QANTAS RESULTS

FOR THE HALF YEAR ENDED 31 DECEMBER 1999

HIGHLIGHTS

- Net profit after tax of AUD$338 million, up 52 percent
- Net profit before tax of AUD$472.6 million, up 33 percent on last year
- Abnormal profits of AUD$82 million after tax
- Operating profit before tax of AUD$414.8 million, up 17 percent
- Increase in Earnings Per Share to 28.0 cents per share, up by 48 percent
- Interim dividend 11 cents per share fully franked, up 3 cents per share
- Revenue increased to AUD$4.5 billion, up 5 percent

QANTAS REPORTS SOLID HALF YEAR PERFORMANCE

SYDNEY, 17 February 2000: Qantas today reported a record profit after tax of AUD$338 million for the half year ended 31 December 1999, an increase of 52.2 percent over the corresponding period last year.

The result included the benefit of AUD$82 million from two abnormal items, an after tax gain of AUD$37million 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.

Profit before tax of AUD$472.6 million was 33.4 percent higher than the same period last year.

The Directors declared a fully franked interim dividend of 11 cents per share, three cents higher than the fully franked interim dividend for last year.

Qantas Chairman, Mr Gary Pemberton, said the result reflected further performance improvement across all businesses.

"The focus for the half year was to continue growing selectively the business and to strengthen our position in key markets," he said.

"Qantas has been deliberate in its strategies to improve its overall financial position, to consolidate routes, to contain costs and increase efficiencies, and to invest significant amounts in improving products and services. This has enabled us to build on our advantage domestically by increasing capacity, passenger volumes and market share. Internationally, our investment program has brought improvements in both yield and passenger load.

"The half year result continues our record of continuous improvement in profitability since listing in July 1995," Mr Pemberton added.

"That track record has been achieved by delivering value to customers and by building an organisation of people capable of dealing with change and willing to innovate to continually improve efficiency.

"Over these years, we have seen the Asian regional crisis, significant fuel price increases, the negative effects of Government aviation policy and declines in traditional markets like Japan. Qantas has not only been able to withstand these events, but has continued to deliver improved performance and profitability.

"The worldwide aviation industry is undergoing major restructuring. Alliances continue to grow, foreign ownership in national carriers is expanding and sovereignty is being eroded. Singapore Airlines has bought into Virgin Atlantic and it appears inevitable that Ansett Australia will be owned out of Singapore or New Zealand.

“To continue to prosper will demand a clear focus on efficiency, productivity and competitiveness. The coming wave of new domestic entrants will find things have changed significantly since the days of Compass. To survive, they will have to lift their game from the promises we have seen so far.

“Qantas does not expect the challenges to diminish. We will deal with the future as we have the past – by a careful and focused response without compromising our reliability, our high standards or our profitability,” Mr Pemberton said.

Operating Highlights

Chief Executive, James Strong said the record result was a very good outcome reflecting the continuing focus by Qantas on clear and consistent strategies.

“This result is based on our decisions on capacity allocation to different routes, plus investments we have made in products and services, along with the strength of our customer base and continuing improvements in productivity and efficiency,” he added.

“Total revenue for the half year was AUD$4.5 billion reflecting growth of approximately AUD$210 million or 4.9 percent on the corresponding period last year.

“Net passenger revenue also increased by seven percent, reflecting both improved overall yield of 2.1 percent (excluding the unfavourable impact of movements in foreign exchange rates) and passenger load of 2.9 percentage points. This revenue growth was a significant improvement given capacity growth over the corresponding half last year was only 2.3 percent.

“Including the favourable impact of exchange movements, the increase in total expenditure was restricted to 3.8 percent. This included costs associated with expanded capacity and higher depreciation costs flowing from our program of investment in aircraft, terminals, product and services.

“The operating margin at the Earnings Before Interest and Tax (EBIT) level improved by 15 percent.

“Safety and reliability remain our highest priority,” he added. “Qantas has increased the cumulative expenditure on engineering and maintenance for the core fleet by AUD$150 million to AUD$815 million per annum since privatisation.”

“The growth in passenger volumes in relation to the level of capacity in this half-year was significant. In the second half of the year, there is likely to be some effect on load factors from new capacity and services added in October 1999 to Los Angeles, New York and London.

“The impact of higher net fuel costs and increased depreciation and funding costs will also influence financial performance,” he added.

Mr Strong said that during the half year Qantas took delivery of two new Boeing 747-400s, with a third delivered in January 2000. Qantas has a firm order for one Boeing 767-300 scheduled for delivery before the end of the current financial year.

“All major long haul international routes which are now serviced by Boeing 747-400 aircraft are in our new three class configuration and new style of in-cabin service. Reconfiguration of our Boeing 767-300 fleet is on target for completion by the middle of the year,” he added.

Qantas successfully completed its Year 2000 program during the half year without disruption and at a total cost of AUD$101 million, AUD$46 million lower than originally anticipated. Much of the specific work carried out as part of the Year 2000 program will have significant lasting benefits to Qantas. These include a full inventory of all software applications and associated hardware, the decommissioning of many old systems, the removal of surplus and obsolete equipment, updating software to the latest versions and rigorous system testing and business continuity planning.

Domestic operations contributed AUD$160 million in Earnings Before Interest and Tax (EBIT), an increase of 7.5 percent over the same half last year. Revenue Passenger Kilometres (RPKs) increased by 7.9 percent whilst capacity grew by 4.5 percent leading to an increase in load factors of 2.6 percentage points. Yields were stable.

International operations contributed AUD$223 million in EBIT, up 14.7 percent. Excluding the effects of movements in foreign exchange rates, international passenger revenues increased by 8.7 percent, with yield up 2.7 percent over the prior corresponding half year. Revenue Passenger Kilometres (RPKs) increased by 5.9 percent on a 1.7 percent capacity increase resulting in an improvement in load factors of three percentage points.

Subsidiary operations contributed AUD$95 million to the Group's EBIT, an increase of 31.6 percent above the contribution during the same half last year. The performance of subsidiary and other businesses continued to improve, most notably Qantas Holidays and Qantas Flight Catering, followed by the Regional Airlines and Freight.

"This year marks the 80^{th} anniversary of the founding of Qantas. In that time, Qantas has built its own unique reputation and image. Qantas has also contributed enormously to the aviation industry, to the Australian economy by promoting Australia as a tourist destination and by generating both export earnings and employment. In addition, Qantas continues to support a significant number of charitable, cultural, sporting and environmental organisations as part of its contribution to the community in general," Mr Strong said.

"The steady flow of improvements we have made to our business, our products and our services will continue with a series of further announcements over the coming months.

"Part of our strategy is to become one of Australia's leading e-Commerce companies. Qantas has established a dedicated team to focus on developing a number of significant "business to customer" and "business to business" e-Commerce opportunities. These include travel, freight, portal, new technologies and corporate travel management, and are being pursued in conjunction with a number of other "blue-chip" companies," he added.

By leveraging its assets including the Qantas brand, its loyalty program comprising 2.3 million members, and its extensive wholesale leisure business and route network, Qantas will be able to secure highly attractive commercial arrangements with on-line partners.

"Qantas has always been competitive in its pricing and in offering value for money. Last year Qantas sold 914,000 equivalent one-way domestic tickets at less than $100 and a further two million at $115. For any new entrant to match us on price or product, be it Singapore-Virgin or anyone else, they will need to offer much better prices than they have announced so far," Mr Strong commented.

Financial Performance

Qantas Deputy Chief Executive Officer, Gary Toomey, said capital expenditure of AUD$650 million during the half year predominantly related to the aircraft acquisitions (including progress payments), aircraft reconfiguration costs, engine modifications and spares.

“Cash flow from operations totalled over AUD$600 million an increase of $72 million or 13 percent over the same half last year,” he added.

“The debt to debt plus equity ratio, (including non-cancellable operating leases and on a hedged basis) moved from 39:61 at 30 June 1999 to 40:60 at 31 December 1999, in line with our target range,” he said.

“Qantas will continue to manage actively its capital needs and look at a range of possible ways of providing value to shareholders and methods of distributing franking credits.”

The unfavourable foreign exchange effect on revenues was fully offset by a favourable effect on foreign currency denominated expenditures.

Income tax expense excluding abnormal items increased by AUD$26.7 million, or 20.2 percent on the prior corresponding half year due to the higher profits. The Group’s effective tax rate was 38.3 percent.

The fully franked interim dividend of 11 cents per share is payable on 29 March 2000, with a record date (books close) of 1 March 2000.

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