Media Release

QANTAS GROUP PROFIT UPDATE

SYDNEY, 5 June 2012: The Qantas Group expects to report an underlying profit before tax (PBT) in the range of $50-$100 million for the financial year ending 30 June 2012.

The forecast result reflects the recent deterioration in global aviation operating conditions driven by the European economic crisis, the Group's highest ever jet fuel bill, and substantial capacity increases in the domestic market that have reduced yields.

Qantas International is expected to report an earnings before interest and tax (EBIT) loss of over $450 million in 2011/12 compared with $216 million in 2010/11. The structural issues in the business have been compounded by the impact of global economic factors – including increased fuel costs, the high Australian dollar and weakness in the UK and Europe market – as well as the $100 million one-off cost of industrial action.

In the domestic market, both Qantas and Jetstar will deliver improved results compared to the previous year and combined the two flying brands will deliver an EBIT of over $600 million. This strong result is despite industrial action, record fuel costs and aggressive competitor capacity increases. Domestic customer satisfaction with Qantas is at its highest sustained level since 2004 and the Group continues to deliver the best network, frequency and on-time performance in the market. Qantas remains the preferred airline for corporate travel and, through QantasLink and Network Aviation, is capitalising on the strength of the resources industry and the fly-in fly-out market.

The resilience of the Qantas Group is underpinned by the strong and improving performances of Qantas Domestic, Jetstar and Qantas Frequent Flyer.

As a result of the weakening revenue environment, Group yield (excluding foreign exchange) for the second half of 2011/12 is expected to increase by 0.5% to 1.0% which is down on the previous estimate of 1.5% to 2.5%. Also included in the 2011/12 forecast is the impact of declining bond yields since mid-March 2012, which has had an adverse non-cash effect of approximately $50 million on certain provisions. Group underlying fuel costs are expected to reach $4.4 billion, an increase of approximately $700 million on the prior year.

Qantas Group CEO Alan Joyce said this tough and worsening environment reinforced the importance of the Qantas International five-year transformation plan announced in August 2011.

"We have taken decisive action to mitigate losses in Qantas International by withdrawing from loss-making routes, reducing capital investment, and transforming Qantas engineering. The introduction of a new Qantas Group structure with dedicated CEOs for Qantas International and Qantas Domestic will bring further rigour to our business."

"We have also doubled capacity on the successful Dallas/Fort Worth route and launched new services to the South American gateway of Santiago. We are improving our flying economics and lifting customer satisfaction through our Boeing 747 reconfiguration program.

“We are also attacking costs and allocating aircraft and capital efficiently. Over $300 million in annual benefits have been identified from the changes we are making and we will continue to seek improvements in all parts of the business.

“While there are one-off costs associated with the transformation program – in the range of $370-$380 million for the full year 2011/12 more than half of which are non-cash items – these costs will be outweighed by the long-term benefits of increased efficiency and competitiveness.

“We continue to practice disciplined financial management. We have announced capital expenditure reductions totalling $900 million for 2012/13, bringing the total for the year down to $1.9 billion. Capital expenditure in 2013/14 will be at this level or lower.

“We remain focused on returning Qantas International to profitability in 2014 and for Qantas International and Domestic combined to exceed their cost of capital on a sustainable basis within five years of August 2011.”

Mr Joyce said that with a cash balance of more than $3 billion, an undrawn standby facility of $300 million, 16 new unencumbered A320/B737 aircraft added to the balance sheet in the past two years and the flexibility to reinstate or further reduce capital investment as appropriate, the Qantas Group remains in a strong funding position.

“The Group has funding in place for the majority of its 2012/13 aircraft deliveries and intends to fund the remainder of its future capital commitments from operating cashflow, cash reserves and available debt,” he said.

The International Air Transport Association has downgraded its forecast for airline profits in 2012 to $3 billion, a margin of just 0.5%, and has said that a further economic downturn could see a net loss for the sector.

The 2011/12 profit guidance is based on current market conditions and assumes no material change in foreign exchange rates and the long term bond rate.

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