Media Release

QANTAS GROUP ANNOUNCES DEBT REDUCTION, SHARE BUY-BACK

SYDNEY, 15 November 2012: The Qantas Group today announced it will repay $650 million in debt ahead of schedule and invest up to $100 million in an on-market share buy-back. The share buy-back represents up to approximately 4 per cent of Qantas shares on issue[1] and is expected to begin in December 2012.

Qantas Chairman Leigh Clifford said the Group was well positioned in terms of its portfolio of businesses, its balance sheet and its strategy to deliver long term shareholder value.

"The Board believes the current Qantas share price does not reflect fair value of the Group, particularly considering the underlying strength of its domestic, loyalty and Jetstar businesses and the proposed partnership with Emirates," said Mr Clifford.

"Our continued progress towards the turnaround strategy for Qantas International, plus cash inflows from recent transactions, gives the Board confidence to approve these capital management measures.

"The share buy-back and accelerated debt reduction reflect the Board's goal of returning value to shareholders and maintaining a strong balance sheet, as well as retaining the flexibility to pursue current growth initiatives," Mr Clifford added.

The accelerated debt reduction involves repayment of all outstanding 5.125 per cent notes originally due in June 2013. This repayment will be completed five months ahead of schedule in January 2013 and will form part of a program of $1 billion in debt reduction for the Qantas Group in FY13.

The measures will be funded by the recently-completed sale of Qantas' stake in road freight company StarTrack and the settlement from Boeing in relation to the Group's B787 order. These two transactions will deliver combined net proceeds of $750 million in FY13. As these transactions are outside normal operating cash flows, the debt reduction and share buy-back will have no impact on the Group's current BBB-/Baa3 (stable outlook) credit ratings. Citigroup Global Markets Australia will act as broker for the buy-back.

Following the recent refinancing of the Group's $400 million undrawn loan facility, together with its strong cash balance, the Group will retain a strong liquidity position on an ongoing basis.

The Qantas Group continues to invest, adding 24 unencumbered aircraft to the balance sheet since July 2010, including six in FY13. The Group continues to maintain access to a broad range of funding sources including cash, structured leases, sale and leaseback, bank and ECA loans.

In line with ASX Listing Rules for a share buy-back, Qantas has today provided additional information to the market, including an outlook for the first half of FY13, detail on the proposed partnership with Emirates and a pending Fair Work Australia determination.

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[1] Based on the current Qantas share price. The buy-back is subject to market conditions at the time of purchasing the shares.

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ADDITIONAL INFORMATION TO THE MARKET

Outlook for the Qantas Group

The Qantas Group expects to report underlying profit before tax for the six months ending 31 December 2012 in the range of $180 million to $230 million.

The outlook for the first half of FY13 includes the following:

- Group capacity is expected to increase by between 1 per cent and 3 per cent in 1H FY13 compared to 1H FY12. Total Domestic capacity (comprising Qantas Domestic, QantasLink and Jetstar Domestic) is expected to increase by between 7 per cent and 9 per cent in 1H FY13 compared to 1H FY12;
- Group yield (excluding the impact of foreign exchange movements) is expected to be lower in 1H FY13 compared to 1H FY12, largely due to increased capacity in the domestic market; and
- Underlying fuel costs (excluding the impact of the carbon tax) for 1H FY13 are expected to be approximately $2.2 billion.

The outlook for the second half of FY13 remains volatile and, given the uncertainty in global economic conditions, fuel prices and foreign exchange rates, it is not possible to provide further guidance at this time.

Furthermore, capital expenditure in FY13 is now expected to reduce by $100 million compared with previous forecasts to total $1.8 billion.

Additional information in relation to the Qantas-Emirates Partnership

On 6 September 2012 Qantas and Emirates announced a global aviation partnership, encompassing integrated network collaboration with coordinated pricing, sales and scheduling, as well as a benefit-sharing model.

Subject to regulatory approvals, including from the Australian Competition & Consumer Commission (ACCC), the proposed partnership is scheduled to commence on 31 March 2013.

Qantas and Emirates have now progressed the applications and notifications to applicable regulators to facilitate the partnership commencing on 31 March 2013. In particular, Qantas has lodged applications for approval with the ACCC, the New Zealand Ministry of Transport and the Commerce Commission Singapore, and Qantas continues to liaise with those bodies in relation to the applications. As the ACCC's announcement of 4 October 2012 disclosed, the ACCC expects to release a draft determination in December 2012 and a final decision in March 2013.

In other relevant jurisdictions which require notification or applications to be made, Qantas and Emirates have briefed, or shortly will brief, relevant regulators. For example, in relation to European clearances, Qantas and Emirates have briefed both the European Commission (EC) and the Office of Fair Trading (UK) (OFT) in relation to the "self-assessment" regime applicable in the European Union. With neither the EC nor the OFT having opened an investigation, Qantas does not anticipate any concerns arising in those jurisdictions.

In relation to the termination of the existing codeshare arrangements Qantas has in place with British Airways, Air France and Cathay Pacific, discussions on the transition of the relevant routes from the codeshare remain amicable and constructive.

Qantas and Emirates continue the preparatory work required to commence the proposed partnership. Included in that process is the formalisation, subject to regulatory approval, of a suite of agreements regulating the partnership, as contemplated by the Master Coordination Agreement (MCA) executed upon announcement of the partnership on 6 September 2012.

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The principal terms of the MCA, and therefore the guiding principles for the suite of agreements currently being negotiated, are as follows, in each case subject to regulatory approval:

- a fixed ten year term, commencing from the date Qantas commences scheduled flights through Dubai;
- the ability for Qantas to codeshare on all Emirates services (subject to Qantas having the required air service approvals);
- the ability for Emirates to codeshare on all Qantas and Jetstar services (subject to Emirates having the required air service approvals);
- the ability, where it is not possible to codeshare, to interline onto all services of the other airline;
- the coordination of schedules, capacity and pricing;
- the coordination of the airlines' frequent flyer programs – providing significant additional opportunities for Qantas Frequent Flyer and Emirates Skywards members to earn and burn across the combined Qantas/Emirates networks;
- the coordination of passenger related services to provide customers with a superior consistent level of service;
- a benefit transfer model for certain routes and a commission model for other routes;
- industry standard obligations to work together to maximise the benefits flowing from the agreement and to avoid conflicts;
- provisions making it clear that each party has autonomy over its wider business; and
- as is standard in arrangements of this kind, termination provisions linked to breaches of the MCA and material adverse changes in either party's circumstances. Included in those termination provisions are termination rights which accrue in favour of a party if:
  - the other party commits a material breach of the MCA;
  - the other party undertakes a significant transfer or cessation of its airline operations or other material business units;
  - the other party becomes insolvent;
  - there is a material change in the strategy of the other party consequent upon a change in the chief executive officer and that change in strategy is materially adverse to the benefits anticipated from the partnership by the terminating party;
  - the other party's air operator's certificate or international air services licence, or other regulatory approval critical to its performance of the MCA, is suspended or terminates; or
  - in relation to the other party, an inconsistent investment occurs by which a third person acquires control, more than 20 per cent, or more than 10 per cent and a board seat.

Subject to regulatory approval, Qantas and Emirates anticipate that this suite of agreements will be agreed and ready to commence from the launch of the partnership, currently anticipated to be from 31 March 2013.

Pending Fair Work Australia determination

During the course of 2011-12, Qantas has had three significant matters before Fair Work Australia (FWA) for arbitration.

On 23 January 2012, FWA endorsed the workplace determination between Qantas and the Australian Licenced Aircraft Engineers Association (ALAEA) and on 8 August 2012, FWA made a final workplace determination between Qantas and the Transport Workers' Union (TWU).

The remaining matter before FWA is the hearing of the workplace determination between the Australian and International Pilots Association (AIPA) and Qantas. FWA will make a determination having heard the submissions of the parties on matters including AIPA's claim for Group flying, redundancy, work rule changes and back pay.

The FWA hearing has now concluded and the parties are awaiting the FWA determination.

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