QANTAS RESULTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2001

HIGHLIGHTS

- Profit before tax of $231 million
- Revenue of $5.7 billion
- Interim dividend of 8 cents per share fully franked
- Profit after tax of $154 million
- Earnings per share of 11.1 cents per share
SYDNEY, 21 February 2002: Qantas today announced a profit after tax of $153.5 million for the half-year ended 31 December 2001, a result that is 41.6 per cent lower than the previous corresponding period.

The profit before tax was $231.3 million, down 44.5 per cent.

Qantas Chairman Margaret Jackson said the six months to 31 December 2001 had been the most tumultuous in the history of aviation, with the terrorist attacks on 11 September and the collapse of Ansett, and in this difficult period Qantas’ financial performance had been outstanding.

“It is impossible to directly compare the performance of this six months to the prior period because of the external factors such as 9/11, Ansett and the Olympics.

“However, thanks to the hard work and dedication of our people we have performed better than just about any airline in the world,” she said.

The Directors declared a fully franked interim dividend of 8 cents per share, and advised that the Dividend Reinvestment Plan will continue to operate for this dividend. It is the Board’s current intention that the annual dividend payout ratio will be about 60 per cent.

Qantas Chief Executive Officer Geoff Dixon said conditions in the aviation industry had been difficult before 11 September 2001.

“At the beginning of the period, the Australian and international economies were slowing, the Australian dollar was weak and jet fuel prices were high. Added to this was the heavy discounting in the domestic market which saw two of the four domestic airlines collapse,” he said.

Mr Dixon said that after 11 September the demand for international travel fell dramatically, up to 30 per cent on some key routes.

“This was the prime reason for our international operations, which represent 75 per cent of Qantas’ business, recording an EBIT loss of $15.5 million compared to an EBIT contribution of $285.9 million in the previous corresponding period.

“The sharp decline in the profitability of our international operations far outweighed the increased profitability of our domestic operations after the collapse of Ansett. Domestic operations contributed $180.1 million in EBIT, an increase of $62.0 million.”
Mr Dixon said Qantas had moved quickly, but at significant cost, to provide air travel for Australians following the collapse of the Ansett Group.

“We carried 50,000 stranded Ansett passengers for free and another 65,000 at greatly reduced fares. The cost of carrying these passengers and the cost of wet leasing aircraft to cater for the shortfall in domestic capacity was over $60 million.”

Mr Dixon said while Qantas was one of the world’s best performing airlines, the industry both in Australia and internationally was under significant pressure.

“There are signs of increased demand for international travel in some markets. However, this is predominantly in the leisure sector and this is impacting yields.

“Growth in the domestic market is depressed. The capacity planned for the market over the next 12 months by Qantas, Virgin Blue and a remodelled Ansett will result in an extremely competitive and aggressive environment.”

Mr Dixon said trading in the first six weeks of 2002 indicated Qantas was still on track to deliver a full year profit before tax in line with last year’s result of $550 million.

“However, this could prove difficult if there is further volatility in the market,” he said.

Mr Dixon said it was imperative that Qantas worked closely with its people and with Unions to ensure that its productivity as it went forward better matched both its domestic and international competitors.

“We cannot have a cost base out of line with our domestic and international competitors. We face a period where many of our competitors are achieving substantial cuts to their cost base because of the aftermath of 11 September or by going into bankruptcy or administration. Others are being restructured by going back into Government ownership.”

Mr Dixon said Qantas had taken some major steps in the past six months to provide a platform for a profitable future when stability was restored to the industry. These steps included:

- the withdrawal from poorly performing international routes and reduced flying to other destinations;
- a ramp up in capacity in the domestic and regional markets to establish a strong presence throughout Australia;
- the seeking of a wage pause from its employees and greater productivity in future negotiations;
- the purchase and phased introduction from this month of 15 New Generation single-class Boeing 737-800 aircraft for domestic routes (options have been taken on another 60 aircraft);
• the deferral of the purchase of three A330 aircraft and the redeployment of some international aircraft to permanent domestic flying;

• the launch in September of Australian Airlines on Asian routes where Qantas cannot be competitive;

• significant product improvements, including a $50 million upgrade of Qantas Club lounges as well as new interiors (including in-seat videos in all classes) in the 747-400 fleet;

• the raising of $663 million in equity to provide stability to the balance sheet and ensure that gearing levels remain one of the lowest in the industry.

Business Operations

International operations recorded an EBIT loss of $15.5 million compared with an EBIT contribution of $285.9 million in the previous corresponding period. International traffic, measured in RPKs, fell by 1.4 per cent, while capacity fell by 1.1 per cent, resulting in a marginal decline in seat factor of 0.2 percentage points to 76.0 per cent. Yield (excluding the impact of favourable movements in foreign exchange) fell by 2.1 per cent.

Domestic operations contributed $180.1 million in EBIT, an increase of 52.5 per cent or $62.0 million over the prior year. RPKs increased by 27.4 per cent while capacity grew by 28.6 per cent, leading to a decline in load factor of 0.8 percentage points to 80.1 per cent. Yield (after excluding the favourable impact of movements in foreign exchange) increased by 5.7 per cent.

Subsidiary operations contributed $105.9 million to the Group’s EBIT, an increase of 59.2 per cent from the contribution for the corresponding prior period.

• the QantasLink performance improved due to higher loads and yields;

• Qantas Holidays’ result improved due to strong domestic performance and improved results in Japan, UK and Fiji which offset the softening in outbound traffic as a result of 11 September;

• Qantas Flight Catering showed improved performance, mainly due to the integration of Caterair into the operations for the full six months.

Revenue

Total revenue for the half year was $5.7 billion reflecting growth of approximately $566 million or 11.1 per cent on the corresponding period last year.

Passenger revenue increased by 11.7 per cent and was due to growth in Revenue Passenger Kilometres (RPKs) of 5.1 per cent and yield improvements of 6.2 per cent.

Overall capacity grew by 5.3 per cent compared with the prior half-year. However, after the events of 11 September 2001 and the collapse of Ansett on 14 September
2001, Qantas moved capacity from the international network to the domestic network.

International capacity reduced by 1.1 per cent across the period, 3.7 per cent higher in the first quarter but 5.8 per cent down in the second quarter. For the month of December international capacity was 10.3 per cent lower than the prior year.

Domestic capacity increased by 28.6 per cent for the half-year as a whole, up 16.5 per cent in the first quarter and up 40.1 per cent in the second quarter as long-haul aircraft from international operations were redeployed on domestic sectors and short-term wet-leased capacity was brought in to cope with increased demand in the domestic market. In the month of December, domestic capacity was 44.7 per cent higher versus the prior year.

Across the full half-year period passenger volumes were down 1.4 per cent in the international market and up 27.4 per cent in the domestic market versus the prior year, resulting in a decrease in the overall passenger seat factor of 0.1 percentage points. International volumes were up 8.5 per cent in quarter one but down 10.7 per cent quarter two. Domestic passenger volumes were up 12.4 per cent in quarter one and 41.9 per cent in quarter two.

**Expenditure**

Total expenditure, including interest, increased by 16.0 per cent to $5.4 billion mainly due to costs associated with a the 5.3 per cent increase in capacity, including the cost of wet-leased aircraft, higher fuel costs (hedging benefits were no longer available), and higher engineering costs. Cost per Available Seat Kilometre increased by 11.9 per cent.

**Fuel**

Fuel costs increased by 34.3 per cent, or $224.2 million. The underlying fuel price was lower than last year giving a benefit of around $130 million. However, the prior half-year included fuel hedging benefits of $255 million. The cost of increased flying added a further $45 million, while the weakness of the Australian Dollar relative to the US Dollar, accounted for the remaining cost increase of $51 million.

**Exchange**

Excluding the impacts of foreign exchange rate movements, total revenue increased by 9.6 per cent and total expenditure increased by 12.7 per cent.

On average, exchange rates were weaker for the first half this year than for the first half last year. The net impact of these unfavourable foreign exchange movements was a cost increase of $82.4 million compared to the corresponding prior half-year.

**Individually Significant Items**

The prior period result included a pre-tax profit of $41.2 million ($35.0 million after tax) from the sale of the Qantas office buildings in Coward Street, Mascot. The current period includes two offsetting items being a pre-tax profit of $29.2 million from the sale of the Group’s remaining investment in EQUANT NV and a pre-tax
expense of $29.0 million to cover redundancy costs following the announcement of job reductions in November.

**Balance Sheet and Cash-flow**

Cash flow from operations totalled $411.5 million, a decrease of $72.7 million or 15.0 per cent over the same half last year. This reduction was primarily due to the reduction in profitability, partially offset by favourable increases in working capital and lower tax payments.

The debt to debt plus equity ratio, (including operating leases on a hedged basis) moved from 53:47 at 30 June 2001 to 48:52 at 31 December 2001. This improvement has been driven by operating cash-flow and the raising of $663 million in equity during the period, offset by progress payments made for the fleet upgrade.

The fully franked interim ordinary dividend of 8 cents per share is payable on 10 April 2002, with a record date (books close) of 13 March 2002.

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