QANTAS

Media Release

QANTAS RESULTS

FOR THE YEAR ENDED 30 JUNE 2003

HIGHLIGHTS

- Profit before tax of $502.3 million
- Revenue of $11.4 billion
- Final dividend of 9 cents per share fully franked, taking total fully franked dividends for the year to 17 cents per share
- Earnings per share of 20.0 cents per share

QANTAS REPORTS PROFIT BEFORE TAX OF $502.3 MILLION

SYDNEY, 21 August 2003: Qantas today announced a profit before tax of $502.3 million for the year ended 30 June 2003.

The net profit after tax was $343.5 million.

The Directors declared a fully franked final dividend of 9 cents per share, bringing the total fully franked dividends for the year to 17 cents per share.

The Chairman of Qantas, Margaret Jackson, said the result was pleasing given the negative circumstances existing in the airline industry.

“The fallout from 9/11, constant security alerts, acts of terrorism, the war in Iraq and the SARS pandemic have all affected both inbound and outbound travel,” Ms Jackson said.

“The constant pressure on the industry has made planning extremely difficult.

“It is a tribute to all our staff and to our management that the company performed so well in those circumstances.”

The Chief Executive Officer of Qantas, Geoff Dixon, said the lead-up and outbreak of the war in Iraq and SARS had combined to decimate the airline’s profitability in the second half.

“After a record first half we saw all sections of our business come under severe strain in the second half, with inbound visitors to Australia falling by more than 20 per cent in some months and by up to 45 per cent on some Asian routes,” he said.

This particularly impacted:

- Qantas domestic operations, where 15 per cent of all passengers come from inbound services; and

- The key international markets of Japan, Hong Kong, Singapore, Bangkok, the United Kingdom and Europe.

Mr Dixon said Qantas had acted quickly following the war and the outbreak of SARS to:

- reduce planned international flying by up to 20 per cent from April 2003;

- use accumulated leave to reduce staffing numbers by the equivalent of 2,500 full time employees between April and 30 June 2003 and by 1,000 between July and September 2003;

- implement a restructuring program involving 2,000 redundancies, 800 positions eliminated through attrition as well as hundreds of permanent positions being converted from full time to part time;

- freeze capital and discretionary expenditure;

- retire some older aircraft and defer delivery of some new aircraft;

- introduce a program to reduce planned capital expenditure in the 2003/04 financial year by $1 billion.

Mr Dixon said other issues that affected the second half result included increased competition and falling yields in the domestic business and a yield decline internationally as pricing was used to stimulate travel after the fear of SARS began to recede.

The introduction of a new fares package domestically from 1 July and a growing return of the inbound market had stabilised domestic yields and international yields were recovering as the "SARS recovery" fares leave the market.

Mr Dixon said the initiatives in response to the SARS outbreak had resulted in a one-off charge of $91 million for the write down of the 767-200 fleet, which would be retired by the end of the 2003/04 year, and were the major reason for the redundancy charge of $115 million.

He said the airline industry was still recovering from the "constant shocks" of the past two years.

The hard work on costs and product over a sustained period, and new strategies underway or to be implemented, provided the platform for Qantas to transition back to satisfactory levels of profitability over the next two to three years while re-equipping its fleet with modern, cost efficient aircraft.

The new initiatives included:

- a program called Sustainable Future that aims to reduce operating costs by $1 billion over two years;

- significant investment in the international airline product, including new airport lounges and new seating and interiors in all international aircraft; (see separate release);

- investment in, and changes to, the domestic airline that will provide better product, service and reliability, greater sales on the internet and a wider range of choice for passengers (see separate release);

- a further $6 billion investment over three years in new and more efficient aircraft;

- further growth of Australian Airlines into leisure markets where Qantas cannot attract satisfactory yields; and

- the introduction of a new business model that will see Qantas run stand–alone businesses for flying, airports, maintenance, freight, catering, Qantas Holidays and Qantas Defence Services (see separate release).

Mr Dixon said the need to continually make Qantas more efficient was the backbone of the Sustainable Future program.

‘We intend to work closely with our people and all Unions, including the ACTU, to ensure we reduce costs and improve productivity,” Mr Dixon said.

“Although this will not be easy and will certainly involve some difficulties, we are confident that it can be achieved in a constructive manner.”

Group Revenue

Revenue for the year totalled $11.4 billion, an increase of $0.4 billion or 3.7 per cent. Excluding the impacts of foreign exchange rate movements, total revenue increased by 5.0 per cent.

Passenger revenue increased by 3.1 per cent, with RPKs growing 2.8 per cent and yield deteriorating by 1.7 per cent.

Expenditure

Total expenditure increased by 5.0 percent to $10.8 billion. Excluding the favourable impact of movements in foreign exchange rates, this increase amounted to 7.5 percent and was mainly due to costs associated with the 3.7 percent increase in capacity, higher depreciation due to new aircraft deliveries and the write down of the Boeing 767-200 fleet, higher manpower costs following EBA settlements, higher superannuation contributions and redundancy costs arising from the reorganisation program announced in April 2003.

Cost per Available Seat Kilometre, excluding the impact of exchange, increased by 1.2 per cent.

Fuel costs decreased by 1.9 per cent, or $29.6 million. The underlying fuel price was 15.8 per cent greater than last year, increasing costs by $209.2 million. However, hedging benefits were $107.6 million better than the previous year. While flying hours increased, fuel efficiency gains from new fleet acquisitions reduced litres consumed per hour, resulting in an overall activity saving of $5.3 million versus the prior year. Favourable foreign exchange rate movements also reduced fuel costs by $125.9 million.

There were also substantial cost increases in insurance, security costs and domestic airport charges which were largely recouped by direct passenger recoveries.

Net interest expense increased by 34.0 per cent or $16.4 million. Average net debt was $2.5 billion, $0.7 billion higher than the prior year. Interest rates were lower and $82.7 million of interest was capitalised into aircraft progress payments (compared with $77.0 million in the previous year).

The net impact of favourable foreign exchange movements was a $106.8 million benefit to profit

International operations

During the first half of the year, demand rebounded following 9/11. However, from January onwards, the threat of global terrorism, the war in Iraq and the SARS virus all adversely affected demand. Qantas international capacity was reduced by up to 20 per cent. Yields weakened as price led initiatives were introduced to boost flagging demand.

Australian Airlines commenced operations in late October 2002 and was profitable until March 2003. However, it recorded a loss for the June quarter due to the impact of the war in Iraq and SARS on international leisure travel in the Asia Pacific region.

Earnings before interest and tax (EBIT) for international operations, including Australian Airlines, totalled $206.9 million, up from $202.8 million last year. This result includes an EBIT loss of $54.5 million for the second half of the year.

International capacity is still approximately 10 per cent below the level at 11 September 2001. Yield (excluding the impact of unfavourable movements in foreign exchange) increased by 2.0 per cent.

Domestic operations

Domestic performance was adversely impacted by the effects of global events on the inbound market. While some outbound international travel switched to local destinations, this impact was confined to deep discount leisure travel. Additional capacity was added to the domestic market throughout the year, leading to increased levels of price competition.

QantasLink performance improved due to network rationalisation and the cessation of the loss making Beechcraft 1900 operations.

Domestic operations, including QantasLink, contributed $223.0 million in EBIT, down 34.5 per cent from last year. Yield deteriorated by 6.3 per cent versus the prior year (after excluding the unfavourable impact of foreign exchange movements) but was offset by a 10.2 per cent increase in load due to the airline's efforts to meet market demand following the collapse of Ansett. Domestic capacity was 11.4 per cent higher than the prior year while seat factors deteriorated by 0.9 percentage points.

Qantas Holidays

Qantas Holidays increased EBIT by 2.8 per cent to $43.6 million, primarily due to stronger domestic demand. While SARS and the Bali bombings severely reduced the demand for international tourism, the improved result was driven by generic growth in the domestic business together with the implementation of wide-ranging cost saving measures.

Qantas Flight Catering

Qantas Flight Catering's EBIT improved by $3.7 million, or 5.3 per cent, to $73.3 million. While the Iraq war and SARS adversely impacted volumes, this was offset in the first half by the international recovery following September 11 and additional new contracts. Overall meals produced increased by 4.5 percent and flights handled were up by 6.6 percent. SnapFresh, one of the most modern meal production centres in the world, commenced sales of domestic and international economy meals to Qantas and a number of other major international airlines during the year.

Balance Sheet and Cash Flow

Cash flow from operations totalled $1,290.8 million, an increase of $147.5 million versus the prior year. This was due to favourable movements in working capital which more than offset the reduction in profitability.

Total capital expenditure of $3,137.2 million for the year predominantly related to aircraft progress payments, aircraft reconfiguration costs and engine modifications and spares.

Book debt to equity ratio moved from 49:51 at 30 June 2002 to 51:49 at 30 June 2003, principally as a result of the substantial investment in capital equipment made during the year. This impact was partly offset by the equity raised in the Share Entitlement Offer and strong operating cash flows.

Proposed Strategic Alliance with Air New Zealand

In November 2002, Qantas and Air New Zealand agreed, subject to regulatory and other approvals, that they would enter into a strategic alliance and Qantas would acquire an equity interest of up to 22.5 per cent in Air New Zealand. In December 2002, the two airlines lodged submissions with the Australian Competition and Consumer Commission and the New Zealand Commerce Commission. In April 2003, both authorities responded with unfavourable draft determinations. Qantas and Air New Zealand have responded to the draft determinations. The final determinations are due in late September 2003.

Outlook

While conditions in the aviation industry remain challenging and it is still early in the new financial year, Qantas expects to improve on its performance in 2003/04 while continuing to invest in its fleet, product and service.

The fully franked interim ordinary dividend of 9 cents per share is payable on 1 October 2003, with a record date (books close) of 3 September 2003.

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