Media Release

HIGHLIGHTS

QANTAS RESULTS

FOR THE YEAR ENDED 30 JUNE 2004

- Profit before tax of $964.6 million
- Net profit after tax of $648.4 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 35.7 cents

QANTAS REPORTS PROFIT BEFORE TAX OF $964.6 MILLION

SYDNEY, 19 August 2004: Qantas today announced a profit before tax of $964.6 million for the year ended 30 June 2004, a 92 per cent increase on last year's result of $502.3 million.

The net profit after tax was $648.4 million, up 88.8 per cent from last year.

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

Qantas also announced a one-off cash bonus of $1,000 to be paid to eligible non-executive employees next week and an extensive range of initiatives to assist staff to balance work and family commitments (see separate media release).

The Chief Executive Officer of Qantas, Geoff Dixon, said the record full year result, achieved in difficult conditions, was a tribute to Qantas staff and management.

"The Group responded extremely well to the myriad challenges it has faced over the past 12 months," he said.

"*Air Transport World*, the leading international aviation publication, recognised these achievements by naming Qantas 'Airline Of The Year'."

Mr Dixon said the main drivers of the 2003/04 result were:

- a gradual recovery in International flying that enabled international earnings before interest and tax (EBIT) to increase by $192.0 million or 92.8 per cent;
- the development of a very strong structural position across all segments of Domestic flying that saw domestic EBIT increase by $316.3 million or 141.8 per cent;
- substantial investment in product, punctuality and training that saw service standards rise across all segments of the company;
- cost and efficiency savings of $512 million that offset a flat revenue line still recovering from the effects of the war in Iraq and SARS;
- continuation of a successful fuel hedging program that partly offset jet fuel prices that were 14.1 per cent higher than the previous year;
- the continued growth in the Frequent Flyer and co-branded credit and charge card areas.

Mr Dixon said the difficult economic conditions still being experienced by the aviation industry, further distorted by widespread Government ownership and subsidies, meant Qantas could not relent in its push for greater efficiencies in all of its businesses (see separate media release).

"This will continue to involve tough decisions such as the announcement in June that Qantas would establish a cabin crew base in London next year.

"We strongly believe decisions such as this will enable us to maintain and grow employment opportunities within Australia at a time when many of our competitors are involved in considerable downsizing.

"While some will claim this to be perverse logic, the need to achieve cost outcomes closer to our subsidised overseas competitors makes such actions unavoidable," he said.

Mr Dixon said the Qantas Group also had a range of other initiatives in place to meet the substantial challenges that still confronted aviation worldwide.

These included:

- the Sustainable Future program, that aimed to reduce costs and provide efficiencies of a further $500 million in 2004/05 and another $500 million in 2005/06;

- substantial investment in new systems to lower information technology operational costs, reduce dependency on legacy technology and simplify business processes;

- fuel hedging, and current and possible future fuel surcharges on fares, that will continue to offset to some degree increasing crude oil prices in 2004/05;

- the deployment of new and more efficient aircraft (including Airbus A330s) on additional and existing international markets (for example: Australia to London via Hong Kong, Australia to India, and Australia to Shanghai) and the completion of a substantial reconfiguration program, including the award-winning Business Class Skybed;

- investing in a new, intra-Asia low cost carrier based in Singapore and seeking further opportunities to enter partnerships to operate low cost carriers in overseas markets;

- substantial growth in the Group's freight operations, involving new markets in China and Europe and the development of further synergies with Australian air Express and Star Track Express;

- growing the Group's new domestic low cost carrier, Jetstar, on existing and new leisure routes;

- increasing capacity on key business routes operated by Qantas Domestic;

- using the built-in flexibility of both the international and domestic fleets to reduce or increase capacity quickly to meet changing market and economic conditions.

Mr Dixon said Qantas had spent around $2 billion in 2003/04 on new aircraft and product as part of the $18 billion, ten year re-equipment program that began in 2000/01.

“This expenditure was covered by cashflow. We would look to repeat that effort in 2004/05 as the re-equipment program continues,” he said.

Mr Dixon said the Group’s domestic strategy had been successful in its aim to co-ordinate network and capacity while delivering the most appropriate product, service and economics for each market segment.

“Since Jetstar commenced operations in May, the Group has maintained a domestic market share over 65 per cent – 66.7 per cent in July according to our estimates. Overall, the Group continues to lower its costs while sustaining a yield premium over Virgin Blue of around 30 per cent.”

Mr Dixon said Qantas maintained the capability to increase or decrease capacity when required across all segments of its domestic flying, and would use this capability to defend a minimum 65 per cent market share.

“The launch of Jetstar has been successful and the airline is on course to achieve its cost, load factor and yield targets. As we stated last year, we are very confident that we will be able to run the three domestic airlines – Qantas, QantasLink and Jetstar – to the overall benefit of the Group.”

Mr Dixon said the Group’s lower cost international operator, Australian Airlines, had recorded a small profit in 2003/04.

“Australian is meeting its principal strategic aim of maintaining a presence in low-yielding markets where Qantas International, with its higher costs, could not compete.”

Associated businesses continued to perform strongly, particularly Qantas Holidays, although Qantas Flight Catering was starting to experience some difficulties with high operating costs and heavy discounting by competitors.

Qantas Freight expanded into new markets during the year and Qantas acquired Star Track Express, the express road freight operator, in a $750 million joint venture arrangement with Australia Post. Star Track Express has an outstanding record of profitable growth and continues to perform in line with expectations.

Outlook

The rapid escalation in the price of crude oil is the major factor facing Qantas and the aviation industry worldwide. However, the airline’s fuel hedging policy, the imposition of the fuel surcharge in May and the opportunity to increase that surcharge if oil prices continue to escalate, will provide a cushion for the Group in 2004/05.

The sharp increase in domestic capacity in recent months has added further pressure and, as expected, yields declined by up to 10 per cent during July. Load, however, was not affected in the face of this increased capacity and the Group's domestic airlines are performing in line with expectations.

Taking the above into account, allowing for the fact that it is still early in the financial year and provided market conditions do not deteriorate, the returns for the first six weeks of 2004/05, forward bookings and a continuation of efficiency gains leads Qantas to believe it can improve on its 2003/04 result in 2004/05.

Group Revenue

Revenue for the year totalled $11.4 billion, a decrease of $21.2 million or 0.2 per cent on the prior year. Excluding the unfavourable impact of foreign exchange rate movements of $456.7 million, total revenue increased by 3.8 per cent or $435.4 million.

Net passenger revenue decreased by 0.2 per cent, with Revenue Passenger Kilometres (RPK) growing 5.3 per cent and yield deteriorating by 6.4 per cent. Excluding unfavourable foreign exchange rate movements, passenger revenue was up 4.3 per cent reflecting the growth in RPKs and a more modest deterioration in yield of 2.0 per cent, predominantly in the domestic market.

Expenditure

Total expenditure, including borrowing costs, decreased by 4.4 per cent or $483.5 million to $10.4 billion. Excluding the favourable impact of movements in foreign exchange rates of $571.7 million, total expenditure increased by only 0.8 per cent or $88.2 million. This was achieved despite a 4.8 per cent increase in capacity as measured in Available Seat Kilometres (ASK).

The success in minimising the total expenditure increase to only 0.8 per cent, excluding exchange, reflects the benefit of cost and efficiency savings delivered under the Sustainable Future program. These benefits largely offset the combined increase in costs predominantly due to price rises and capacity growth totalling $600.2 million.

Manpower and staff related costs decreased 2.6 per cent, reflecting continued improvements in productivity and operational efficiency, and lower redundancy costs following the right-sizing program during SARS in the prior year. Group-wide manpower unit costs have decreased by 6.9 per cent.

Fuel costs decreased by 12.0 per cent or $184.8 million. The underlying jet fuel price was 14.1 per cent higher than the prior year, increasing costs by $120.2 million. However, hedging benefits were $87.7 million higher than the prior year partly offsetting the impact of the higher fuel prices, while favourable foreign exchange rate movements reduced fuel costs by $235.1 million. Barrels consumed increased by 1.3 per cent compared to ASK growth of 4.8 per cent, reflecting fuel efficiency gains from new fleet acquisitions.

Sustainable Future Program Benefits

In total, the Sustainable Future program delivered $512 million in benefits across the Group. This comprised labour savings of $156 million, distribution savings of $145 million and $211 million in fleet, product and overhead savings.

Group Unit Costs

Net expenditure cost per ASK for the Group decreased by 11.4 per cent including the favourable impact of foreign exchange rate movements. However, after excluding foreign exchange benefits, net expenditure per ASK still reduced by 5.4 per cent.

Net Impact of Foreign Exchange Rate Movements

The net impact of favourable foreign exchange movements was a $115.0 million benefit to profit.

International operations

EBIT for international operations, including Australian Airlines, totalled $398.9 million, up $192.0 million or 92.8 per cent on last year.

The first four months of the year were severely affected by the residual effects of SARS. Capacity was reduced and advance bookings were down, requiring sale activity to stimulate the market. Traffic returned to the market from November 2003, coinciding with the Rugby World Cup, which provided an additional boost. Capacity was progressively added in the second half including the introduction of additional services to Los Angeles. Qantas now operates more direct services to Hong Kong than it did before SARS.

Australian Airlines capacity grew 97.8 per cent in the year, reflecting a full year of operations, the introduction of new services in July 2003 and the addition of a fifth Boeing 767-300 in October 2003.

International RPK growth of 5.7 per cent was broadly in line with the increase in capacity of 5.8 per cent, leading to a marginal decline in seat factor of 0.1 percentage points. Yield, excluding the unfavourable impact of foreign exchange rate movements, remained in line with last year despite the impact of SARS in the first quarter.

Domestic operations

Domestic operations, including QantasLink and Jetstar, contributed $539.3 million in EBIT, up $316.3 million or 141.8 per cent on last year.

Domestic RPKs increased 4.4 per cent on capacity growth of 2.6 per cent, leading to an increase in seat factor of 1.3 percentage points to 79.0 per cent. Yield, excluding unfavourable exchange impacts, deteriorated 3.8 per cent as the market continued to absorb increased capacity by both Qantas and Virgin Blue.

During the first half of the year, Qantas maintained capacity while Virgin Blue significantly expanded its operations, increasing the size of its fleet from 31 aircraft to 40 aircraft. This resulted in a decrease in Qantas' domestic market share from 69.4 per cent at June 2003 to 66.2 per cent at December 2003.

During the second half of the year Qantas increased capacity, maintaining its market share above the 65 per cent target.

QantasLink Dash 8 operations benefited from an expansion of flying and the replacement of Dash 8-100 aircraft with newer, 50-seat Dash 8-Q300 aircraft that deliver better fuel efficiency and improved economics.

Jetstar commenced operations on 25 May 2004 and recorded a small operating profit in its first full month of operation. Net operating start-up costs totalled $23.8 million.

Qantas Holidays

Qantas Holidays increased EBIT by 24.1 per cent to $54.1 million as outbound tourism recovered from the SARS and Iraq crises of last year, domestic demand strengthened and productivity initiatives were implemented.

Qantas Catering

Qantas Catering's EBIT improved by 22.8 per cent to $90.0 million reflecting capacity growth within the main airline and additional contracts secured from third party airlines.

Balance Sheet and Cash Flow

Net cash held at 30 June 2004 was $1,365.3 million. This is $650.6 million less than at 30 June 2003 and principally related to capital expenditure on aircraft payments, the acquisition of Star Track Express and the early repayment of debt.

Cash flow from operations totalled $1,999.4 million, up $708.6 million on last year and largely due to increased profitability. This broadly equalled capital expenditure of $2,007.0 million on new aircraft and product.

Book debt to equity ratio, including operating leases and hedges, improved from 51:49 at 30 June 2003 to 49:51 at 30 June, 2004.

Interest cover was 8.2 times, down 0.6 times on last year, predominantly due to the reduction in capitalised interest costs.

Earnings per share increased 78.6 per cent to 35.7 cents per share.

The fully franked final ordinary dividend of 9 cents per share is payable on 29 September 2004, with a record date (books close) of 1 September 2004.

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