter of 2010 was intense. The impact of external factors such as the H1N1 influenza outbreak early in the year and the closure of European airspace in response to Icelandic volcanic activity were significant.

Operating Statistics

		FY10	**FY09**	**% change**
Available Seat Kilometres (ASKs)[2]	M	124,717	124,594	0.1
Revenue Passenger Kilometres (RPKs)[3]	M	100,727	99,176	1.6
Passenger Numbers	'000	41,428	38,438	7.8
Seat Factor	%	80.8	79.6	1.2 pts
Yield (excluding FX)	c/RPK	10.61	11.43	(7.2)

2 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown
3 RPK – total number of paying passengers carried, multiplied by the number of kilometres flown

Significant Unit Cost Reductions

Operating expenses (excluding non-recurring items) were $968 million lower compared to the prior year, with substantial savings in fuel and manpower. Also included were QFuture savings of $533 million achieved during the year. This translated to a 4.3 per cent reduction in net underlying unit costs from 5.80 c/ASK in 2009 to 5.55 in the current year.

Fuel costs benefited from lower average prices, with into plane fuel price being 13 per cent lower than 2009.

Unit Cost

c/ASK	FY10	FY09	% change
Unit Cost	**8.07**	**8.80**	**8.3**
Less: Fuel	(2.65)	(3.06)	13.4
Add back: Frequent Flyer change in accounting estimate	0.13	0.06	(100)
Net Underlying Unit Cost (ex fuel)	**5.55**	**5.80**	**4.3**

Significant Improvements in Earnings from Frequent Flyer and Freight Businesses

Qantas Frequent Flyer and Qantas Freight contributed Underlying EBIT of $328 million and $42 million respectively. Their contribution to the Group result and significant growth on prior period earnings emphasised the importance of the Group's portfolio of businesses.

Robust Balance Sheet and Strong Cash Position Supported by Growth in Operating Cash Flows

Summarised Cash Flow

$M	FY10	FY09	VLY
Cash at Beginning	3,617	2,599	1,018
Operating Cash Flow	1,307	1,149	158
Investing Cash Flow	(1,601)	(1,163)	(438)
Financing Cash Flow	381	1,032	(651)
Cash at Year End	**3,704**	**3,617**	**87**

$M	FY10	FY09	VLY
Net Debt[4]	2,209	1,923	286
Net Debt Including Off Balance Sheet Debt[5]	6,170	5,696	474
Equity (Excluding Hedge Reserves)	5,896	5,794	102
Net Debt to Net Debt and Equity Ratio[6]	51:49	50:50	

4 Includes fair value of hedges related to debt and aircraft security deposits
5 Includes non-cancellable operating leases, excluding hedge reserves
6 Net debt to Net Debt and Equity (including off balance sheet non-cancellable operating leases excluding hedge reserves)

The Group's liquidity position is strong with a cash balance at the end of the year of $3.7 billion. Operating cash flows grew to $1.3 billion for the year. Compared to FY09, this result is significant given that year included Qantas Frequent Flyer billings associated with the direct earn rush in.

The Group's balance sheet remains robust and continues to support the ongoing capital expenditure program. Projected capital expenditure is forecast at $2.6 billion in FY11 and $2.7 billion in FY12.

Fleet

The Group remains committed to a fleet strategy designed to provide for long term fleet renewal, simplification and growth. Qantas continues to have one of the world's largest aircraft order books, with around 160 new aircraft to be delivered over the next ten years.

These include 14 more A380 flagship aircraft for Qantas, and 50 B787 Dreamliners, with the first to be delivered for Jetstar in mid-2012. At 30 June 2010, the Qantas Group fleet numbered 254 aircraft.

During the year, the Group entered 23 new aircraft into service:
- Qantas and QantasLink – 3 A380s, 1 A330-200, 3 B737-800s, 7 Bombardier Q400s
- Jetstar, including Jetstar Asia – 1 A330-200, 6 A320-200s, 2 A321-200s

The Group retired 9 aircraft – 3 B747-400s, 3 B767-300ERs and 3 B737-300s.

Product, Service and Technology

The Group remains committed to innovation and investment in customer service, new and enhanced products, infrastructure, leading edge technology and training.

Development work undertaken during the year culminated in commencement of the world first Next Generation Check-in project at Qantas' domestic terminal in Perth.

In February 2010, Qantas announced a $400 million, three-year program to upgrade nine B747-400 aircraft and reconfigure the A380 fleet to meet forecast changes in passenger demand.

New Qantas A330-200 and B737-800 aircraft entered service on domestic and Tasman services respectively featuring enhanced cabin product, including a seat-back inflight entertainment system on the B737-800s.

Qantas

		FY10	FY09	% change
Total Revenue	$M	10,609	11,624	(9)
Underlying EBIT	$M	67	4	>100
Seat Factor	%	81.3	80.1	1.2 pts

Qantas achieved an Underlying EBIT of $67 million for the full year, $63 million above the prior year result. This result reflects effective capacity and yield management during tough economic conditions. Fuel cost savings resulting from lower average into plane fuel prices, operational savings from capacity reductions and $533 million in QFuture benefits have contributed to the profitable result for the year.

Passenger revenue declined 10 per cent compared to the prior year primarily due to capacity reductions across the international network which was required to mitigate the softening in demand experienced as a result of the economic downturn.

Weak premium demand impacted international yields particularly in the first half of the year. Yields began to recover in the second half, however recovery was impacted by international events including Icelandic volcano disruptions and political unrest in Bangkok. The effects of the Icelandic volcano on Qantas' earnings totalled $46 million.

Whilst international capacity decreased 9.4 per cent compared to the prior year, seat factor remained strong at 82.5 per cent.

Qantas domestic yields, while lower than the prior year, are improving from the lowest point reached in the second half of 2009 and the beginning of 2010. Business demand continues to recover.

Qantas recorded the best domestic on time performance of 87 per cent in FY10. Qantas was the best airline for on time arrivals, on time departures and also recorded the lowest cancellation rate. Customer satisfaction levels also improved and the airline invested $102 million in customer service and product in FY10. This investment was made in Next Generation Check-in development, lounge upgrades, Perth terminal development and customer service training.

QFuture

The QFuture business transformation program aims to equip Qantas for sustainable and profitable growth in an increasingly competitive operating environment.

QFuture initiatives achieved a $533 million benefit in terms of cost savings and new revenue in the program's first full year, with significant savings in manpower, fuel conservation, IT and other direct costs.

The program continues to target a total $1.5 billion benefits by the end of FY12.

Jetstar

		FY10	FY09	% change
Total Revenue	$M	2,197	1,851	19
Underlying EBIT	$M	131	107	22
Seat Factor	%	79.2	77.4	1.8 pts

Jetstar achieved an Underlying EBIT of $131 million, a 22.4 per cent increase on the prior year, with capacity increasing by 27.8 per cent across its network.

Substantial capacity growth during the year increased Jetstar's passenger revenue by 21 per cent. The inclusion of a full year's operation for Jetstar Asia and expansion across the international network resulted in a 50 per cent increase in international capacity. The Group's New Zealand domestic routes were successfully transferred to Jetstar, delivering the Group substantial savings and profit improvements in this important market. Jetstar Asia reported an EBIT of S$6.9 million and the Singapore base provides a strong platform for future growth in Asia.

International growth was supported by additional A330 capacity ahead of the arrival of the B787.

The launch of the Jetstar Mastercard, along with other product innovations, also contributed to the increase in total revenue.

Strong cost management was achieved during the year. Unit cost (excluding fuel and non-recurring items) is 2 per cent lower than the prior year (unit cost down 5 per cent sector length adjusted). The world first low cost carrier alliance with AirAsia has established a new model for achieving a lower cost base and increased efficiencies.

Qantas Frequent Flyer

		FY10	FY09	% change
Members	M	7.2	5.8	23
Billings[7]	$M	952	913	4
Marketing Revenue	$M	236	239	(1)
Redemption Margin	$M	57	52	10
Underlying EBIT	$M	328	226	45
Normalisation Adjustment	$M	(161)	(77)	
Normalised EBIT[8]	$M	167	149	12

7 FY09 excludes the impact of the direct earn rush in.
8 Normalised EBIT restates redemption revenue to the fair value of awards redeemed (removing the impact of the change in accounting estimate) and recognises the 'marketing revenue' when a point is sold. This creates a comparable basis for the presentation of results.

Qantas Frequent Flyer achieved a record Underlying EBIT of $328 million which was $102 million higher than the comparative full-year. This result includes the full-year impact of the change in accounting estimate implemented on 1 January 2009, which has contributed $161 million to the FY10 result, compared to $77 million in FY09.

The reduction in Qantas capacity has resulted in lower Classic Award redemptions. However, Any Seat and Frequent Flyer Store redemptions have increased 21 per cent and 8 per cent respectively, resulting in an overall increase in redemption margin of 10 per cent.

Qantas Frequent Flyer continued to build on programme enhancements and alliances to again deliver exceptional returns to the Group. The successful launch of the Woolworths alliance has assisted in maintaining point sales during the global financial crisis.

With more than 7.2 million members, and 1.4 million new members having joined since 1 July 2009, Qantas Frequent Flyer remains Australia's leading loyalty programme. Of the total members, around 2.8 million have linked through the partnership with the Woolworths Group.

Customer satisfaction is at record highs as members fully realise the value of their points and of their loyalty – to the Qantas Group and to the hundreds of partners aligned with the programme.

Qantas Freight

		FY10	FY09	% change
Total Revenue	$M	1,007	1,080	(7)
Underlying EBIT	$M	42	7	>100
Load Factor	%	60.0	54.0	6 pts

Qantas Freight's Underlying EBIT of $42 million was $35 million above the comparative year. The significant improvement reflects recovery in the air freight market since November 2009.

The freighter network has shown strong recovery of volumes and yields on the key China-US routes. This is due to restocking of retail inventories and the global launch of new electronic devices. This was the most profitable year for Qantas freighters.

The belly space freight market has been slower to recover. Volumes are improving but, due to intense competition, yields remain lower than the prior year.

Jetset Travelworld Group

		FY10	FY09	% change
Total Revenue	$M	135	145	(7)
Underlying EBIT	$M	14	16	(13)

Jetset Travelworld Group (JTG) underlying EBIT was $14 million. The recovery from the economic downturn has been slower then anticipated with volumes lower than prior year. A continued focus on cost control has helped to offset the revenue decline.

Qantas supports the proposed merger of JTG and Stella Travel Services to create a more competitive business better able to strengthen branding and online content, identify cost and revenue synergies and invest in market development.

Statutory result

Management and the Board have adopted Underlying PBT as the primary measure of business performance. A reconciliation to Statutory PBT is provided below.

$M	FY10	FY09	VLY
Underlying PBT	**377**	**100**	**277**
Non-recurring items (losses)/gains	(59)	(106)	47
Ineffectiveness and non-designated derivatives relating to other reporting periods	(140)	187	(327)
Statutory PBT	**178**	**181**	**(3)**

Statutory PBT includes an adjustment for ineffectiveness and non-designated derivatives relating to other reporting periods of $140 million (negative) in 2010, compared to $187 million (positive) in 2009.

Non-recurring items included in the statutory result were aircraft write-downs of $48 million, transaction costs incurred during the year in relation to the Jetset Travelworld Group merger, and other provisions.

Dividend

The Board remains focused on balancing funding requirements of the business and investing for future growth with providing dividends for shareholders.

In this context, coupled with significant capital expenditure program associated with fleet renewal, the Board considers it prudent not to pay a final dividend. Future dividends will be assessed against ongoing earnings performance and capital requirements.

The Board is committed to the resumption of dividend payments. The quantum and timing of this will depend on trading results, prevailing market conditions, the maintenance of an investment grade credit rating and the level of capital expenditure commitments.

Outlook

Trading conditions have steadily improved. Forward bookings indicate yields in the first half of FY11 will be higher than the first half FY10.

The Group expects to increase capacity in first half FY11 by 9.6 per cent compared to the first half FY10, whilst retaining flexibility to optimise growth. Domestic business and total international revenue is expected to improve, while domestic leisure continues to be highly competitive.

As at 9 August 2010, fuel costs for the first half of FY11 are estimated to increase by 13 per cent compared to the first half FY10, due to higher forward market jet fuel prices and increased flying.

If present conditions continue, first half Underlying PBT for FY11 may be materially stronger than first half FY10.

However, changes in fuel prices, FX rates and general trading conditions could rapidly impact earnings. It is therefore not possible to provide a more specific forecast at this time given the volatility and uncertainty of the aviation market.