QANTAS RESULTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2000

HIGHLIGHTS

- Profit before tax, of A$416 million, up A$2 million on last year after excluding prior year abnormal items

- Revenue increased to more than A$5 billion, up 13.1 percent

- Interim dividend of 11 cents per share fully franked

- Profit after tax of A$264 million, down A$74 million or 22 percent. The result for the previous corresponding period included a benefit of $82 million from two items which were classified as abnormal in the prior year

- Earnings per share of 21.5 cents per share

QANTAS MAINTAINS OPERATING PROFIT IN DIFFICULT CONDITIONS

SYDNEY, 22 February 2001: Qantas Chairman Margaret Jackson today announced a profit after tax of A$264.4 million for the half-year ended 31 December 2000.

She said Qantas had maintained its half-year operating profit and dividends at the levels achieved during the same period last year, despite a more difficult external trading environment.

“This half year result included a pre-tax tax benefit of A$41.2 million (A$35.0 million after tax) from the sale of the Qantas office buildings at Coward Street, Mascot, which would previously have been included as an abnormal item. The prior period’s reported result included abnormal gains of A$82 million.”

Ms Jackson said the aviation industry throughout the world was undergoing unprecedented changes, including consolidation of carriers and rearrangement of alliances.

“Qantas is also faced with a series of cost pressures including increased domestic competition, fuel price rises, weakening of the Australian dollar, introduction of the GST, increased airport charges and the impact of a liberalised aviation policy by successive Governments in Australia.

“Today we are announcing route changes and staff reductions to ensure that Qantas continues to be positioned to meet the challenges of this increasingly competitive environment.

“Whilst, as usual, we do not feel it is appropriate to forecast trading outcomes in such uncertain conditions, it is clear that the environment we face will place great pressure on our future results, she said.

Ms Jackson said the Directors had declared a fully franked interim dividend of 11 cents per share, the same as the fully franked interim dividend for the corresponding period last year. “The Dividend Reinvestment Plan, which was reintroduced from December 2000, will continue to operate for current year dividends,” she added.

Revenue

Qantas Chief Executive, James Strong, said total revenue for the half year was A$5.1 billion reflecting growth of approximately A$590 million or 13.1 percent on the corresponding period last year.

“Passenger revenue increased by 14.6 percent. Excluding the favourable impact of exchange rate movements, this increase was 10.0 percent and was due to growth in Revenue Passenger Kilometres (RPKs) of 10.4 percent offset by a deterioration in yield of 0.5 percent,” he said.

"Significant capacity increases in both the international and domestic markets were the driving factor in revenue growth. The increase in passenger volumes exceeded capacity growth in both networks, causing an increase in the overall passenger seat factor of 1.2 percentage points.

Expenditure

"The increase in total expenditure, including interest, amounted to 16.0 percent. Excluding the unfavourable impact of movements in foreign exchange rates, this increase amounted to 10.5 percent and was mainly due to costs associated with an 8.7 percent increase in capacity, and higher fuel costs. Cost per Available Seat Kilometre, after excluding exchange movements, increased by 1.6 percent."

Fuel

Mr Stong said fuel expenditure had increased significantly compared to the prior period, primarily due to the rising price of crude oil and the adverse impact of movements in exchange rates. Jet fuel prices in Australian dollars had increased by 83.1 percent since December 1999.

"The fuel hedging strategy pursued by Qantas protected the company from the full impact of fuel price rises, generating savings of approximately A$255 million. However, after taking these savings into account, fuel costs still increased by A$117 million as a result of price rises. If fuel prices remain at current levels the company will face higher fuel costs next year despite the continuation of our hedging program."

Exchange

He said the favourable foreign exchange effect on revenues during the half-year, was more than offset by the unfavourable impact on foreign currency denominated expenditures, leaving a net cost increase over the prior year of A$32.0 million. This adverse impact was primarily a result of the Australian Dollar weakening significantly against the US Dollar but at a lesser rate against the other main revenue currencies.

Business Segments

"International operations continued to make a strong contribution to the Group's performance, achieving $285.9 million in EBIT, up 28.3 percent. RPKs increased by 12.0 percent on capacity growth of 9.8 percent leading to an increase in load factors of 1.5 percentage points. Yield (excluding the impact of favourable movements in foreign exchange) increased by 3.6 percent.

"Domestic operations contributed A$118.1 million in EBIT, a decrease of 26.1 percent over the prior period. RPKs increased by 4.7 percent while capacity grew by 4.3 percent leading to an improvement in load factors of 0.4 percent. Yield deteriorated by 4.8 percent (after excluding the favourable impact of movement in foreign exchange)."

Mr Strong said that the major impact on the domestic network was increased competition from two new airlines in Australia that had resulted in significant price discounting and pressure on yields, especially on East Coast routes.

“Qantas has responded with a variety of measures, including matching the fares of the new entrants, while utilising prudent pricing and inventory management policies to protect our market position,” he said.

“Subsidiary operations contributed A$66.5 million to the Group’s EBIT, a reduction of 30.3 percent from the contribution for the corresponding prior period. The Regional Airlines result deteriorated due to the combination of factors which impacted the domestic market, together with the transfer of certain profitable routes to Qantas.

”The performance of Qantas Holidays suffered a slight deterioration due to a downturn in Fiji and Bali and adverse foreign exchange movements. Qantas Flight Catering showed improved performance, partly due to the acquisition of Caterair.”

Balance Sheet

Mr Strong said the Group’s fleet increased by nine aircraft during the half year - one Boeing 747-200 returned from lease to Air Pacific, six Boeing 767-300 aircraft and one Boeing 747-400 aircraft leased from British Airways and one Dash 8 aircraft acquired by the regional airlines.

“The debt to debt plus equity ratio, (including operating leases on a hedged basis) moved from 44:56 at 30 June 2000 to 49:51 at 31 December 2000, primarily as a result of the expansion of the fleet and progress payments made in December 2000 for the recently announced fleet upgrade.

Cash-flow

“Cash flow from operations totalled A$484.2 million, a decrease of A$121.7 million or 20.1 percent over the same half last year. This reduction was primarily due to unfavourable movements in working capital as a result of hedging decisions on the progress payments made on the fleet, exchange rate movements and inventory increases in line with additional aircraft numbers,” he added.

Strategic Response

Chief Executive-designate, Geoff Dixon said trading conditions in the first half had been difficult and there was little to indicate that they would improve in the second half.

He said the past 12 months had seen the environment in which Qantas operated, both in Australia and overseas, change dramatically as a result of competition from lower cost airlines, Government-sponsored policy changes and higher costs.

“We have three major competitors in the domestic market with the start-up of Impulse and Virgin, and Ansett being absorbed into the foreign-owned grouping of Air New Zealand and Singapore Airlines.

“It is essential that Qantas take all the necessary actions to maintain and, where appropriate, improve our competitiveness. We must improve our productivity per employee to match or better our major competitors and bring our domestic airline costs closer to the two new domestic airlines.”

Mr Dixon said Qantas had instigated a comprehensive business review to ensure optimisation of both its asset and cost base in this more dynamic environment.

Decisions to be implemented immediately from the review included:

- a reduction in executive and middle management staff in Australia by 25 percent (a total of 220 positions) over the next two weeks;

- a further progressive reduction of staffing levels throughout the company of 1,250 positions over the next six months;

- the suspension of a number of poorly performing international services, the first being all services to China and Canada. Other suspensions would be announced shortly; and

- the redeployment of aircraft from suspended international services to meet new competition on key domestic routes.

Mr Dixon said Qantas did not take such decisions lightly.

“However, this is the negative side of the rapid liberalisation of the aviation industry by Governments in Australia.”

He said the staff reductions would come from attrition and redundancies.

“We understand the pressures that changes such as these can have on individuals and families and we will make every effort to ensure the changes are made with this in mind.”

Mr Dixon said the savings would be achieved without in any way compromising the airline’s well deserved reputation for operational excellence, safety and customer service.

“Taking these decisions now will enable Qantas to continue to invest and grow in profitable areas.

“We have invested in this belief with the recent announcement of a major fleet upgrade starting with the introduction of the A330 aircraft in 2002. In addition the first of our refurbished 747-400 aircraft with new interiors and personal videos in all seats will be flying by mid-year.”

Mr Dixon said that some of the efficiencies and improvements planned over the next two years would be achieved through investment in new technology. Planning for this was well underway.

CEO retirement

Ms Jackson said that at its monthly meeting yesterday, the Board expressed its appreciation to James Strong for his outstanding leadership as CEO of Qantas since October 1993 and for his contribution as a member of the Board since January 1991.

"We wish him well in his retirement as CEO, effective Monday 5 March," she added.

Conclusion

Commenting on the release of the last financial results in his term as CEO, James Strong said that the period since listing in 1995 had seen Qantas establish itself as a leading world airline with consistent profit performance, delivering value to its customers, shareholders and employees.

"During this time Qantas has demonstrated a capability of dealing with significant change. I'm sure that the airline will continue to be determined to meet current and future challenges with the same focus on safety, customer service and efficiency as it has done in the past," he said.

The fully franked final ordinary dividend of 11 cents per share is payable on 4 April 2001, with a record date (books close) of 7 March 2001.

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