2003/04 Full Year Results Presentation to Investors

19 August 2004

Geoff Dixon
Chief Executive Officer

QANTAS

Highlights

		12 months to June 2004	12 months to June 2003	Increase/ (decrease) %
Sales and operating revenue	$m	**11,353.7**	**11,374.9**	**(0.2)**
Expenditure	$m	**(10,255.5)**	**(10,807.9)**	**(5.1)**
EBIT	$m	**1,098.2**	**567.0**	**93.7**
Net borrowing costs	$m	**(133.6)**	**(64.7)**	**106.5**
Profit before tax	$m	**964.6**	**502.3**	**92.0**
Net profit after tax	$m	**648.4**	**343.5**	**88.8**
Earnings per share	¢	**35.7**	**20.0**	**78.5**
Total dividend per share	¢	**17.0**	**17.0**	**-**

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Strategy

- **To return the Qantas Group to a position where it generates a positive spread to its cost of capital**
  - Secure a competitive advantage in each of our major business segments and markets, by aggressively investing in product and customer service
  - Grow a set of next generation flying businesses to meet specific market needs
  - Generate earnings from airline-related subsidiary activities to smooth the earnings profile of the Group

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Strategy

- **To return the Qantas Group to a position where it generates a positive spread to its cost of capital**
  - Improve accountability, transparency and collaboration through a company reorganisation
  - Achieve permanent unit cost efficiencies in all areas of the company under the Sustainable Future Program
  - Maintain an investment grade credit rating

Strategy - Qantas International

- **Continue to profitably grow route network**
  - New services introduced
    - Brisbane to Los Angeles
    - Perth to Hong Kong
  - New services to be introduced
    - Sydney to London via Hong Kong
    - Perth to London via Singapore
    - Sydney to Shanghai
    - Sydney to Mumbai

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Strategy - Qantas International

- **Improve overall returns**
  - Develop relationships with other quality carriers
    - Air France
  - Withdraw from routes that do not generate an acceptable return
    - Paris

Strategy - Qantas International

- **Improve overall returns**
  - Continued investment in international product
    - Business Class Skybed
    - Introduction of A330-300 aircraft to international flying
  - Continued investment in service standards
    - Excellent customer satisfaction results

Strategy - Australian Airlines

- **Maintain a profitable presence in international leisure markets**
  - Took delivery of a fifth B767-300 aircraft in October 2003
  - Now operates 102 flights per week to 12 destinations in six countries
    - Sydney and Melbourne to Bali and Sabah
    - Singapore to Darwin, connecting with Cairns
    - Cairns and Sapporo, from November 2004 to March 2005
  - Evaluation of new market opportunities
    - China, Thailand, India, Vietnam and additional ports in Japan

Strategy -
Low Cost Asian Airline

- **Participate in growing Intra-Asia travel market**
  – New low cost airline to be based in Singapore
  – Qantas will contribute S$50 million for its 49.9 per cent investment
  – On track to fly to a range of destinations within five hours of Singapore by the end of 2004
  – Signed operating lease agreements for eight A320 aircraft
  – Will commence flying with four A320 aircraft

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Strategy - Low Cost Asian Airline

- **Participate in growing Intra-Asia travel market**
  - First two A320 aircraft will be provided from Jetstar Australia's fleet deliveries
    - Temporary arrangement
    - Will ensure that the airline can commence operations before the end of 2004 as planned
  - Will build to a fleet of more than 20 aircraft over the following three years
  - Announcement on branding and livery in the next few weeks

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Strategy - Domestic

- **Deliver the most appropriate product, service and economics for each market segment**
- **Maintain a combined market share in excess of 65 per cent**
  - Estimated market share of 66.7 per cent in July
  - This is the most profitable course of action for our business
- **Continue to achieve permanent unit cost efficiencies under the Sustainable Future Program**
- **Maintain a substantial yield premium over Virgin Blue**
  - Currently around 30 per cent

Strategy - Domestic

- **Compete profitably in price sensitive leisure markets**
  - Review planned for three months after Jetstar’s launch is underway
  - Will seek further network synergies
  - Will seek to address any customer concerns, where practicable
- **Retain flexibility in Qantas Group fleet**
  - Can increase or decrease capacity quickly and at little cost to the Group

Strategy - Qantas Domestic

- **Continue to increase capacity on key business routes**
- **Deliver a level of product and service targeted at the business purpose customer**
  - Clearly differentiated product offering
- **Continue to achieve permanent unit cost efficiencies under the Sustainable Future Program**

Strategy - Jetstar

- **Compete profitably in price sensitive leisure markets**
  - On course to achieve its cost, load factor and yield targets
    - Recorded a small operating profit in June 2004
    - Net operating start-up costs totalled $23.8 million
  - Achieve the lowest cost base in the market
    - Unit cost of 8.25 cents per ASK for its first year of operation
    - Unit cost of 7.8 cents per ASK with an all-A320 fleet
    - Competitive with Virgin Blue once adjusted for sector length
  - Grow presence on existing and new domestic leisure routes

Strategy - QantasLink

- **Develop regional "feeder" markets throughout Australia**
  - Maintain a competitive advantage
    - High frequency schedules and peak time of day service
  - Continue to achieve permanent unit cost efficiencies under the Sustainable Future Program
    - Replacement of Dash 8-100 aircraft with 50 seat Dash 8-Q300 aircraft
  - Continue to retire BAe146 aircraft as their leases expire
    - Evaluation of replacement options for remaining ten aircraft underway
    - One option is to retain B717 aircraft within the Qantas Group as they are retired by Jetstar

Strategy - Flying Group

- **Jointly makes capacity, pricing and scheduling decisions for all airlines in the Qantas Group**
  – For the benefit of the Qantas Group

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Strategy - Non-Flying Businesses

- **Qantas Holidays**
  - Launched ReadyRooms
  - Provides year-round accommodation via qantas.com and jetstar.com
  - Established additional holiday tours operations in Asia
    - Feasibility studies are currently underway in relation to other potential locations

Strategy - Non-Flying Businesses

- **Qantas Flight Catering**
  - Focus on meeting competition from other airline caterers without eroding overall profitability
  - Focus on new non-airline business opportunities
    - Snapfresh

Strategy - Non-Flying Businesses

- **Qantas Freight**
  - Dedicated freighter services
    - Between Sydney, Shanghai, Singapore and Chicago
    - Considering other opportunities for dedicated freighter operations
  - Star Track Express
    - Outstanding record of profitable growth
    - Identify and grow synergies between Qantas, Australian air Express and Star Track Express
  - Developing Thai Air Cargo, a joint venture company
    - Operations to commence in October 2004
    - Will operate freighter aircraft within Asia from a hub in Bangkok

Sustainable Future Program

$ million	Achieved in 6 months to December 2003	Achieved in 6 months to June 2004	Total achieved in 12 months to June 2004	Target for July 2004 to June 2006
Labour productivity	**73**	**83**	**156**	**297**
Fleet simplification, product initiatives and overheads	**113**	**98**	**211**	**528**
Distribution initiatives	**35**	**110**	**145**	**175**
Total	**221**	**291**	**512**	**1,000**

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Sustainable Future Program

- **Delivering results**
  - Net cost per ASK down 11.4 per cent, including exchange
  - Net cost per ASK down 5.4 per cent, excluding exchange
  - Continue to target a further $500 million in initiatives in both 2004/05 and 2005/06
  - Target equates to a unit cost reduction of 5 per cent per annum

Sustainable Future Program

- **Examples of initiatives delivered/targeted**
  - Fleet simplification
    - Consistently strong domestic on-time performance
      - “Customer on Time” project
  - Overheads
    - Introduction of a Group-wide IT “backbone”
  - Labour productivity
    - ASK per employee improved by 7.9 per cent in 2003/04
    - Manpower cost per ASK improved by 6.9 per cent in 2003/04
    - Introduction of new crew and training bases

Fleet Strategy

- **Aircraft added to operating fleet during twelve months to June 2004**
  - Two B747-400ER
  - Three A330-300
  - Three B737-800
  - Seven Dash 8

Fleet Strategy

- **Aircraft retired during twelve months to June 2004**
  - Four B767-200
  - One B737-400 (returned to lessor)
  - Four B737-300 (one returned to lessor)
  - Seven Dash 8 (three returned to lessor)
- **Four B737-300 transferred from Qantas Domestic to Jetconnect**

Capital Management

- **Maintain investment grade credit rating**
- **Current capital expenditure forecast is $6.3 billion between 2004/05 and 2006/07**
  - Will maintain Group fleet age at around 10 years, weighted by seats
- **Operating cashflow covered capital expenditure in 2003/04**
  - Aim to continue this in 2004/05
- **Gearing including off balance sheet debt improved from 51 per cent at June 2003 to 49 per cent at June 2004**

Capital Management

- No plans to raise equity other than the continued operation of the Dividend Reinvestment Plan
- No commitment to underwrite future dividends
- Full year dividend of 17 cents per share

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Fuel Hedging

- **70 per cent of expected 2004/05 fuel needs hedged**
  - Average price of US$32 per barrel (crude oil equivalent)
  - 100 per cent of expected needs covered until December 2004
  - Proportion of expected needs covered for January - June 2005
  - Will continue to take additional cover for January - June 2005 and beyond as opportunity arises

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Company Reorganisation

- **Key management appointments finalised**
- **"Change teams" established in each segment and in the Corporate Centre**
- **Segments are implementing and further refining**
  - Transfer pricing agreements
  - Service Level Commitments
- **Clarifying levels of accountability**
- **Developing new segment performance management processes**

Management Team

- Geoff Dixon under contract to continue as CEO for three years
- Peter Gregg contracted to continue as CFO
- All other executive management under medium and long-term contracts of varying duration

International Financial Reporting Standards

- **Will commence reporting for 2005/06 interim results**
- **Formal project group established**
- **Project consists of three phases**
  - Assessment phase - completed
  - Design phase
  - Implementation phase

International Financial Reporting Standards

- **Implications are being identified in the following key areas**
  - Accounting for the frequent flyer program
    - Currently apply the “incremental cost” approach
    - Considering a change in the operation of the frequent flyer program to enhance its effectiveness
    - Required to reconsider current and future suitability of all accounting policies under International Financial Reporting Standards
    - May require a change to “deferred revenue” approach

International Financial Reporting Standards

- **Implications are being identified in the following key areas**
  - Defined benefit superannuation plans
  - Operating leases
  - Financial instruments
  - Impairment of assets

International Financial Reporting Standards

- Where changes to accounting policy are required, initial adjustment would be taken through retained earnings
- Adoption of any change in accounting policy would be announced in accordance with our continuous disclosure obligations
- Further explanatory information is provided in a note to the Preliminary Final Report

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Airline Partnerships

- **Maintain important and productive relationships with a range of other airlines**
  - Review to ensure we are achieving maximum benefit and do not miss out on emerging opportunities
  - Proposed relationship with Air New Zealand subject to an appeal process in both Australia and New Zealand

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Qantas Sale Act

- Will continue to lobby the Federal Government over changes to the Qantas Sale Act and liberalisation
- Pace and scope of liberalisation and anti-competitive aspects of aviation need to be addressed

Outlook

- **Rapid escalation in price of crude oil is the major factor facing Qantas and the aviation industry worldwide**
  - Hedging policy
  - Imposition of a fuel surcharge in May 2004 and opportunity to increase surcharge
- **Increase in domestic capacity has added further pressure**
  - Yields declined by up to 10 per cent during July 2004
  - Load was not affected, despite increased capacity
  - Group’s domestic airlines are performing in line with expectations

Outlook

- **Taking these factors 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**

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