QANTAS RESULTS

FOR THE YEAR ENDED 30 JUNE 2001

HIGHLIGHTS

- Profit before tax, of $597.1 million, down $165.7 million (21.7 percent) on last year
- Profit after tax of $415.4 million, down $101.9 million or 19.7 percent
- Revenue increased to almost $10.2 billion, up 11.9 percent
- Payout ratio maintained at 60 percent, a final dividend of 9 cents per share, down 2 cents
- Earnings per share of 33.0 cents per share, down from 42.8 cents per share

QANTAS REPORTS PROFIT AFTER TAX OF $415.4 MILLION

SYDNEY, 16 August 2001: Qantas today announced a profit before tax of $597.1 million for the year ended 30 June 2001. Profit after tax was $415.4 million.

Chairman Margaret Jackson said: “It is a considerable achievement for Qantas to deliver this significant profit at a time when the global aviation industry is experiencing unprecedented change and many airlines around the world are reporting losses or small profits.

“This result confirms that Qantas is a disciplined and robust airline, ready to meet the myriad challenges that it must face.”

The Directors declared a fully franked final dividend of 9 cents per share, bringing total fully franked dividends for the year to 20 cents per share and maintaining the payout ratio of 60 percent.

Chief Executive Officer Geoff Dixon said the result was achieved in a difficult and challenging year.

“In particular, Qantas was affected by significant price discounting in the Australian domestic market that placed pressure on yields, the weakness of the Australian dollar, an overall slowing in the Australian and international economies, and continued high jet fuel prices.”

Revenue

Revenue for the year totalled almost $10.2 billion, an increase of $1.1 billion or 11.9 percent on last year.

Sales and operating revenue increased by 11.9 percent, 7.6 percent when the favourable impact of exchange rate movements is excluded. The increase was due to a 10.0 per cent growth in Revenue Passenger Kilometres (RPKs), offset by a 1.9 percent deterioration in yield when the favourable impact of exchange rate movements is excluded.

Capacity increased by 9.3 percent over the previous year while the overall passenger seat factor rose by 0.5 percentage points.

Expenditure

Total expenditure, including interest, rose by 14.9 percent or 9.6 percent when the unfavourable impact of movements in foreign exchange rates is excluded. The rise was mainly due to costs associated with capacity increases and higher fuel costs.

Cost per Available Seat Kilometre, after excluding exchange movements, decreased by 1.3 percent.

Fuel

Jet fuel prices increased by $160 million after hedging benefits of $406 million.

In addition to the jet fuel price increase, additional flying increased fuel expenditure by $105 million and the weaker Australian dollar increased fuel costs by a further $202 million, resulting in a 54.1 percent increase in total fuel expenditure of $466.6 million.

Exchange

The favourable foreign exchange effect on revenues during the year was more than offset by the unfavourable impact on foreign currency denominated expenditures, leaving a net cost increase over the prior year of $61.0 million. This adverse impact was primarily a result of the Australian Dollar weakening significantly against the US dollar but at a lesser rate against the main revenue currencies.

Individually Significant Items

The profit before tax includes a benefit of $46.0 million from a change in accounting policy for the treatment of software acquisition and development costs. In addition, a number of significant transactions took place during the year, including:

- $41.2 million in pre-tax profit ($35.0 million after tax) from the sale of the Qantas office buildings at Coward Street, Mascot;
- $75.1 million in pre-tax revenue and dividends ($60.4 million after tax) relating to asset sales by an associated company; and
- $35.0 million pre-tax redundancy provision ($23.1 million after tax) to cover the cost of the restructuring program announced in February 2001.

Business Segments

International operations continued to make a strong contribution to the Group's performance during the year, with earnings before interest and tax rising 22.4 percent to $458.7 million. However, EBIT growth in the second half failed to match performance in the first half, reflecting the slowdown and uncertainty in the global economy and the positive Olympic effect in the first six months.

RPKs increased by 11.3 percent on capacity growth of 9.8 percent leading to a 1.0 percentage point increase in load factors. Yield, excluding the favourable impact of movements in foreign exchange, increased by 1.8 percent.

Domestic operations contributed $127.4 million in EBIT, down 53.2 percent. RPKs increased by 6.0 percent while capacity grew by 7.6 percent leading to a reduction in load factors of 1.3 percentage points. Yield, excluding the favourable impact of movements in foreign exchange, deteriorated by 8.2 percent.

The major impact on the domestic network was the entry of two new airlines into the market. This resulted in significant price discounting and pressure on yields across all domestic routes.

Subsidiary operations contributed $109.7 million to the Group's EBIT, a reduction of 35.2 percent:

- the regional airlines were affected by competition in the domestic market, the transfer of some better performing routes to the core domestic operation, increased fuel and operating costs and the impact of the weak Australian dollar;

- Qantas Holidays' EBIT was higher than last year, predominantly due to an improved Olympics-associated performance in the UK and Japan and the weak Australian dollar. This was offset by a reduction in Australian performance due to the increased availability of heavily discounted point to point airfares;

- The Qantas Flight Catering result improved due to organic growth and the acquisition of the Caterair catering centres.

Balance Sheet

The debt to debt plus equity ratio, including operating leases on a hedged basis, increased from 44:56 at 30 June 2000 to 53:47 at 30 June 2001. This was due to fleet expansion and deposits for future aircraft deliveries.

The Group's fleet increased by 31 aircraft during the year: One Boeing 747-200 returned from lease to Air Pacific, six Boeing 767-300 aircraft and one Boeing 747-400 aircraft were leased from British Airways and two Dash 8 aircraft were acquired by the regional airlines. In May, Qantas leased eight Boeing 717-200 aircraft and 13 Beechcraft aircraft from Impulse Airlines.

Cash Flow

Cash flow from operations totalled $1,100.7 million, $499.1 million or 31.2 percent lower than last year.

This reduction was primarily due to lower profitability, increased inventory as a result of fleet growth and unfavourable movements in working capital partly caused by foreign exchange rates.

Cash flow from operations in 1999/2000 was boosted by a significant number of passengers paying for their Olympics-related flights before 30 June 2000.

Outlook

"Qantas faces a very challenging external environment," Ms Jackson said. "The slow global economy continues to put pressure on international yields, domestic competition will remain intense, the Australian dollar's weakness may not improve and Australian dollar fuel prices may remain at near historical highs.

"Global pressures are causing airlines around the world, including Qantas, to restructure and pursue links with other carriers."

Mr Dixon said: "The aviation industry is one of the most demanding in the world, and it is particularly tough in the Asia-Pacific market. Of the 300 airlines around the world, many are making losses and most are experiencing diminishing profitability.

“Qantas may be the 12th largest airline in the world, but we only account for about 2.3 percent of the world market. In the years ahead, our success will depend not just on superior operational reliability and service but also on developing strong economies of scale and scope.

“We will continue to seek cost efficiencies and structural changes to ensure we are in a position to participate successfully in this rapidly changing industry.”

Mr Dixon said that while Qantas, as usual, did not feel it appropriate to forecast trading outcomes for the next twelve months in such volatile conditions, it was obvious that results for the 2002 financial year would remain under pressure.

The fully franked final ordinary dividend of 9 cents per share is payable on 3 October 2001, with a record date (books close) of 5 September 2001

Issued by Qantas Public Affairs (Q2459)
Media Enquiries: Michael Sharp (02) 96913468 or 0408 480145