QANTAS RESULTS

FOR THE YEAR ENDED 30 JUNE 2000

HIGHLIGHTS

- Net profit before tax of AUD$762.8 million, up AUD$100.3 million, 15 percent on last year
- Net profit after tax of AUD$517.9 million, up AUD$97 million, 23 percent
- Abnormal profit of AUD$82 million after tax
- Operating profit before tax of AUD$705 million, up AUD$103.3 million, 17 percent
- Revenue increased to more than AUD$9 billion, up eight percent
- Increase in Earnings Per Share to 42.8 cents per share, up 21 percent
- Final dividend of 11 cents per share fully franked
- Special dividend of 37 cents per share fully franked
- Dividend Reinvestment Plan to be reintroduced

QANTAS PROFIT INCREASES BY AUD$100 MILLION

SYDNEY, 17 August 2000: Qantas Chairman, Ms Margaret Jackson, today announced another record profit before tax of AUD$762.8 million for the year ended 30 June 2000, an increase of 15.1 percent over last year.

Net profit after tax of AUD$517.9 million was 23.0 percent higher than last year and included the benefit of AUD$82 million from two abnormal items recorded in the first half of the year.

Operating profit before tax and abnormal items increased by AUD$103.3 million or 17.2 percent to AUD$705 million. Operating profit after tax but before abnormal items increased by AUD$53.9 million or 14.1 percent to AUD$435.9 million.

The Directors declared a fully franked final dividend of 11 cents per share, and a special dividend of 37 cents per share, also fully franked. This brought total fully franked dividends for the year to 59 cents per share, 26.5 cents per share higher than last year.

Ms Jackson said Qantas was reintroducing the Dividend Reinvestment Plan (DRP) to help fund fleet expansion, renewal and replacement and continued investment in the business.

“This decision has been taken as part of our ongoing review of funding options in formulating our capital management strategy,” she said.

“The Board declared the fully franked special dividend to maximise returns to shareholders by distributing accumulated franking credits, which are now refundable to some shareholders if not utilised, and before the further reduction in the rate of corporate tax to 30 percent in the 2001/02 financial year. The fully franked special dividend will be paid following the reintroduction of the DRP.”

Ms Jackson, who was appointed Chairman of Qantas effective 1 August this year, said the financial result followed continuing improvements in both core airline and subsidiary operations.

“During the year, revenue improvement was higher than the increase in capacity and was reflected in both yield and seat factors being higher than last year. This outcome was in line with our strategy to selectively grow the business and strengthen our position in key markets,” she said.

"It is significant that although market prices for fuel increased by more than 44 percent during the year, Qantas was able to reduce this impact by over 80 percent through our active fuel hedging strategy which generated savings in excess of AUD$270 million.

"As a Director of Qantas for the past eight years, I am aware of the significant improvements the company has made to its overall financial position, its route structure, its products and services and its levels of efficiency and productivity.

"As Chairman, I am inheriting a disciplined and robust airline, ready to meet the compound effects of additional domestic competition and known cost increases which will combine to put pressure on profitability in the 2000/01 financial year. The cost outlook includes fuel price increases, notwithstanding significant benefits to flow from the price hedging we have already undertaken. In addition, higher aviation charges at Sydney Airport along with further increases in depreciation, aircraft leasing and funding costs will need to be offset with higher revenue and new efficiency measures.

"There has been much media coverage of the current level of intense competition and apparent price discounting in the domestic market. Qantas will continue to follow its policy of responding in a controlled manner to these fare initiatives to limit the overall effect on yield. We can do this through the flexibility and capability of our yield management and inventory systems and the breadth of our network. Qantas has always had a significant level of discount fares in the market and we will continue to offer a range of fares to remain competitive.

"Qantas will meet these challenges as it has in the past – with a clear focus on safety and reliability, efficiency, productivity and customer service while managing carefully new investments.

"Our recently announced e-commerce business strategy is our blueprint to become one of Australia's leading on-line companies and will provide significant benefits to our customers. This, along with the continued growth of our subsidiary and associated businesses and savings in unit costs that will flow from the use of aircraft with improved economic advantages will provide new and exciting opportunities in the future," Ms Jackson added.

Operating Highlights

Qantas Chief Executive, Mr James Strong, said the 1999/2000 result underlined the strength of the airline's core operations. "It positions us well to respond not only to new entrants domestically, but also to international competitors," he added.

“This was evidenced by our decision to match the discount fares recently announced by our domestic competitors. The impact of these new fares needs to be kept in perspective. Qantas already provides a significant level of discount fares on key routes as well as its entire network. We are able to do this due to the flexibility of our yield management and inventory systems and the breadth of our network and the frequency of our schedule.

“In addition to competitive fares, Qantas customers also benefit from our overall product offering including airport and lounge facilities, frequent flyer program, comprehensive schedules and extensive domestic and international networks. This combination of established products and services has contributed to our increased profitability in the past six years.

“We will continue to monitor developments as more capacity is added in the domestic market.”

Mr Strong said total revenue for the year was AUD$9.1 billion reflecting growth of approximately AUD$658 million or 7.8 percent over the prior year.

“Passenger revenue increased by 8.4 percent, reflecting both improved yield of 1.6 percent (excluding the unfavourable impact of movements in foreign exchange rates) and passenger load of 2.2 percentage points,” he said.

“The increase in total operating costs amounted to 7.0 percent and was mainly due to costs associated with a 4.0 percent increase in capacity, plus higher fuel costs, and higher depreciation and lease costs flowing from our program of investment in aircraft, terminals, product and services.

“In addition, total expenditure on core airline engineering and maintenance activities during the year was up more than eight percent on last year and more than 30 percent on the amount expended when the company was listed in 1995/96.

“Earnings Before Interest and Tax (EBIT) improved by 16.3 percent to AUD$816.2 million.

“The after tax result for the year included the benefit of AUD$82 million from two abnormal items recorded in the first half of the year. An after tax gain of AUD$37 million from a further sale of part of the investment in the international data network company EQUANT NV and an abnormal tax credit of AUD$45 million due to changes in the rate of corporate tax.

“Qantas took delivery of three new Boeing 747-400s and one new Boeing 767-300 during the year and also received the first of seven Boeing 767-300 aircraft leased from British Airways. This capacity will enable us to mount increased services to North America, to take over services previously operated by British Airways between Brisbane/Perth and Singapore and to provide additional domestic and Trans-Tasman services. These extra aircraft will also provide additional maintenance time as part of a comprehensive program to maintain schedule punctuality.”

Mr Strong said Qantas had been working closely with Boeing and Airbus for some years to ensure their large aircraft products will meet the airline’s special needs.

“In June, we indicated our interest in becoming a potential launch customer for the Airbus A3XX-100 variant capable of carrying more than 500 passengers in a three-class configuration on key, high-density routes between Australia and London and Australia and Los Angeles.

“Boeing has also indicated that it will be producing a larger version of the 747-400 to compete with the Airbus proposal and this will be factored into our evaluation.

“Separately, we are continuing to evaluate other proposals from both Airbus on its A330 and A340 aircraft and from Boeing on its 777 and 767-400 aircraft, as part of our 300-seater review.

“Any decisions on fleet investment will be a balanced outcome taking into account balance sheet implications, route economics, efficiency of operation and set-up costs,” Mr Strong said.

“International operations contributed AUD$374.8 million in EBIT, up 21.6 percent. Revenue Passenger Kilometres (RPKs) increased by 6.8 percent whilst capacity grew by 3.5 percent leading to an increase in load factors of 2.2 percentage points. Yield, excluding the impact of unfavourable movements in foreign exchange, increased by 2.4 percent.

“Domestic operations contributed AUD$272 million in EBIT, an increase of 5.9 percent over last year. RPKs increased by 7.7 percent whilst capacity grew by 4.9 percent leading to an increase in load factors of 2.1 percentage points. Yield was marginally lower.

"Subsidiary operations contributed AUD$169.4 million to the Group's EBIT, an increase of 23.9 percent above the contribution last year. Returns from subsidiary and other businesses constitute a significant proportion of the Group's total profitability and provide a number of important avenues for growth in the future," Mr Strong said.

"Qantas Holidays improved its EBIT contribution by 117.8 percent to AUD$28.1 million, primarily due to increased domestic sales along with savings generated from cost initiatives during the year.

"Regional Airlines EBIT increased by 30.5 percent to AUD$67.2 million driven, by an increase in revenues of 15 percent on capacity growth of 10 percent. Regional operations continue to provide many opportunities for further expansion as evidenced by the investment in additional capacity during the year. The Regional airlines now generate combined revenues of close to AUD$500 million and operate 46 aircraft.

"Qantas Flight Catering EBIT was 22.0 percent higher than last year and totalled AUD$39.4 million. Continued efficiency and productivity savings were achieved throughout the year from an on-going process improvement program across all areas of the business. Qantas has also recently acquired the flight catering operations of Caterair Airport Services in Brisbane and Cairns, and assumed management control and operational responsibility for the joint venture at Sydney. This, along with plans to establish a state-of-the-art plant to centralise meal production for the airline and to supply non-aviation markets, will provide significant opportunities for continued growth in the future.

"The contribution (revenue less operating costs) from Freight operations improved by 22 percent over last year. Total revenues were marginally lower than last year due to capacity reductions, however, freight yield (excluding exchange) increased by 2.9 percent and load factor improved by 2.1 percentage points. In addition, further productivity and efficiency savings were generated adding to the improved performance."

Mr Strong said Qantas had also embarked on a number of other initiatives that would create new opportunities and additional benefits in the future.

"Our e-commerce strategy announced last week is a significant step in building on the strength of the Qantas brand and the success of our loyalty programs. Over the next nine months we will launch Internet-based offerings for retail and corporate customers and travel partners, new consumer businesses supported on-line and purchasing partnerships," he said.

“These initiatives will enhance the on-line distribution of our travel products and improve our service and range of offerings to our customers. The alliance with Telstra to provide co-branded mobile phone and Internet access which attract Qantas Frequent Flyer points is a key element of these plans.

"Three other components of the e-commerce strategy, already announced, include participation in a new on-line, full-service travel exchange for the Asia-Pacific region; joining with 13 other major Australian companies to establish an e-procurement, business-to-business (B2B) exchange, called corProcure; and membership of AirNewco, the leading global airline Internet B2B marketplace for aviation-related products and services.

“From this first wave of initiatives, Qantas expects to generate more than AUD$100 million each year in incremental revenue within three years, along with cost savings of more than AUD$85 million per annum over the same time-frame.

“For the first time, Qantas has undertaken to franchise its brand to Qantas New Zealand – formerly Ansett New Zealand. It will provide a significant presence in the New Zealand domestic market offering Qantas products and services. This will also enhance feeder traffic flowing onto the existing Qantas network.

“Qantas is also continuing to negotiate arrangements with Amadeus as the airline’s preferred IT partner for distribution and customer service systems. This will include further development of reservations, inventory and departure control systems.

“Qantas also announced in March 2000 that it will invest a further AUD$400 million over the next two years in product and service improvements. This includes a new inflight entertainment and communication system on our long-haul fleet of Boeing 747-400 aircraft. Customers will benefit from individual seat-back videos in Economy Class, and new larger individual video screens and in-seat power points for laptop computers in First and Business Class. In addition, all passengers will have access to a hard drive-based Intranet offering access inflight to selected web-sites, games on demand and telephones.

“These initiatives will help Qantas maintain its position at the forefront of customer service and inflight technology,” Mr Strong added.

Financial Performance

Qantas Deputy Chief Executive Officer and Chief Financial Officer, Gary Toomey, said capital expenditure of AUD$1.14 billion during the year predominantly related to aircraft acquisitions (including progress payments), aircraft reconfiguration costs, engine modifications and spares.

“Cash flow from operations totalled AUD$1.6 billion an increase of $391.5 million or 32.4 percent over last year,” he added.

“From a capital management perspective, future fleet requirements will be funded by a mixture of cashflow, debt and equity,” Mr Toomey said. “The DRP is being reintroduced for payment of the fully franked special dividend and for payment of ordinary dividends declared in the future. The reintroduction of the DRP is to assist in providing equity to fund future capital expenditure while maintaining gearing at an acceptable level and at the same time enabling the release of franking credits to shareholders.

“The debt to debt plus equity ratio, (including non-cancellable operating leases and on a hedged basis) moved from 39:61 last year and 40:60 at 31 December 1999, to 44:56 at 30 June 2000.

“During the year, cost per unit of capacity increased by 3.7 percent including exchange impacts. This reflected higher net fuel prices, increased sales and marketing and aircraft operating costs and higher depreciation, amortisation and funding costs as a result of our investment program. Efficiencies and productivity improvements continued to counteract these cost increases.

“The unfavourable foreign exchange effect on revenues during the year was predominantly offset by a favourable effect on foreign currency denominated expenditures, leaving a net cost increase over last year of AUD$16.1 million.

“Income tax expense, excluding abnormal items, increased by AUD$49.4 million, or 22.5 percent on the prior year due to the higher profits. The Group’s effective tax rate was 38.2 percent,” Mr Toomey said.

The fully franked final ordinary dividend of 11 cents per share is payable on 4 October 2000, with a record date (books close) of 6 September 2000.

Following reintroduction of the Dividend Reinvestment Plan, the fully franked special dividend of 37 cents per share is payable on 13 December 2000, with a record date (books close) of 15 November 2000.

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