Media Release

Qantas announces revised profit forecast and major response to deterioration in trading conditions

SYDNEY, 14 April 2009:

Qantas today announced that, due to a rapid and significant deterioration of trading conditions in the past few weeks it is revising its 2008/2009 full year profit before tax (PBT) outlook downwards from around $500 million to between $100 million and $200 million. The profit forecast range is subject to no further changes in market conditions, fuel prices, and volatility in hedge accounting results.

Qantas Chief Executive Officer Alan Joyce said that Qantas Airlines' international services and Qantas Freight were bearing the brunt of the decline in economic conditions, with a lesser impact on Qantas domestic services, while Jetstar, the Qantas Frequent Flyer business and QantasLink were continuing to perform well.

"Market conditions have deteriorated, especially in our international business. We are experiencing significantly lower demand, particularly in premium classes, and considerable price pressures with extensive sales and discounting by all carriers –in some cases leading to fare reductions of up to 50 per cent", Mr Joyce said.

"We have no choice but to lower our profit forecast and make major changes to ensure Qantas can weather the current commercial environment. This means moving immediately to reduce capacity in those areas of our business facing the greatest impact of market deterioration, but we will not be withdrawing from routes to achieve this.

"We have faced accelerated declines in passenger demand and revenue while market competition has intensified. Some competitors are reducing capacity, but overall market capacity into Australia has continued to grow despite falling demand.

"Qantas revenues have come under severe pressure, so it would be irresponsible to rely solely on stimulating demand through attractive pricing given the potential for unprecedented reductions in yield.

"Further capacity cuts will be made to Qantas Airlines and our freight business, on both international and domestic routes. We will ground additional aircraft and defer some aircraft orders, as well as maintaining a freeze on further capital expenditure.

"Qantas will implement the following measures:

- A further five per cent reduction in flying capacity, affecting frequency on Qantas Airlines international and domestic routes;
- Cuts to freight capacity, on both domestic and international routes;
- Grounding the equivalent of ten aircraft and making them available for sale;
- Deferring aircraft orders, including four Airbus A380s and twelve 737-800 aircraft;
- Exploring a number of options with Boeing about 787-800 aircraft including reducing, in the near-term, the number of aircraft to be delivered;
- Reducing capital expenditure by at least $800 million in 2009/2010, and;
- Removing an additional 500 management positions.

"Unfortunately, responding rapidly to declining economic conditions is going to have a direct impact on our staff. We employ over 34,000 people and we are striving to protect as many of their jobs as possible, but the capacity reductions to protect the long-term viability of the overall Qantas Group mean that up to 1,250 equivalent full-time positions will be affected in addition to the management reductions being made.

"We want to avoid redundancies wherever possible, so we will be trying to use a range of workforce initiatives to manage the downturn such as, annual leave, long service leave, attrition, redeployment, leave without pay, promoting part-time work and exploring job-sharing", Mr Joyce said.

"We are determined to see the Group remain strong and profitable over the longer-term in order to protect the interests of our employees and shareholders. The structural flexibility of our two-brand strategy, Qantas' diversified portfolio of businesses, and prudent financial management have cushioned the impact of the recent deterioration in market conditions. Taking further action on costs and capacity will ensure we can continue to benefit from those strategies.

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FURTHER DETAILS ARE CONTAINED IN THE ATTACHED APPENDIX

APPENDIX

Overview of emerging market trends

Key factors in the outlook:

- Diversification is helping Qantas manage volatility in the market, by providing the Group with greater flexibility than many of its competitors have to adapt to changing conditions.
- The two-brand strategy is proving beneficial in helping us manage the downturn in the cycle, as it helped us benefit from better conditions over recent years.
- Domestic demand at discount levels has been holding up and Jetstar has been performing in line with expectations.
- Jetstar and Qantas Frequent Flyer continue to perform well.
- Qantas Frequent Flyer members have responded very positively to the new program. Redemption revenue has been stimulated, with year to date redemptions running at around 24 per cent higher than in 2008. "Classic" redemption options now represent around 77 per cent of total redemptions.
- Qantas Airlines was affected by a significant deterioration in revenue downturn in premium and international travel.
- Freight -Since February, freighter yields ex-China and ex-USA have come under substantially competitive pressure, as have belly-space yields across the network as operators have discounted heavily to attract available volumes.
- Since the engineering dispute in July/August, punctuality performance within Qantas' domestic operations has improved significantly and delivered superior on arrival performance to Virgin Blue in the five months to February 2009.

Key elements of the Qantas response

Network and route changes

- Qantas will ground up to 10 aircraft, but is determined to retain presence on key routes despite intense competition.
- Capacity reduction will occur by reducing frequency, rather than complete withdrawal from key markets.
- Capacity predominantly removed from Australian domestic routes as well routes to the US, UK and South Africa.

Capex reductions and aircraft delivery deferrals

- Qantas has successfully negotiated the deferral of the following aircraft deliveries*:*
  - 4 x Airbus A380's deferred for 10 – 12 months,
  - 12 x Boeing 737-800's deferred for an average of 14 months.
- Ongoing negotiations regarding the delivery of 15 x Boeing 787-800 aircraft.
- 2008/09 capital expenditure revised down by A$200 million to A$1.8 billion.
- 2009/10 capital expenditure revised down by A$800 million to A$1.3 billion.

Workforce implications

- Qantas announced 90 senior executive redundancies in March 2009, and is reviewing remaining management tiers.
  - o Initial management restructuring is expect to yield recurrent savings of $22 million p.a., with an initial implementation cost of up to $18 million.

- Qantas will now proceed to remove an additional 500 management positions
  - Further savings are expected from this additional management restructuring initiative.
- It is anticipated that the equivalent of 1,250 additional employment positions will be affected as a result of capacity reductions and allied restructuring.
- Qantas will minimise redundancies for the 1,750 positions by utilising workforce initiatives to the fullest extent, such as:
  - Attrition;
  - Full time to Part Time;
  - Job sharing;
  - Redeployment;
  - Annual Leave, Long Service Leave, and;
  - Leave without pay.
- Unfortunately, some redundancies will be unavoidable and will lead to additional restructuring costs in 2008/09.

Funding and liquidity

- Following the aircraft delays announced today, Qantas has facilities in place to cover all remaining delivery commitments until October 2010.
  - US$300m in new facilities completed since 31 December 2008.
  - Despite market turmoil, all FY09 aircraft deliveries were funded successfully via a combination of commercial debt, Export Credit Agency facilities or operating lease.
- Qantas maintains strong liquidity with A$3.2 billion in cash, plus an undrawn standby facility of A$0.5 billion.
  - No significant debt re-financing requirements until February 2011.
  - Unsecured bank facility matures in two tranches
    - $315 million Feb 201,
    - $315 million Feb 2012.

Outlook Summary

“The revenue environment has significantly deteriorated recently, particularly in the Qantas full service and Freight businesses. Jetstar, QantasLink and Qantas Frequent Flyer continue to perform well despite extremely challenging market conditions”, Mr Joyce said.

“Qantas expects the current volatility in operating conditions to continue for some time. These volatile market conditions make it difficult to provide forecasts.

Qantas expects a 2008/09 PBT of A$100 million - A$200 million subject to:

- no further changes in market conditions and fuel prices
- no further changes to PBT resulting from accounting for hedging exposures in future financial years under IFRS139

This guidance includes additional provisions for aircraft write-downs and restructuring costs of up to A$150 million, which will be substantially offset by the change in Frequent Flyer revenue accounting.