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QANTAS ANNOUNCES PROFIT RESULT, RESPONSE TO ECONOMIC CONDITIONS

Highlights:

- Strong portfolio performance:
  - Continuing record results for Jetstar and Qantas Frequent Flyer.[1]
  - Revenue growth of 6 per cent.
  - Yield and unit cost improvements.
  - Offset by industrial action and record high fuel costs.
- Improvement in net operating cash flow of 5 per cent.
- Strategic initiatives to transform Qantas International and grow Jetstar in Asia.

SYDNEY, 16 February 2012: The Qantas Group today announced underlying profit before tax[2] of $202 million for the half-year ended 31 December 2011, a decrease of $215 million compared with the prior corresponding period. Statutory profit before tax was $58 million.[3]

The result reflects the $194 million financial impact of industrial action during the first half, as well as increased fuel costs compared with the prior corresponding period. Total fuel costs in the half were $2.2 billion, up $444 million (or 26 per cent).

The Group also today outlined measures that respond to global economic conditions and the structural challenges facing Qantas, including the European finance crisis, the changing Australian economy and the need to increase efficiency and competitiveness. These steps will position the Group for a strong, sustainable future and build long-term shareholder value.

They include a reduction in capital expenditure of $700 million over 2011/12 and 2012/13; a review of Qantas' heavy maintenance footprint in Australia; and changes to Qantas' catering and engineering operations.

Qantas Chief Executive Officer Alan Joyce said the first-half result was a good performance in challenging circumstances.

"The termination of industrial action on 31 October 2011 brought operational certainty for the Qantas Group, our customers and our shareholders," Mr Joyce said.

"While the impact of the dispute was severe, our portfolio of businesses once again demonstrated its resilience in difficult conditions. Improvements in operating cash flow, revenue, yield and unit costs, and record results for Jetstar and Qantas Frequent Flyer, helped offset the financial effect on the Group."

Qantas Chief Executive Officer Alan Joyce said the Group was taking decisive action to meet the challenges of the changing global economy and aviation industry.

"We have a clear strategy for the future based on our strong domestic airline businesses, transforming Qantas International and other business areas, the continued growth of Qantas Frequent Flyer and growing Jetstar in Asia.

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1. Normalised for prior period changes in accounting estimates (refer to page 10 for further details)
2. Underlying 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 and individual segments. Financial information reported in this document is on an underlying basis unless otherwise stated
3. A reconciliation of Statutory and Underlying PBT is provided on page 11

"With a volatile world economy, disciplined financial management remains vital. Today we have set out a package of initiatives appropriate both to the current conditions and our long-term goals.

"At Qantas we know we must continue to adapt to the complex economic and competitive environment. That means taking hard decisions today to ensure that we can secure jobs and success for the future."

Segment financial performance

Qantas' underlying EBIT in the first half was $66 million, compared with $165 million in the prior corresponding period.

"Qantas was hit hard by industrial action," Mr Joyce said.

"However, by late November bookings had recovered well – particularly in the domestic market. Qantas' on-time performance was the best of any major domestic airline in December and we have retained and grown major corporate accounts as well as winning important new business. Our brand and customer satisfaction ratings have improved significantly since the fleet grounding.

"After the grounding we prioritised the timely compensation of affected passengers and a series of initiatives to restore customer confidence in the airline. These included free air fares for affected Australian residents, travel vouchers for affected international residents and a range of special offers for Qantas Frequent Flyer members and premium customers.

"With QantasLink recently being named the world's best regional airline by Air Transport World and Network Aviation increasing our presence in mining regions, Qantas is very well-positioned domestically.

"We continue to work towards returning Qantas' international performance to profitability in the short term. Our long-term goal is to ensure that the Qantas business - domestic and international combined - exceeds the cost of capital on a sustainable basis."

Jetstar achieved record underlying EBIT of $147 million, up $4 million on last year's first-half earnings.

"Jetstar continues to increase capacity both domestically and internationally," Mr Joyce said.

"As well as the ongoing growth of Singapore-based Jetstar Asia, Jetstar Japan passed a number of milestones as it moves towards commencing operations in July 2012.

"This joint investment with Japan Airlines and Mitsubishi will deliver true low-cost air travel across the Japanese market and further expand the Jetstar franchise in the world's fastest-growing region."

Qantas Frequent Flyer delivered normalised EBIT[4] of $119 million (up from $107 million), continuing its strong contribution to Group earnings.

"Qantas Frequent Flyer now has 8.3 million members and continues to add new ways of earning points through strong partner relationships," Mr Joyce said. "The program is an outstanding asset for the Group and is fundamental to our customer relationships. External billings have grown 16 per cent to $600 million."

Underlying EBIT for Qantas Freight was $38 million, down $3 million compared with the prior corresponding period.

"Qantas Freight has been affected by high fuel costs and weaker demand across the cargo sector, resulting in loads declining," Mr Joyce said. "However, a good performance in the domestic express freight market and increased contract revenue helped minimise the overall drop in earnings."

[4] Normalised for prior period in accounting estimates (refer to page 10 for further details).

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Response to global economic volatility and operational changes

The European debt crisis and weaker global growth forecasts have resulted in a significant deterioration in the aviation operating environment.

Fuel prices remain high and the Qantas Group faces pressure from strong competitor growth and cost disparity with competitors, in addition to the uncertain economic environment.

While the Group's financial position remains strong, with significant cash reserves and an investment-grade credit rating, this outlook requires disciplined financial management and a continued focus on maximising productivity.

Capital expenditure in 2011/12 will be reduced from $2.5 billion to $2.3 billion and capital expenditure in 2012/13 will be reduced from $2.8 billion to $2.3 billion with further cuts to be identified in 2012/13.

These savings will come from a range of initiatives including reductions in non-aircraft capital expenditure, the deferral of Boeing 787-800 deliveries because of manufacturer delays, a reduction in planned domestic capacity growth in line with long-term estimates and a capital-light model for any premium airline investment in Asia. Any further capital expenditure savings will come from appropriate changes to the Qantas Group fleet plan.

The Group will continue to actively manage capital spend to support measured growth, manage the business in uncertain times and maintain an investment grade credit rating, and will review the potential for capital returns in the future in that context.

The following network changes will be made in order to adjust capacity to market conditions and route performance:

- Withdrawal from the Singapore-Mumbai and Auckland-Los Angeles routes, effective 6 May 2012. This is in addition to previously-announced withdrawals from the Hong Kong-London and Bangkok-London routes, effective March 2012.
- Aircraft changes on the following international and domestic routes: Sydney-Bangkok (Boeing 747 replaced with Airbus A330 from 10 June), Sydney-Perth (Boeing 747 replaced with Airbus A330 on certain services from 6 May) and Melbourne-Perth (additional A330 services added from 6 May).
- Capacity increases on the Los Angeles-New York route from 6 May (Airbus A330 replaced with Boeing 747) and Sydney-Tokyo route from 10 June (one Airbus A330 service per week replaced with a Boeing 747 service, resulting in daily Boeing 747 services).
- Early retirement of two further Boeing 747 aircraft (in addition to the four early B747 retirements announced in August 2011).

In addition, changes will be made in Qantas' engineering and catering businesses to ensure that they meet the needs of the Group's long-term strategy.

A number of steps will be taken to help build a more competitive engineering operation and close the cost gap between Qantas and its competitors.

- 60-day pre-decision consultation process on Qantas' Australian heavy maintenance footprint, to address declining work volumes resulting from new aircraft technology and work processes.
- Changes to line maintenance processes with the introduction of a more tailored system for next-generation aircraft operating domestically.
- Consolidation of a range of engineering functions for greater efficiency.

Qantas' catering business will consolidate to focus on four core facilities in Sydney, Melbourne, Brisbane and Perth, through the following actions.

- Qantas will not invest in a new catering centre for Adelaide when the current facility's lease expires in March 2013. Consultation will take place with employees and other stakeholders about future catering options in Adelaide.

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- Discussions on the potential sale of one of Qantas' two Sydney catering centres (Riverside) and its Cairns catering centre.
- Changes to work processes in Q Catering Brisbane ahead of the move to a new centre.

The workforce planning team in Qantas' airports department, currently dispersed around individual airports, will also largely be consolidated (in Sydney).

Job reductions are expected as a result of aircraft retirements and operational changes. Qantas will provide maximum support to affected employees, including opportunities for redeployment, voluntary redundancy and external employment.

Outlook

The operating environment and economic outlook for the second half of 2011/12 remains challenging and volatile.

Seasonal factors typically drive stronger revenue in the first half of the financial year compared with the second half of the year (ending 30 June).

Following fare increases and fuel surcharges announced in February 2012, Group forward bookings continue to indicate higher yields in the second half of 2011/12 compared with the second half of 2010/11.

The Group expects to increase capacity by 7 per cent in the second half of 2011/12 compared with the second half of 2010/11, while maintaining flexibility (equivalent to approximately 5 per cent after adjusting for the impact of natural disasters and the A380 grounding in second half of 2010/11).

Underlying fuel costs are expected to increase by approximately $250 million from $1.95 billion in the second half of 2010/11 to approximately $2.2 billion in the second half of 2011/12, 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 and exchange rates, as well as the major transformational change agenda underway.

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REVIEW OF OPERATIONS
(Extracted from the Appendix 4D and Consolidated Interim Financial Report)

The Qantas Group reported an Underlying PBT of $202 million for the half-year ended 31 December 2011, a decrease of $215 million on the prior corresponding period result of $417 million.

The Qantas Group reported a Statutory PBT of $58 million.

Highlights of the half-year result include:

- Group earnings were built on the strength of the Qantas Group's portfolio of related businesses
  - Continuing record results for Jetstar and Qantas Frequent Flyer
  - Qantas and Jetstar were the two most profitable domestic airlines
  - Revenue growth of 6 per cent
  - Yield and unit cost improvements
  - Operational achievements offset by significant increases in fuel costs and the financial impact of Industrial Action and customer recovery initiatives
- Improvement in net operating cash flow of 5 per cent
- Strategic initiatives to transform Qantas International and grow Jetstar in Asia

Resilient Earnings Result

The Underlying PBT result demonstrated the resilience provided by the Qantas Group's portfolio of businesses and its capacity to respond to challenges.

First half performance was significantly reduced by a material increase in fuel costs ($444 million) and the financial impact of Industrial Action including the subsequent grounding of the Qantas fleet ($194 million).

Record results in Jetstar and Frequent Flyer

Despite these challenging conditions, the Group and each operating Segment were able to deliver a profitable first half result.

The flying businesses delivered improvements in yield and unit cost that helped to offset the impact of increasing fuel costs. Qantas remained the most profitable airline in the Australian domestic market, notwithstanding the grounding of the Qantas fleet, and the resultant favourable impact on its competitors.

Jetstar achieved a record first half result built on continuing profitable growth.

The ongoing growth and outstanding performance of the Frequent Flyer business was also rewarded with a record normalised result[1].

Segment Performance Summary	December 2011	December 2010	Change $M	Change %
Qantas	66	165	(99)	(60)
Jetstar	147	143	4	3
Qantas Frequent Flyer	119	189[1]	(70)	(37)
Qantas Freight	38	41	(3)	(7)
Corporate/Other Businesses/Eliminations	(93)	(86)	(7)	8
Underlying EBIT	**277**	**452**	**(175)**	**(39)**
Net finance costs	(75)	(35)	(40)	114
Underlying PBT	**202**	**417**	**(215)**	**(52)**

[1] The normalised result for Qantas Frequent Flyer for the half-year ended 31 December 2010 was $107 million. Refer to page 10 for a reconciliation of Qantas Frequent Flyer's normalised result to Underlying EBIT

Revenue growth of 6 per cent

Despite the significant impact of Industrial Action on the period, the Group achieved revenue growth of 6 per cent driven by continued growth in both yield and capacity.

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Net passenger revenue increased by 4 per cent. Average yields, excluding foreign exchange (FX) movements, increased by 4 per cent reflecting management initiatives to recover fuel price increases and the resilience of the business, particularly in the domestic market. Domestic yield improved by 5 per cent and International yield improved by 3 per cent.

Capacity increased by 5 per cent following the expansion of the Group fleet from 266 aircraft as at 31 December 2010 to 301 aircraft as at 31 December 2011. This reflects continued growth in the Group's strong Qantas domestic franchise and the ongoing expansion of Jetstar both domestically and internationally.

The Group remains committed to maintaining and profitably building on its domestic market share of 65 per cent.

Group Underlying Income Statement Summary	December 2011 $M	December 2010 $M	Change $M	Change %
Net passenger revenue	6,452	6,188	264	4
Net freight revenue	407	447	(40)	(9)
Other	1,189	956	233	24
Revenue	**8,048**	**7,591**	**457**	**6**
Operating expenses (excluding Fuel) [1]	4,634	4,513	121	3
Fuel [1]	2,181	1,737	444	26
Depreciation and amortisation	679	606	73	12
Non-cancellable operating lease rentals	277	283	(6)	(2)
Expenses	**7,771**	**7,139**	**632**	**9**
Underlying EBIT	**277**	**452**	**(175)**	**(39)**
Net finance costs [1]	(75)	(35)	(40)	>100
Underlying PBT	**202**	**417**	**(215)**	**(52)**

[1] 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 11 for a reconciliation of Statutory and Underlying PBT

Excluding fuel, the Group's unit cost performance was favourable compared to the prior corresponding period. Net Underlying Unit Cost[4] improved 3 per cent. The Comparable Net Underlying Unit Cost[5] also improved by 3 per cent.

Underlying fuel costs increased by $444 million or 26 per cent, driven by significant increases in market prices. Hedging and a strong AUD provided some relief from the 37 per cent increase in average USD fuel prices compared to the prior corresponding period.

Operating statistics		December 2011	December 2010	Change	% Change
Available Seat Kilometres (ASKs) [1]	M	70,205	66,821	3,384	5
Revenue Passenger Kilometres (RPKs) [2]	M	56,680	54,592	2,088	4
Passenger Numbers	'000	23,691	22,948	743	3
Seat Factor	%	80.7	81.7	(1.0) pts	(1)
Yield (Excluding FX) [3]	c/RPK	11.2	10.8	0.4	4
Net Underlying Unit Cost [3,4]	c/ASK	5.58	5.76	(0.18)	(3)
Comparable Net Underlying Unit Cost [5]	c/ASK	5.48	5.65	(0.17)	(3)

[1] ASK – total number of seats available for passengers, multiplied by the number of kilometres flown

[2] RPK – total number of passengers carried, multiplied by the number of kilometres flown

[3] Jetstar product unbundling – 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

[4] Net Underlying Unit Cost – Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate per ASK

[5] Comparable Net Underlying Unit – Net Underlying Unit Cost adjusted for the impact of Industrial Action (first half of 2011/12) and A380 disruptions (first half of 2010/11) and movements in average sector length

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Improvement in Operating Cash Flows

Operating cash flows grew to $823 million for the half-year ended 31 December 2011, an increase of 5 per cent on the prior corresponding period result of $786 million. The result reflects the strong growth of passenger revenues, improvements in unit cost and disciplined management of working capital.

The Group reinvested $1.5 billion in fleet growth and renewal during the period. This included the purchase of 24 aircraft, including two Airbus A380s, progress payments on future deliveries and the initial investment into Jetstar Japan.

Cash Flow Summary	December 2011 $M	December 2010 $M	Change $M	Change %
Cash at Beginning	3,496	3,704	(208)	(6)
Net operating cash flows	**823**	**786**	**37**	**5**
Investing cash flows	(1,501)	(1,119)	(382)	34
Financing cash flows	525	(20)	545	<(100)
Effect of foreign exchange on cash	(1)	(14)	13	(93)
Cash at period end	**3,342**	**3,337**	**5**	**-**

Qantas Group cash was $3,342 million at 31 December 2011, a decrease of $154 million from 30 June 2011. Net debt including Off Balance Sheet Debt[2] increased $817 million to $7,787 million reflecting the continued growth of the business and the ongoing fleet renewal program.

The Qantas Group's approach to capital management remains conservative with the objective of supporting the Group's investment grade credit rating and providing strategic flexibility through the cycle. Significant investments in fleet renewal and business growth are balanced against the Group's ability to generate positive operating cash flows and the retention of a strong balance sheet and secure capital position.

As at 31 December 2011, the Group's gearing ratio was 56 per cent. The Qantas Group continues to retain its investment grade credit rating, one of only two airlines in the world to be rated investment grade by both Standard & Poor's and Moody's.

Debt and Gearing Analysis		December 2011	June 2011	Change	% Change
Net Debt [1]	$M	3,753	2,971	782	26
Net Debt Including Off Balance Sheet Debt [2]	$M	7,787	6,970	817	12
Equity (Excluding Hedge Reserves)	$M	6,111	6,071	40	1
Gearing Ratio [3]		56:44	53:47		

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

[2] 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

[3] 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

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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 31 December 2011, the Qantas Group fleet comprised 301 aircraft

Qantas Group Fleet		December 2011 Number	June 2011 Number	Change
Qantas	A380-800	12	10	2
	B747-400	19	20	(1)
	B747-400ER	6	6	-
	A330-200	8	8	-
	A330-300	10	10	-
	B767-300ER	24	25	(1)
	B737-400	15	19	(4)
	B737-800NG	56	46	10
	Fokker F100	3	2	1
	EMB 120	7	7	-
	B717-200	11	11	-
	Q200/Q300	21	21	-
	Q400	25	22	3
	Total	**217**	**207**	**10**
Jetstar [1]	A320-200	62	56	6
	A321-200	6	6	-
	A330-200	11	9	2
	Total	**79**	**71**	**8**
Qantas Freight	B737-300SF	4	4	-
	B767-300	1	1	-
	Total	**5**	**5**	**-**
	Total Group	**301**	**283**	**18**

[1] Jetstar fleet includes Jetstar Asia and excludes Jetstar Pacific

During the half-year, the Group acquired 24 new aircraft (23 purchased and one leased):

- Qantas – two Airbus A380s, 10 Boeing B737-800s, three Bombardier Q-400s and one Fokker F100
- Jetstar (including Jetstar Asia) – six A320-200s, two A330-200s

In addition, one leased B767-300 was purchased outright.

The Group retired six aircraft during the half-year (one B747-400, one B767-300 and four B737-400s). Eleven aircraft are scheduled for retirement during the second half of the year.

Qantas

Qantas' Underlying EBIT was $66 million for the half-year ended 31 December 2011, a decrease of $99 million on the prior corresponding period result of $165 million. The result is driven by the $194 million financial impact of Industrial Action and subsequent grounding of the fleet.

		December 2011	December 2010	Change	% Change
Total Revenue and Other Income	$M	6,066	5,706	360	6
Seat Factor	%	81.1	82.4	(1.3) pts	(2)
Underlying EBIT	$M	66	165	(99)	(60)

Excluding the impact of Industrial Action, the Qantas Segment result demonstrates the inherent strengths of the business. Qantas achieved revenue growth of 6 per cent built on increases in capacity and improvements in yield, and through the broadening of QantasLink revenues to include the fly-in-fly-out charter capability of Network Aviation. Combined with unit cost improvements, the business was able to absorb or recover a 24 per cent increase in fuel costs.

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Industrial Action

Industrial Action by the Australian Licensed Engineers Association (ALAEA), the Transport Workers Union (TWU) and the Australian International Pilots Association (AIPA) and the subsequent grounding of the Qantas fleet unfavourably impacted the half-year results by $194 million. The financial impact included lost passenger revenues and forward bookings prior to the grounding ($68 million and $27 million respectively), the direct impact of the grounding including lost revenues, refunds, third party carrier costs and accommodation ($70 million), and customer recovery initiatives ($29 million).

Qantas employed a range of customer recovery initiatives designed to restore confidence in the airline, compensate affected customers and to recognise the continuing loyalty of Qantas' most frequent travellers. These initiatives were able to substantially leverage Qantas premium products and the engagement of Qantas Frequent Flyer members. The success of these programs has resulted in the restoration of domestic forward bookings, the ongoing recovery of international patronage, and recovery of Qantas' operational and customer metrics.

Whilst the impact of the grounding was significant, had Management not taken decisive action, the ongoing financial impact of Industrial Action would have continued to escalate. This would have resulted in the further erosion of customer confidence and a protracted decline in forward bookings, a progressive grounding of parts of the fleet as maintenance schedules fell behind, and significant pressure on the Group's financial and operational wellbeing.

On 23 January 2012, Fair Work Australia ratified the agreement between Qantas and the ALAEA. The arbitration process continues with respect to the TWU and AIPA.

Qantas International transformation

Transformation of Qantas International continues. Restructuring of the Joint Services Agreement with British Airways will result in the elimination of unprofitable flying between Bangkok and Hong Kong to London and the early retirement of four B747-400 aircraft. These aircraft were impaired in the period resulting in a charge of $68 million. This charge is not included in Underlying PBT.

Qantas has also made significant progress on strengthening alliance partnerships and optimising the network. The Joint Business Agreement with American Airlines has received Anti Trust Immunity clearance. Network optimisation changes include increasing the frequency of Dallas services (six per week from January 2012 and daily from July 2012), the commencement of flights to Santiago replacing Buenos Aires services and the introduction of A380 services to Hong Kong.

Investment in product and service

Qantas Airlines continues to invest in customer experience leadership and innovation, whilst maintaining a focus on profitable growth opportunities. Highlights in the first half of 2011/2012 include:

- Roll-out of faster, smarter check-in technology – at all major capital city ports, a wide range of regional ports and for some trans-Tasman services;
- QantasLink named 2012 'Regional Airline of the Year' by Air Transport World;
- Delivery of superior On-Time Performance with domestic market leadership achieved in each month of 2011 not impacted by Industrial Action;
- Domestic product enhancements including Business Lounges, Qantas Clubs, in-flight offerings and introduction of priority boarding;
- Strong corporate travel performance with corporate revenue growth of 12 per cent; and
- Continued progress of the International fleet reconfiguration program. Two B747s upgraded to award winning A380 product standards are now in service with a further seven to follow.

QFuture

QFuture is the key business change program within Qantas, designed to position the airline for profitable growth. It involves transformational change across the airline, with total benefits of $1.5 billion targeted over the three financial years from 2009/2010 to 2011/2012 to underpin unit cost reduction and margin improvement.

For the half-year, benefits of $180 million have been achieved. The majority of the benefits were contributed by cost savings and margin improvement initiatives across the Qantas Segment's Commercial, Engineering and IT divisions. This result is ahead of the benefits delivered in the prior corresponding period. Qantas remains on track to achieve its target of $500 million of benefits in 2011/2012 and $1.5 billion in benefits over three years.

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Jetstar

Jetstar achieved a record Underlying EBIT result of $147 million for the half-year ended 31 December 2011, an increase of $4 million on the prior corresponding period result of $143 million. The result is driven by a 16 per cent increase in total revenue and continuing improvements in unit cost offsetting a 40 per cent increase in fuel costs.

		December 2011	December 2010	Change	% Change
Total Revenue and Other Income	$M	1,565	1,346	219	16
Seat Factor	%	79.9	79.6	0.3 pts	-
Underlying EBIT	$M	147	143	4	3

Overall capacity increased by 15 per cent compared to the prior corresponding period. This includes growth in domestic capacity of 9 per cent, international capacity of 8 per cent and Jetstar Asia of 47 per cent. Load improved to 79.9 per cent, a 0.3 point increase versus the prior corresponding period. Unit Cost (excluding fuel) has improved by 3 per cent compared to the prior corresponding period.

Jetstar's result highlights the benefits of the Qantas Group's two complementary flying brands. It reflects Jetstar's strong competitive position in the Australian market and the platform that it provides for growth in leisure travel markets across Asia-Pacific.

Jetstar is committed to grow strategically in Asia through new affiliates in key locations. Jetstar Japan is the latest Jetstar branded operation in Asia with an operational launch planned for July 2012. Launch preparations are well underway with requests for key licenses and permits already lodged and a strong management team in place to manage final project phases and Jetstar Japan's future operation.

The first deliveries of the new B787-8 fleet are expected in mid-2013, and will be deployed in the Jetstar International network.

Qantas Frequent Flyer

Qantas Frequent Flyer's Underlying EBIT was $119 million for the half-year ended 31 December 2011. Normalised EBIT was 11 per cent higher than the prior corresponding period driven by growth in member billings.

		December 2011	December 2010	Change	% Change
Members	M	8.3	7.5	0.8	11
Billings	$M	600	518	82	16
Underlying EBIT	$M	119	189	(70)	(37)
Normalisation Adjustment	$M	-	(82)	82	(100)
Normalised EBIT [1]	$M	119	107	12	11

[1] 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 half-year ending 31 December 2010 was $82 million higher than it would have been had the deferred value per point been the same as that applied in the current period

Qantas Frequent Flyer delivered a record normalised result for the period. The result was built on strong financial services and retail billings, continuing growth of the Frequent Flyer membership base, deepening member engagement through new product and service initiatives with key business partners.

Membership grew to 8.3 million members, an increase of 11 per cent on the prior corresponding period. Billings growth was higher with an increase of 16 per cent compared to the prior corresponding period as members accessed a broader range of opportunities to earn and redeem points. Members can now earn points with over 500 partners and can redeem points by flying to over 1,000 destinations or over 2,000 products in the Frequent Flyer on-line store.

Qantas Frequent Flyer's business provides the Qantas Group with a unique opportunity to profitably leverage the strength of the Group's core brands. It provides a high quality cash earnings stream that improves the quality, diversification and resilience of the Group's earnings and a complementary channel for growth. The development of epiQure by Qantas Frequent Flyer food and wine club and the acquisition of Wishlist demonstrate the business' ability to develop new revenue streams in on-line retail and employee recognition and rewards.

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Investment in Product and Service

Qantas Frequent Flyer continued its strategy to deepen member and partner engagement by expanding its range of products and services across a growing portfolio of coalition partners.

Significant Qantas program enhancements include improved tier and cabin benefits, a new “Platinum One” level of recognition for the most valuable frequent flyers, improved access to classic award seats and upgrades and expanded Jetstar earn and burn options. New partners and products announced in the period include a loyalty alliance with Optus, and the launch of CBA Diamond Direct, Woolworths Qantas card and NAB Qantas Business card.

Qantas Freight

Qantas Freight’s Underlying EBIT was $38 million for the half-year ended 31 December 2011, a decrease of $3 million on the prior corresponding period result of $41 million. The result was driven by the downturn in global and regional freight markets and significant increases in fuel costs.

		December 2011	December 2010	Change	% Change
Total Revenue and Other Income	$M	526	545	(19)	(3)
Underlying EBIT	$M	38	41	(3)	(7)
Load Factor	%	54.6	60.3	(5.7) pts	(9)

The Qantas Freight result was impacted by an industry wide decline in demand during the period, particularly on trade lanes between Asia and the developed world. Network load factor decreased by 5.7 points to 54.6 per cent, but total Freight revenue fell by only 3 per cent due to increased surcharges and contract revenue. Capacity was slightly lower than the prior corresponding period, reflecting reduced B747 freighter flying to match demand.

The domestic express freight market has delivered strong results. Australia air Express and Star Track Express, continued to improve on prior corresponding period following the renewal of Qantas’ joint venture agreement with Australia Post and the successful reconfiguration of the businesses in 2011.

Reconciliation of Underlying PBT to Statutory PBT

Statutory PBT has decreased to $58 million from $322 million.

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 each Segment and 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.

Statutory Profit reconciliation	December 2011 $M	December 2010 $M	Change $M	Change %
Underlying PBT	**202**	**417**	**(215)**	**(52)**
Items not included in Underlying PBT				
- AASB 139 mark-to-market movements relating to other reporting periods	(7)	(45)	38	(84)
- Net impairment of property, plant & equipment	(72)	-	(72)	>100
- Net impairment and net losses on disposal of investments	(19)	(24)	6	(25)
- Redundancies, restructuring and legal provisions	(46)	(26)	(20)	77
Statutory PBT	**58**	**322**	**(264)**	**(82)**

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Impacts of AASB 139 mark to market movements which relate 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 revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments and impairments of assets outside the ordinary course of business.

ASIC GUIDANCE

In December 2011 the Australian Securities and Investments Commission issued Regulatory Guide 230. To comply with this Guide, Qantas is required to make a clear statement about whether information disclosed in documents other than the financial report has been audited or reviewed in accordance with Australian Auditing Standards.

In line with previous years and in accordance with the Corporations Act 2011, the Media Release including the Review of Operations is unaudited. Notwithstanding this, the Media Release including the Review of Operations contains disclosures which are extracted or derived from the Consolidated Interim Financial Report for the half-year ended 31 December 2011 which has been reviewed by the Group's Independent Auditor.

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