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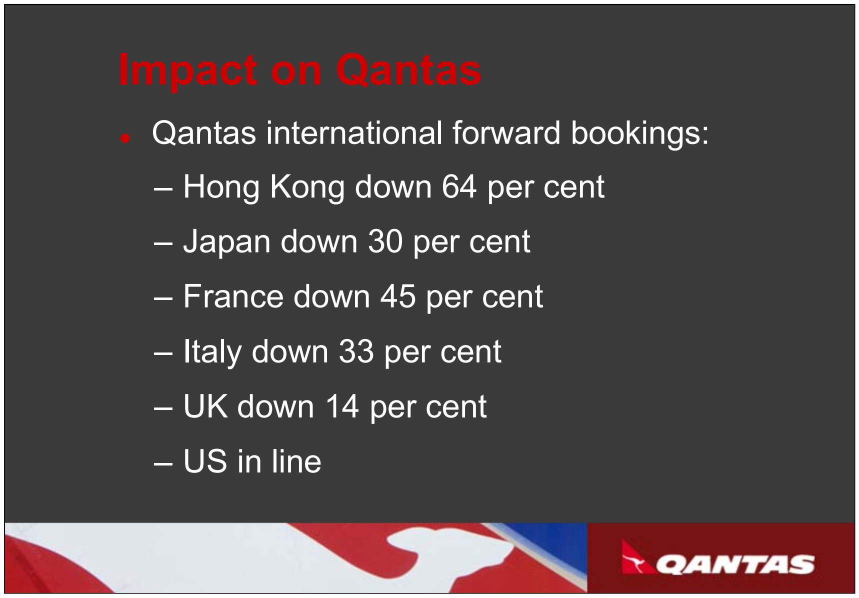
Grant Fenn
Executive General Manager Finance &
Deputy CFO
QANTAS

At this gathering last year, we spoke of an international aviation environment recovering from the effects of September 11, and an industry structure that needed to consolidate to remain sustainable in the medium to longer term.

Where are we a year on? The Bali bombings, the wars in Afghanistan and Iraq, and now SARS, have again served to demonstrate how exposed the aviation industry is to external shocks.

In our region, Singapore’s Prime Minister has indicated its national carrier is in a state of emergency and may lose as much as S$1 billion this financial year. Singapore Airlines has grounded nine of its aircraft, and has cut capacity by close to 30 per cent during April and May. The airline has asked almost half of its staff to take up to 12 days leave every two months in an effort to save S$200 million in employee-related costs.

Cathay Pacific’s passenger demand has more than halved. The airline is losing an estimated HK$20 million per day. Cathay’s Board has voted to halve its 2002 dividend and will seek to defer the delivery of up to seven aircraft. All staff have been asked to take four week’s unpaid leave.



For Qantas, this has translated into sizeable reductions in forward bookings, relative to last year, right across our international network. Understandably, bookings on the Hong Kong route have been worst affected. Prior to the war in Iraq and the outbreak of SARS, Qantas planned to operate 30 flights per week to Hong Kong. Instead we are operating seven – and the load factors on some of these flights are very poor.

On the Japan route bookings are down by 30 per cent. Bookings for Paris are down by about 45 per cent and for Rome by about 33 per cent. Forward bookings to the UK are down about 14 per cent.

However, we are encouraged by the performance of the US route, which has held up well throughout the past six months. We will look to add back three services per week from June, taking the total number of US services to 28 per week, which was the level we were operating before the war and SARS.

In total though, we have reduced our international capacity by up to 20 per cent between April and September, in line with the reduction in demand we are seeing throughout our network.

If you were thinking of a time to start up an international carrier with a focus on the inbound Asian leisure market, you couldn't have picked a worse time than right now. Australian Airlines was very successfully launched in October last year with good load factors. But given its destinations of Hong Kong, Singapore, Taipei and Japan, it has been hard hit by the war and SARS.

Planned new services between Cairns and Shanghai have been postponed in light of current operating conditions. However, the airline is a great concept, and we remain committed to growing its route structure in line with market demand.

Australian Airlines will commence flying from Melbourne and Sydney to Bali, and from Sydney to Kota Kinabalu in Malaysia in late June. Australian Airlines recently used its proving flight to Kota Kinabalu as an opportunity to market the destination to agents – and the feedback was extremely positive.

Australian Airlines will also commence services between Cairns and Sydney International Terminal in July.

Impact on Qantas

- Domestic airline:
  - Normally, 15 per cent of domestic passengers are international visitors
- Subsidiaries:
  - Qantas Holidays
  - Qantas Catering

QANTAS

About 15 per cent of people who fly with us domestically are international visitors, so the drop-off in international traffic has also affected our domestic operations.

Qantas Holidays and Qantas Catering have held up well given the circumstances, but are feeling the effects of a reduction in passenger numbers and reduced inbound passenger demand.

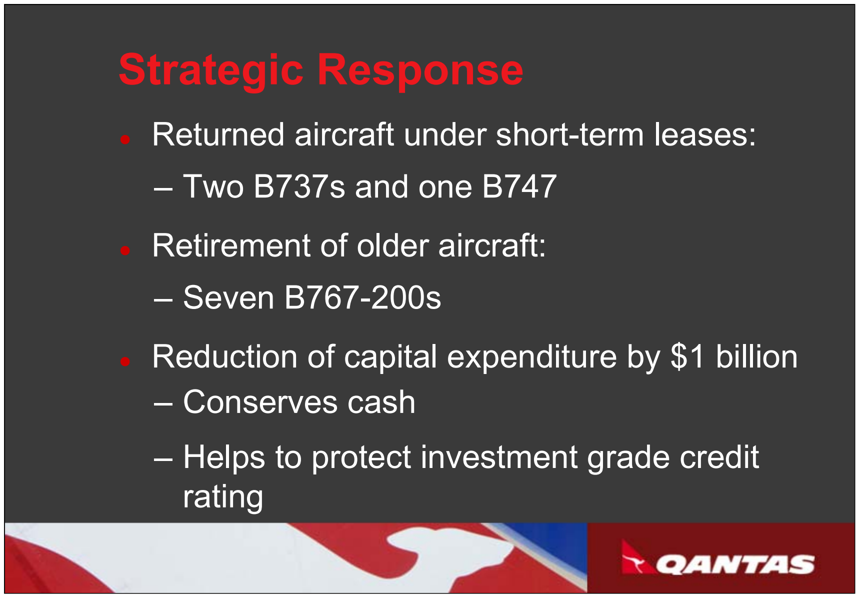
We have introduced a number of initiatives to manage our staffing levels through this period, and have progressed these initiatives as conditions changed.

Initially, we implemented an accelerated leave plan, using accumulated annual leave, rostered days off and long service leave to reduce our staff numbers by the equivalent of about 2,500 full time employees between March and 30 June.

We acted quickly, but the unexpected severity of the impact of SARS meant that more action was required.

A further 1,000 full time equivalent employees will take leave between July and September 2003.

We are currently undertaking a program involving 2,000 redundancies, and the removal of several hundred positions through attrition and conversion of full time positions to part time.



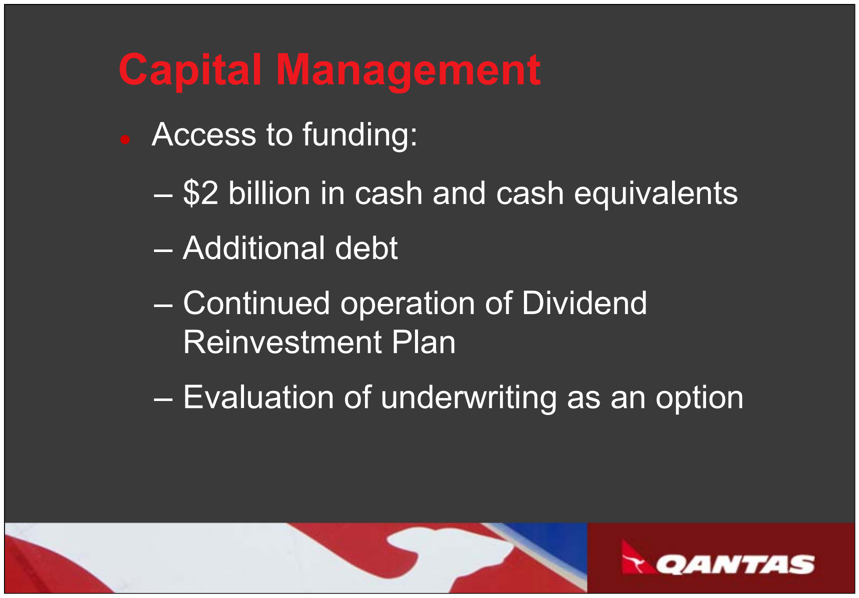
We have also taken the opportunity to activate the flexibility we have built into our fleet program – through returning leased aircraft, retiring old aircraft and "sliding" the delivery dates of new aircraft.

In late March, we returned two 737s and one 747 to their lessors. And from July, we will begin retiring our fleet of 767-200 aircraft. All seven of these aircraft will be retired by mid-2004.

We are planning to reduce capital expenditure by $1 billion through the remainder of the current financial year and next financial year.

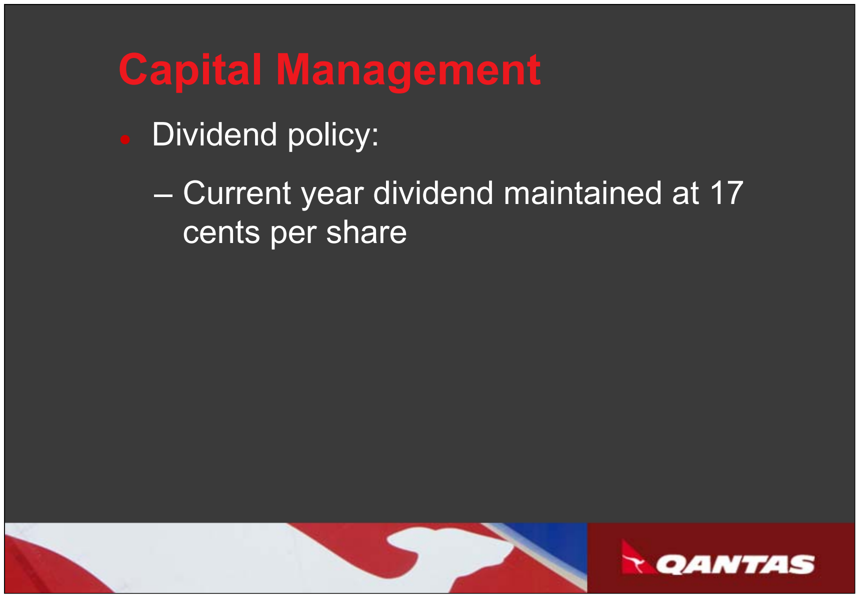
To help achieve this, we are currently in talks with the aircraft manufacturers to defer the delivery of new aircraft, such as the nine A330s that were due to be delivered from November this year.

As well as conserving cash, we see a reduction in capital expenditure as a key plank of our strategy to protect our investment grade credit rating. Standard & Poor's and Moody's both recently affirmed their BBB+ and Baa1 ratings for Qantas, making us the only airline to maintain its credit rating post September 11.



We currently have more than $2 billion in cash and cash equivalents on our balance sheet, and access to other substantial sources of liquidity. Our forecast gearing level for the current financial year remains within our target of 50 to 60 per cent. The prevailing operating environment reinforces our approach to capital management – to maintain a strong balance sheet and our investment grade credit rating.

With respect to funding mechanisms, the dividend reinvestment plan will continue to operate for the foreseeable future. We will look at the option of underwriting closer to the time our final dividend is paid.



Our decision to maintain the current year dividend at 17 cents per share demonstrates our continued commitment to shareholders, and highlights our confidence in the long term performance of Qantas, despite the current operating environment.

While many of the initiatives I have mentioned are delivering important short term benefits, we are also improving productivity in the medium and long term by fundamentally redesigning the way we do things.

We have spoken before of our Sustainable Future Program. This program is focusing on a range of initiatives aimed at ensuring Qantas is best placed to compete and grow in what is, even in the best of times, a very tough operating environment.

The current phase of the Sustainable Future Program involves the removal of $1 billion in costs over the next three years. However, in light of the current operating environment, we are seeking to accelerate the removal of these costs wherever possible. Approximately half will be achieved through labour productivity, with the remainder to be found elsewhere throughout the airline, in areas primarily relating to asset efficiency.

Improving labour productivity is essential. We will award our people reasonable cost of living increases, whilst re-engineering work practices, all aspects of rostering and attendance management, and increasing the use of part-time staff.

Improved labour productivity is crucial for all full service airlines because low cost carriers have been able to start their businesses free from the inefficient work practices that have built up over generations in traditional airlines.

Here in Australia, unions have negotiated lower wage rates with Virgin Blue than exist at Qantas. We have achieved some important convergence – but there is no doubt that much more needs to be done.

On the subject of industry structure, Qantas has long been an advocate of the need for restructuring and consolidation. Encouragingly, a trend in this direction is emerging around the world. Delta, Northwest and Continental have entered into a wide-ranging commercial cooperation agreement that has recently been approved by US regulators. So have United Airlines and US Airways. Air France and Alitalia have purchased equity stakes in each other. Lufthansa has purchased an additional 10 per cent of BMI British Midland, lifting its stake to 30 per cent. Japan Airlines and Japan Air Systems have merged. And in Brazil, government-owned Varig is considering a merger with the privately owned Tam after the Brazilian government ruled out further financial aid.

However, there is a growing recognition amongst governments and airlines that greater cooperation is necessary if the collective aviation industry is to attract investment and grow.

It is with this understanding that Qantas and Air New Zealand have reached agreement on a common way forward. We believe that the proposed alliance will provide a platform for a sustainable aviation and tourism industry in both Australia and New Zealand, with significant benefits for consumers, trade and employment. We are both pleased to see that the Australian and New Zealand governments have also voiced their support of the alliance.

Clearly, the challenge for Qantas and Air New Zealand is to persuade the regulators. We believe our detailed response to the ACCC's negative draft determination, and the significant new undertakings included in our response, underline our commitment to achieving the positive outcome which we anticipate for all stakeholders. The process from here will see Qantas and Air New Zealand respond to the NZCC's draft determination by 20 June.

Beyond that, we are expecting a final determination from the ACCC during July, while the NZCC has indicated that it expects to publish its final ruling by the end of September. And although we are working with the ACCC to gain a favourable outcome, we are prepared to appeal to the Australian Competition Tribunal in the event that the ACCC's final determination is negative.

Our proposed partnership with Air New Zealand is a good example of our overall strategy – to build flexibility into every aspect of our business so that we can adapt to rapidly changing operating conditions, but to take opportunities for future sustainable growth as they appear.

We have worked hard to secure strong positions in each of our international airline markets, both outbound, through our strong distribution channels, and inbound, through our relationships with carriers such as British Airways, American Airlines, Japan Airlines and South African Airways. We remain well positioned, through these relationships, to benefit when the inevitable market recovery occurs.

Our relationship with BA in particular, is a good example of how two airlines can work together for common benefit, and for the benefit of our customers and respective economies. The Joint Services Agreement between ourselves and BA is currently due for renewal by the ACCC, and we are confident that this renewal will be granted.

Within our own international airline operations, we will continue to add capacity in each of our key markets as conditions improve. The arrival of the A380 in late 2006 will be instrumental in providing growth at slot constrained airports such as Los Angeles and Heathrow.

And while Australian Airlines, as I mentioned earlier, is exposed to the effects of SARS, it remains a key plank of our international growth strategy. We will continue to look at expansion opportunities for Australian Airlines, including additional aircraft and routes, in light of the prevailing operating environment.

Our international operations are also being strengthened by further investment in our product – a strategy we will continue in anticipation of a recovery in operating conditions. Our new international business class product, SkyBed, will be operating on the UK route by September this year. Our first class product will be updated as SkyBed is installed throughout our 747-400 fleet, and together with the recent installation of personal video screens throughout the economy cabin, will ensure that we maintain our position as a premium carrier in all our key international markets.

In our domestic business, City*flyer* has been extremely successful and today operates to Sydney, Melbourne, Brisbane, Adelaide, Perth and Canberra. The combination of product and frequency on these important routes has been very well received.

However, we are proceeding with our strategy of deploying all-economy aircraft on domestic routes with little or no business demand, such as key leisure destinations like the Gold Coast and Cairns. Six 737-300 aircraft have already been reconfigured to all-economy, with seven more to come.

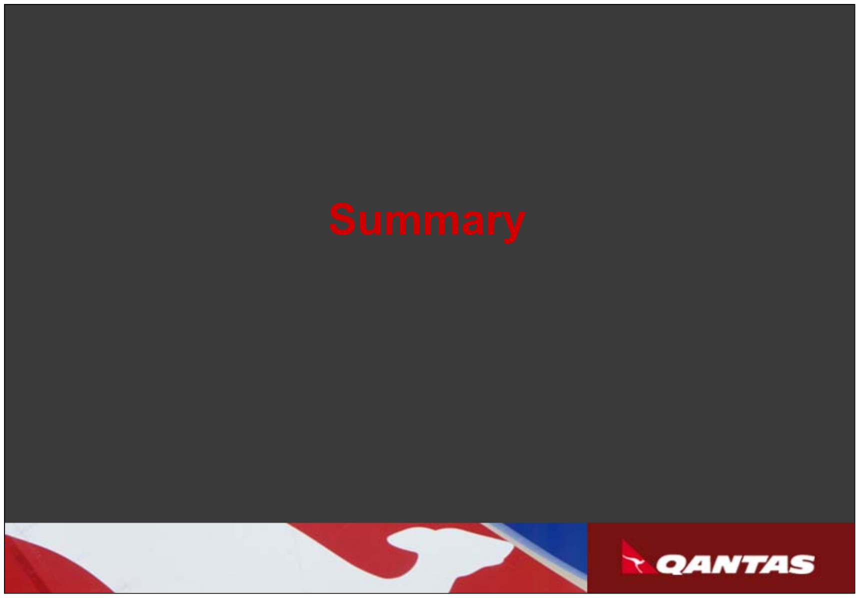
I mentioned earlier that our subsidiary businesses have not been immune from the external factors affecting our international and domestic airline operations. However, we retain a long-term positive view toward our subsidiaries, and their prospects for growth. Our strategy is to shape and grow these subsidiary businesses to boost the Qantas Group's overall profitability.

QantasLink now operates more than 2,700 flights each week to 55 destinations across regional Australia, and continues to increase its profitability.

Qantas Holidays is a terrific business in its own right, but is also an important element of our strong distribution network – along with Qantas Business Travel, qantas.com, our call centre and our important agent relationships.

Qantas Catering is undergoing substantial change, with the introduction of Snap Fresh and a new delivery model. It will lead the world in airline catering.

Australian Air Express is an often forgotten by very valuable part of our operation. It provides virtually all of the interstate airline haul capacity for express freight products and has a growth plan of its own to fulfil.



As for SARS, we are still seeing mixed news. The World Health Organisation has reported that the rate of SARS infection is now dropping, and has been dropping for the past twenty or so days.

However, sporadic cases of SARS continue to be reported in countries where the virus was previously thought to be under control. As a result, we are yet to see any meaningful recovery in forward bookings at this point.

To conclude, our primary obligation to our shareholders, our staff and other stakeholders is to remain strong in an industry under great pressure, and to continue to implement strategies aimed at protecting the viability and long term profitability of Qantas.

Our challenge is to anticipate what the future may look like and ensure that we have a prominent and secure place within it. You can be assured that all of our management time is focussed on making sure this happens.

Thank you for taking the time to attend today. Please feel free to ask any questions you may have.