Media Release

HIGHLIGHTS

QANTAS RESULTS

FOR THE YEAR ENDED 30 JUNE 2005

- Profit before tax of $1,027.2 million
- Net profit after tax of $763.6 million
- Revenue of $12.6 billion
- Final dividend of 10 cents per share fully franked, taking total fully franked dividends for the year to 20 cents per share.
- Earnings per share of 40.8 cents per share

Media Release

QANTAS REPORTS PROFIT BEFORE TAX OF $1,027.2 MILLION

SYDNEY, 18 August 2005: Qantas today announced a profit before tax of $1,027.2 million for the year ended 30 June 2005, a 6.5 per cent increase on the previous year.

The net profit after tax was $763.6 million, up 17.8 per cent.

The Directors declared a fully franked dividend of 10 cents per share. Dividends for the full year total 20 cents per share, three cents higher than last year.

Qantas also announced for the second consecutive year a one-off cash bonus of A$1,000 for all eligible non-executive employees.

The Chairman of Qantas, Ms Margaret Jackson, said the record result was a credit to Qantas staff and management.

"The company responded extremely well to ever-increasing competition, rapidly escalating oil prices and the heightened security environment."

Ms Jackson said she was pleased that a sub-committee of senior Cabinet ministers would be reviewing Australia's aviation policy settings.

"Clear policy decisions and guidelines from the Government's deliberations will better enable Qantas to prepare for the future.

"Qantas is one of the most competitive airlines in the world, but this competitiveness can easily be eroded by the distortions inflicted on global aviation by widespread government ownership, subsidies and guarantees.

"What is needed are policies that understand and, where possible, take into account these distortions."

The Chief Executive Officer of Qantas, Mr Geoff Dixon, said fuel represented the greatest challenge for Qantas in the coming 24 months.

"Fuel in 2004/05 was 19 per cent of our total operating costs, up from around 15 per cent in 2003/04. It will increase to almost 30 per cent of our total operating costs in 2005/06."

Mr Dixon said the main drivers of the 2004/05 result were:

- The successful introduction of the value based domestic carrier Jetstar that provided Qantas with strong competitive business models in all sections of the domestic market – full service, low cost and regional.

- An improvement in yields, excluding the unfavourable impact of foreign exchange rate movements, of 2.0 per cent.

- Cost and efficiency savings of $545 million from the Sustainable Future Program.

  The savings comprised fleet, product and overhead initiatives ($279 million), labour ($150 million) and distribution ($116 million).

- A unit cost reduction, before the impact of unfavourable fuel cost movements, of 5.8 per cent.

- A continued investment in product and service that saw overall customer satisfaction levels, particularly amongst business flyers, reach all time highs.

Mr Dixon said Qantas' success in recent years had been achieved by growing all its flying segments, while using that growth as the catalyst for substantially reducing unit costs.

Mr Dixon said Qantas would base its growth in the next 12 months on new international markets, while expanding existing profitable markets, on substantially increasing freight revenues and on expanding the Jetstar brand.

"Jetstar has been a marked success and lowered its cost base in the second half of the year to 7.62 cents per ASK, making it the lowest cost carrier in Australia, even with a mixed fleet.

"As additional A320s are introduced to the fleet, we expect Jetstar's cost advantage over the competition to increase further, giving it an enviable position from which to grow both in Australia and internationally."

Mr Dixon said that despite the airline's good performance in the domestic market, there was no room for complacency.

"Competition in the domestic market will increase, with the start-up of new carrier OzJet later in the year and Virgin Blue's stated intention of seeking a much larger share of business traffic."

He said the significant growth in capacity well ahead of demand by other international airlines would continue to remain a challenge.

"Qantas International has handled this competitive pressure, increasing capacity by 8.9 per cent over the year as four new A330-300 aircraft came into service, and investing in new markets in China and India."

Mr Dixon said he was confident Jetstar Asia would, following the merger with Valuair, secure a strong position in the Asia value-based airline market.

“We are committed, as are our partners, to establishing a growing and viable airline,” he said.

Mr Dixon said Qantas faced a further increase in fuel costs of $1.25 billion in the 2005/06 year, after the benefit of hedging.

“While the net impact of surcharges will offset $600 million of this amount, the airline still faces an increased outlay of $650 million on yesterday’s market prices.

Mr Dixon said while Qantas had put many challenges behind it, new challenges were appearing.

“In fact, we expect them to grow, driven by three key factors that are outside our control – the extraordinary cost of fuel, escalating security charges and increasingly intense competition from other airlines,” Mr Dixon said.

“We face a difficult 24 months because of the unprecedented cost of fuel, which we believe will stay at historic high levels.”

Mr Dixon said the airline’s Sustainable Future Program had targeted savings of $1.5 billion over three years to 2005/06.

Because of the continued high oil prices, additional savings of up to at least $1.5 billion would be required over the following two years to 2007/08.

“Over the past five years, our Business Segmentation and the Sustainable Future Program have provided the platform for our success.

“We now need to further transform our business so as to secure another permanent reduction in our cost base in line with the new levels of fuel prices facing the industry.

“This will involve some very difficult decisions. One of these has been the program to reduce the number of management positions by 15 per cent in the past two months.

“We have reviews under way in all areas of our business. As further decisions are made, we will consult widely and act in the best interests of the long term future of Qantas and its people.”

Mr Dixon said Qantas’ decision during the year to open a cabin crew base in London for 400 Flight Attendants against strong opposition was a successful outcome of the company’s transformation program.

“The base has enabled us to obtain efficiencies in flying and a reduction in costs of $18 million a year, while at the same time providing career opportunities for Australian Flight Attendants.

“Half of the staff at the London crew base relocated from Australia and the other half were recruited locally – and not one Flight Attendant in Australia lost their job as a result,” Mr Dixon said.

“I want to stress that none of the challenges we currently face are insurmountable. We have been more successful than most airlines in responding to all challenges and change in the industry over the past few years, and we have every intention of maintaining that success.

“Qantas has a staff complement of 38,000, with 93 per cent employed in Australia. We have created 10,000 new jobs over the past 10 years.

“Importantly, in the last four years, during the most volatile period in this industry, there have been fewer than 400 compulsory redundancies of award-based staff, in stark contrast to the massive redundancies in many airlines worldwide.”

Mr Dixon said the airline had made valuable improvements over the past year in terms of occupational health and safety, with injury rates falling by 34 per cent over the 2003/04 figure.

“Fewer injuries clearly benefits employees and their families. The productivity and cost savings for Qantas are also substantial.”

Mr Dixon said response to the family friendly initiatives Qantas introduced in August 2004 had been very positive. New parents had taken advantage of the 10 weeks’ paid maternity leave and one week’s paid paternity leave.

“Our on-site child care facility in Mascot, the Joey Club, has been well patronised, and additional centres will open in Melbourne and Brisbane next year,” he said.

Outlook

Qantas is performing strongly. The changes we have made to improve the efficiency of our business have been significant. However, the extraordinary cost of fuel will have a substantial ongoing impact on the company. While further reforms in the business are under way, and coupled with the high fuel price, we do not expect to achieve the same levels of profitability in the current financial year.

Group Revenue

Total revenue for the year was $12.6 billion, an increase of $1,295 million or 11.4 per cent on the prior year compared to capacity growth, measured in Available Seat Kilometres (ASK), of 9.4 per cent. Excluding the unfavourable impact of foreign exchange rate movements, total revenue increased by 11.8 per cent.

Net passenger revenue, including fuel surcharge recoveries, increased by $857 million or 9.5 per cent to $9.8 billion with Revenue Passenger Kilometres (RPK) growing 7.0 per cent and yield improving by 1.7 per cent. Excluding unfavourable

foreign exchange rate movements, passenger revenue was up 9.8 per cent, with yield improving 2.0 per cent.

Other revenue categories increased by 18.4 per cent reflecting additional wet-leased freighter capacity, freight fuel surcharge, growth in outbound tours and travel, various service fees and charges and the release of surplus revenue provisions of $52.1 million as reported in the half-year results.

Expenditure

Total expenditure, including borrowing costs, increased by 11.9 per cent or $1,233 million to $11.6 billion. Excluding the favourable impact of movements in foreign exchange rates, total expenditure increased by 13.1 per cent.

This increase reflects higher fuel prices that, after hedging benefits, increased fuel costs by $484.9 million. After adjusting for the fuel price increase, total expenditure was up by 7.2 per cent compared to ASK growth of 9.4 per cent.

Manpower and staff related costs increased by 10.4 per cent. This included Enterprise Bargaining Agreement (EBA) wage increases of 3.0 per cent, a 5.0 per cent increase in average full-time equivalent (FTE) employees. The result also includes the provision of executive and staff bonuses following the achievement of profitability targets for the year.

Aircraft operating variable costs increased by 9.4 per cent or $209.0 million, in line with capacity growth. This reflected higher landing fees and en-route charges, security charges and other operating costs.

Total fuel costs increased by 42.5 per cent or $576.1 million. The underlying average jet fuel price was 51.2 per cent higher than the prior year, increasing costs by $770.4 million, while increased consumption lifted costs by $188.0 million. Total hedging benefits of $403.5 million were $285.5 million higher than the prior year and contributed to reduce the impact of the underlying fuel price rise to $484.9 million.

Financing charges, including depreciation, non-cancellable operating lease charges and net interest, increased by 7.3 per cent or $101.8 million reflecting higher depreciation on new aircraft and operating lease costs on the Jetstar A320 aircraft. Net interest costs were 29.3 per cent lower reflecting higher capitalised interest of $25.2 million on progress payments made against future aircraft deliveries including the Airbus A380s.

The share of net profit in associates and joint ventures decreased by $17.9 million reflecting Qantas' share of start-up costs in Jetstar Asia, Jet Turbine Services and Thai Air Cargo, offset by increased contributions from Australian air Express, Star Track Express and Air Pacific.

Sustainable Future Program Benefits

In total, the Sustainable Future Program delivered $545 million in benefits across the Group in the year, bringing the total benefits delivered under the Program to over $1

billion. The savings delivered in the current year comprised labour savings of $150 million, distribution savings of $116 million and $279 million in fleet, product and overhead initiatives.

Group Unit Costs

Net expenditure cost per ASK, excluding the favourable impact of foreign exchange rate movements, increased by 1.2 per cent. After eliminating the impact of unfavourable fuel cost movements, unit costs improved by 5.8 per cent.

Net Impact of Foreign Exchange Rate Movements

The net impact of foreign exchange rate movements on the overall profit before tax was a favourable $91.5 million.

Business Reorganisation

The EBIT results that follow reflect the continued implementation of financial reporting system changes to transition the Qantas Group into three separate business types (Flying, Flying Services and Associated Businesses) supported by a corporate centre.

Recharges from Qantas to subsidiaries have increased by approximately $99 million compared to the prior year. The recharges include a more accurate allocation of airport, distribution and IT costs based on a consumption-based review of services provided.

Qantas Mainline

EBIT for Qantas mainline operations totalled $965.1 million, an increase of $101.6 million or 11.8 per cent on the prior year. Excluding the impact of segmentation recharges, EBIT increased by 0.3 per cent reflecting the significant increase in fuel prices during the year.

RPKs increased by 2.1 per cent on capacity growth of 4.4 per cent resulting in a decline in seat factor of 1.8 percentage points. Yield, excluding the unfavourable impact of foreign exchange rate movements, improved by 2.6 per cent.

The capacity increase reflected the addition of new A330-300 aircraft in the international business and the impact of reduced flying in the first quarter of the prior year due to SARS. Capacity was also increased on key business and long-sector routes in the domestic market, which offset the reduction in capacity following the transfer of the Boeing 717 aircraft to Jetstar.

Net expenditure increased by 3.6 per cent, despite the significant impact of fuel price rises on net expenditure. This reflected the favourable impact of productivity improvements and segmentation recharges.

QantasLink

QantasLink contributed $42.9 million in EBIT, down $54.1 million or 55.8 per cent on the prior year. Excluding segmentation recharges of $44.3 million, EBIT declined by $9.8 million or 10.1 per cent.

The adjusted decline in EBIT largely reflects the retirement of five BAe146-100 aircraft in the first half, resulting in a capacity reduction of 3.4 per cent. RPKs decreased by 2.7 per cent, with seat factor improving by 0.5 percentage points. Yield, excluding the unfavourable impact of foreign exchange rate movements, improved by 1.7 per cent.

Dash 8 turboprop operations continued to benefit from the expansion of services on profitable routes and the replacement of older Dash 8-100 aircraft with Dash 8-Q300 aircraft that deliver better customer comfort, fuel efficiency and improved economics.

Jetstar

Jetstar recorded an EBIT result of $44.1 million for the year, compared to an EBIT loss of $23.4 million in the prior year whilst it was largely in start-up mode. Jetstar's total cost per ASK for the year was 8.00 cents, which is below its full year operating cost target of 8.25 cents per ASK. Second-half unit cost was 7.62 cents per ASK, which is lower than Virgin Blue's latest reported unit cost before adjusting for sector length differences.

Australian Airlines

Australian Airlines reported an EBIT loss of $11.6 million compared to a profit of $1.1 million in the prior year. Excluding the impact of segmentation charges of $9.3 million, EBIT declined by $3.4 million.

This underlying result reflected difficult trading conditions in the second half due to the impact of the Asian tsunami, travel warnings to Indonesia, weak leisure demand from Japan and higher fuel costs.

Market Share

Total Qantas Group international market share fell by 1.5 percentage points to 32.2 per cent based on the latest Bureau of Transport and Regional Economics (BTRE) statistics for the 12 months to April 2005. While the Qantas Group increased international capacity 8.9 per cent over the year, international competitors, in particular state-controlled hub carriers, grew capacity by over 17 per cent.

Total Qantas Group domestic market share for the 12 months to May 2005 as reported by the BTRE was 65.9 per cent.

Qantas Holidays

Qantas Holidays contributed $50.9 million in EBIT for the year, a decrease of $3.2 million on the prior year. Adjusted for the impact of segmentation and non-recurring

items, EBIT improved by 12.2 per cent or $6.6 million reflecting a change in mix to higher margin land only outbound products coupled with the stronger Australian dollar.

Qantas Catering

Qantas Catering reported an EBIT of $22.1 million for the year, which represents a decrease of $67.9 million compared to the prior year. The underlying variance, once adjusted for the allocation of new segmentation charges of $37.4 million and other one-off items of $18.3 million, was a decline of $12.2 million or 13.6 per cent. The underlying performance declined due to price reductions to Qantas and other clients, and changes in revenue mix to lower margin products and services. The flight catering market remains very competitive.

Balance Sheet and Cash Flow

Net cash held at 30 June 2005 was $1,903.8 million, which was $538.5 million higher than at 30 June 2004.

Cash flow from operations totalled $1,950.0 million, down marginally on last year. This was predominantly due to higher tax payments in the current year (the prior year benefited from a tax refund on hedging losses) and working capital movements related to shorter advance booking patterns.

Net capital expenditure on new aircraft, aircraft reconfiguration and spares totalled $1,682.9 million. This included payments for A330, A320 and B738 aircraft as well as aircraft refurbishment's including the Skybed program and the check baggage screening system.

Cash flows from financing activities totalled $15.3 million and included the reinvestment of dividends under the Dividend Reinvestment Plan of $175.0 million and the net repayment of borrowings of $158.4 million.

The book debt to total capital ratio, including operating leases and hedges, improved from 49:51 at 30 June, 2004 to 45:55 at 30 June 2005, principally due to increased equity from higher earnings.

Interest cover was 11.9 times, up 3.7 on the prior year.

Earnings per share increased 14.3 per cent to 40.8 cents per share reflecting increased earnings and the positive impact of tax consolidations on income tax payable.

The fully franked final ordinary dividend of 10 cents per share is payable on Wednesday, 28 September 2005, with a record date (books close) of Wednesday 31 August 2005.

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