



# Media Release

## QANTAS ANNOUNCES RECORD PROFIT

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

#### HIGHLIGHTS

- Record profit before tax of \$905 million
- Net profit after tax of \$618 million
- Revenue of \$8.1 billion
- Earnings per share of 31.6 cents
- Operating cashflow of \$1.2 billion
- Interim fully franked ordinary dividend of 18 cents per share
- On track with Segmentation and Sustainable Future programs
- Progress on key strategies has positioned the Group for future success

**SYDNEY, 21 February 2008:** Qantas today announced a record profit before tax of \$905 million for the half-year to 31 December 2007, a 73 per cent increase on last year's reported profit result.

The Board declared an interim fully franked ordinary dividend of 18 cents per share, a 20 per cent increase on the 15 cents per share special interim dividend in 2007.

The Chairman of Qantas, Mr Leigh Clifford, said following the excellent performance of Qantas and Jetstar in particular, combined with strong operating cashflows, dividends had been increased and capital had been returned to shareholders, with gearing increasing by only one percentage point to 42 per cent.

Mr Clifford said the result also reflected the ongoing success of the company's business transformation program over the past five years.

"While we have benefited from a strong revenue environment, our focus has also remained on costs, efficiencies, customer service and product improvement.

"Our results reflect these efforts and I would like to thank all employees for their continued contribution to the company's success."

Qantas Airways Limited **ABN 16 009 661 901**

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Mr Clifford said the announcement today of a merger between Qantas Holidays, Qantas Business Travel and Jetset Travelworld (*see separate release*) would be earnings per share accretive.

The Chief Executive Officer of Qantas, Mr Geoff Dixon, said the Group's two brand strategy had again underpinned the result.

"We have two very strongly performing full service and leisure brands. Our ability to direct our flying to the most appropriate markets is giving us a unique competitive advantage."

Mr Dixon said the key drivers of the results were:

- strong domestic and international demand which led to a 2.2 per cent yield improvement and a 1.8 per cent improvement in seat factor to 82.1 per cent for the Group;
- a strengthening and significant investment in the Qantas brands – domestic, international and QantasLink – that led to a doubling of operating profit;
- aggressive build-up of Jetstar in both the international and domestic markets, leading to a quadrupling of profit to \$113 million for the half-year;
- a further \$311 million in efficiencies under the Sustainable Future Program; and
- operating expenditure increasing only 3.0 per cent, compared to capacity growth of 3.9 per cent, and unit costs reducing by 3.3 per cent.

Mr Dixon said the Sustainable Future Program would deliver a cumulative \$3 billion in efficiency improvements by the end of the financial year.

"The program is critical to our growth strategy and to our ability to compete successfully in the international market, particularly against those carriers that have extensive government ownership underpinning their growth. To this end we are targeting further cumulative savings of \$1.5 billion by June 2010."

Mr Dixon said that the December 2007 results, for the first time, included separate reporting for the Group's Loyalty and Freight businesses, in line with its Business Segmentation strategy.

"This is in accordance with our announcement last year that we will position these and eventually other portfolio businesses for greater growth outside their traditional aviation areas, and to provide alternative ownership options."

Mr Dixon said Qantas Frequent Flyer (QFF) was well placed to capitalise on its unrivalled position in the Australian loyalty market.

"It has a wide network of partners, more than five million members, and attractive redemptions. It also generates 60 per cent of its revenue outside Qantas and has excellent growth prospects.

"It will be in a position to launch an enhanced program mid this year including the use of points for any seat on Qantas and Jetstar, and merchandise and shopping vouchers.

"We will, if we believe such a move would add significant value and shareholders agree, be in a position to implement a new ownership structure for QFF by late 2008."

Mr Dixon said Qantas Freight was continuing to look for opportunities to expand in Asia and within Australia.

“We are leveraging our existing Qantas and DPEX networks and developing new markets with Qantas and Jetstar.”

Mr Dixon said while Qantas' position was very strong, there were ongoing challenges for the industry overall.

“Qantas has built a great deal of flexibility into its various businesses to enable it to better handle these challenges.

“For example, we manage our fleet to provide extensive flexibility for periods of strong growth or periods of no growth.

“We have the mechanisms in place to defer or accelerate the retirement of aircraft and the mechanisms to delay or advance deliveries of new aircraft through slide rights of up to 20 per cent of our fleet.”

Mr Dixon said this flexibility had enabled Qantas to avoid difficulties following the delay of the A380 (which will enter Qantas service in August) and the B787 Dreamliner.

“We are well placed to successfully manage this aspect of our business in an increasingly competitive environment.”

## **Outlook**

Qantas is seeing no significant dampening in demand in most markets, especially in the domestic and Australian outbound travel markets, as a result of the global economic slowdown, although there has been some softening in the UK and continued weakness in Japan.

The first seven weeks of 2008 and our forward bookings are in line with forecast and we are confident of achieving a full year profit for 2007/08 of at least 40 per cent higher than the reported 2006/07 profit before tax result.

As well, the Group's ongoing business transformation initiatives have ensured that Qantas is well positioned to meet ongoing challenges, including fuel prices and competitor capacity growth.

## **FINANCIAL COMMENTARY**

### **Accounting Policy Change**

Qantas announced in August 2007 that it was early adopting International Financial Reporting Interpretations Committee 13: Customer Loyalty Programs (IFRIC 13), as it applied to the Frequent Flyer Program and the accounting for earned frequent flyer points. The implementation of this change, which is detailed in Qantas' Half-Year Report, had the effect of reducing the comparative half-year profit before tax from \$523 million to \$450 million, and reducing opening retained earnings at 1 July 2007 by \$55 million.

## Group Revenue

Total revenue for the half-year was \$8.1 billion, an increase of \$491 million or 6.4 per cent on the prior comparative period compared to capacity growth, measured in Available Seat Kilometres (ASK), of 3.9 per cent.

Net passenger revenue including fuel surcharge recoveries increased \$504 million or 8.4 per cent to \$6.5 billion. Traffic, measured in Revenue Passenger Kilometres (RPK), increased by 6.3 per cent while yield improved by 2.2 per cent. Excluding unfavourable foreign exchange rate movements, net passenger revenue was up 10.6 per cent, with yield improving 4.3 per cent.

Other revenue categories decreased by \$12 million to \$1.6 billion, which reflected activity growth net of lower liquidated damages receivable from aircraft manufacturers.

## Expenditure

Total operating expenditure increased by 3.0 per cent or \$213 million to \$7.3 billion, excluding borrowing costs and hedge ineffectiveness on open derivatives, which was below the combined impact of capacity growth and price rises.

Employee related costs increased by \$32 million or 1.9 per cent. Capacity growth and wage and salary increases were offset by cost saving initiatives and productivity improvements of \$61 million under the Sustainable Future Program (SFP). Restructuring costs totalled \$16 million, with 505 managed redundancies effected or announced during the period.

Total fuel costs for the six months to December 2007 were \$28 million lower than the same period last year. The underlying into-plane fuel price was 11.9 per cent higher than the prior year, increasing costs by \$175 million, while increased flying added \$68 million in costs. Hedging benefits were \$147 million higher than the prior half-year before an adverse effect of hedge accounting ineffectiveness which increased costs by \$57 million. Favourable foreign exchange rate movements reduced fuel costs by \$203 million. Fuel costs would have been \$26 million higher had it not been for SFP initiatives delivered during the half-year.

Aircraft operating variable costs increased \$69 million or 5.3 per cent to \$1.4 billion, reflecting higher domestic airport charges and engineering costs, offset by cost saving initiatives and lower ground handling charges.

Depreciation and non-cancellable operating lease rentals increased by 5.3 per cent or \$48 million, while financing costs were a net credit of \$22 million (compared to interest expense of \$22 million in the comparative half-year) due to higher average cash balances and capitalised interest against aircraft progress payments.

Open hedge positions resulted in ineffective derivative gains of \$33 million due to timing differences from the recognition of future hedge instruments under A-IFRS. This compared to ineffective derivative losses on open positions of \$99 million in the comparative half-year.

## Net Impact of Foreign Exchange Rate Movements

The net effect of foreign exchange rate movements on overall profit before tax was a favourable impact of \$113 million.

## Sustainable Future Program and Group Unit Costs

The Sustainable Future Program is on track to achieve its cumulative \$3 billion target by June 2008. Benefits delivered across the Group under the Program totalled \$311 million for the half-year. These benefits comprised labour savings of \$61 million, fuel savings of \$26 million, distribution savings of \$38 million and \$186 million in fleet, product and overhead initiatives.

SFP savings contributed toward a reduction in net expenditure cost per ASK of 3.3 per cent.

Restructuring costs associated with the Sustainable Future Program totalled \$34 million, including \$16 million in redundancy payments and provisions.

### Qantas Brands

Qantas brands includes QantasLink, Qantas Defence Services and other subsidiaries but excludes Freight, Loyalty and Corporate Centre costs which have been separately disclosed.

The Qantas flying operations contributed a PBT of \$830 million, which was an increase of \$428 million on the previous half-year. Passenger revenue increased by \$250 million to \$5.5 billion, or 4.8 per cent. Revenue growth was driven by a 4.4 per cent increase in yield while a 2.4 percentage point increase in seat factor largely offset a 2.6 per cent decrease in capacity.

Net expenditure, excluding fuel, reduced by \$96 million or 3.0 per cent on a capacity reduction of 2.6 per cent resulting in a net expenditure unit cost reduction of 0.5 per cent.

Qantas Defence Services, other subsidiaries, associates and jointly controlled entities contributed \$24 million.

### Jetstar Brands

Jetstar Brands comprises Jetstar's Australia-based operations, Express Ground Handling and Qantas' equity investment in Pacific Airlines and Jetstar Asia.

Jetstar Brands achieved a PBT of \$113 million, nearly a fourfold increase on last years' half-year result of \$25 million.

Passenger revenue increased by \$250 million or 53.6 per cent, largely driven by a 62.9 per cent increase in capacity, arising from the continued expansion of the Jetstar International network.

Despite the significant capacity increase, seat factor was largely maintained decreasing only 0.1 percentage point to 78.6 per cent while yields reduced by 5.6 per cent.

Jetstar's net expenditure cost per ASK was 6.15 cents, an improvement of 16.3 per cent on the prior half-year comparative. On a total expenditure basis, cost per ASK reduced 14.8 per cent versus the comparative half-year.

Both net expenditure and total expenditure have benefited from capacity increases and productivity improvements. Start-up costs of \$26 million relating to the international operation were also incurred in the prior half-year compared to \$3 million incurred in this half-year.

## Market Share

Total Qantas Group international market share was 32.1 per cent based on the latest Bureau of Transport and Regional Economics (BTRE) statistics for the October 2007 year to date period, a 0.9 point increase on the prior year.

Total Qantas Group domestic market-share for the 5 months to November 2007 as reported by the BTRE was 68.0 per cent, a 0.5 point increase on the comparative half-year.

## Loyalty

The Loyalty Segment reported a PBT of \$62 million. The result included revenue of \$399 million primarily from the redemption of Qantas frequent flyer points for flight and other awards. Total costs for the period were \$337 million with the majority of costs being the purchase of airline seats from Qantas group airline businesses.

## Freight Enterprises

Qantas Freight Enterprises (QFE) includes Qantas Cargo, Express Freighters Australia and the Group's equity investments in Star Track Express Holdings Pty Limited (STE), Australian air Express Pty Limited (AaE) and Jupiter Air Oceania Limited.

QFE has reported a PBT of \$53 million for the half-year ending 31 December 2007, compared to \$56 million in the prior year.

## Qantas Flight Catering Group

Qantas Flight Catering PBT increased by \$1 million or 10 per cent to \$7 million. The result reflected a downward adjustment to Qantas Airlines' pricing (to market levels) offset by higher external revenue and lower restructuring costs.

## Corporate Centre

The Corporate Centre includes the central functions essential for maintaining governance, minimising risk and optimising performance of the Qantas Group portfolio of businesses. The \$218 million in half-year costs include the additional \$64 million provision for freight cartel fines.

## Cash Flow and Balance Sheet

Net cash held at 31 December 2007 was \$2,910 million, a decrease of \$453 million compared to 30 June 2007.

Cash flow from operations totalled \$1,223 million, an increase of \$173 million or 16.4 per cent, which reflects increased after-tax earnings.

Net capital expenditure totalled \$818 million and included the purchase of two A330-200 aircraft and progress payments on A380, A330, A320, B738 and B787 aircraft, modifications, spares and related equipment. Proceeds from the sale of investments totalled \$106 million and included the sale of the investment in Air New Zealand. Although this sale and its associated gain on disposal were recognised in the prior year, the cash proceeds were received in July 2007.

Net cash outflows from financing activities totalled \$929 million, and included \$295 million in dividend payments, net debt repayments of \$224 million and the purchase of 71.1 million of shares under the buy-back announced in August 2007 at a cost of \$410 million.

The book debt to equity ratio (including operating leases and the hedge reserve) at 31 December 2007 was 42:58 compared to 41:59 at 30 June 2007.

Earnings Per Share (EPS) was 31.6 cents per share, a 102.0 per cent improvement on the prior comparative period, which was broadly in line with the improvement in profitability.

### **Interim Dividend**

The interim dividend of 18 cents per share represents a payout ratio of 57.0 per cent and an annualised fully franked dividend yield of approximately 9.5 per cent (based on the 31 December 2007 share price of \$5.44). The interim dividend is payable on Wednesday, 2 April 2008 with a record date (books close) of Wednesday, 5 March 2008. The Dividend Reinvestment Plan will remain suspended.

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