QANTAS

# *Media Release*

## QANTAS RESULTS

## FOR THE HALF YEAR ENDED 31 DECEMBER 2002

## HIGHLIGHTS

- Profit before tax of $513.1 million
- Profit after tax of $352.5 million
- Revenue of $5.9 billion
- Fully franked interim dividend of 8 cents per share
- Earnings per share of 21.0 cents per share

# QANTAS HALF YEAR PROFIT BEFORE TAX OF $513.1 MILLION

**SYDNEY, 20 February 2003:** Qantas today announced a profit before tax of $513.1 million for the six months to 31 December 2002. Profit after tax was $352.5 million.

The Directors declared a fully franked interim dividend of 8 cents per share.

Qantas Chairman Margaret Jackson said the result was most pleasing, particularly given challenges and difficulties in the aviation industry.

“The world’s airlines lost about $US18 billion in the 2001 calendar year,” Ms Jackson said. “Losses are expected to total $US12 billion in 2002.

“In the United States, two of the largest carriers – United Airlines and US Airways – have filed for bankruptcy protection. Many other carriers in the United States, Europe and South America continue to report losses, shed staff and retire aircraft.

“The performance of Qantas in this environment is a tribute to the efforts of staff and management.”

Ms Jackson said recent events, and the general worldwide uncertainty, highlighted the important role played by Qantas in Australian life.

“I have no hesitation in saying that all Australians should not underestimate the social, economic and strategic contribution that Qantas makes to this country on a daily basis.”

Qantas Chief Executive Officer Geoff Dixon said the result had been achieved in circumstances where:

- Domestic air fares were at historic lows, with the Bureau of Transport and Regional Economics revealing discount domestic fares were 23 per cent cheaper than three years ago;

- Qantas had grown some 50 per cent domestically to meet the market demands flowing from the collapse of Ansett;

- Considerable resources are being put towards major upgrades and improvements. By the end of this financial year, Qantas will have invested approximately $6 billion on new aircraft, inflight entertainment, seating and other product initiatives since the collapse of Ansett;

- Increasingly fierce competition and discounting from many international airlines.

Mr Dixon said while all areas of the business had contributed to the result, the improvement of the international operations stood out.

“International operations earnings before interest and tax (EBIT) totalled $263.9 million,” he said. “This compared with an EBIT loss of $15.5 million in the same period the previous year, which was affected by the events of September 11.”

Revenue Passenger Kilometres (RPKs) for international operations increased by 2.5 per cent on reduced capacity of 3.3 per cent, leading to an improvement in load factors of 4.6 percentage points. Yield, excluding the impact of unfavourable movements in foreign exchange, increased by 4.3 per cent with nearly all route groups providing a positive return.

Domestic airline operations, including QantasLink, contributed $197.9 million in EBIT, 1.7 per cent less than the previous corresponding period. Yield deteriorated by 5.1 per cent (after excluding the unfavourable impact of foreign exchange movements) but was offset by a 22 per cent increase in load due to the airline’s efforts to meet national market demand following the collapse of Ansett.

In addition, a significant increase in taxes and levies contributed to the decline in domestic yields.

“We expect to improve our margins going forward as we continue to roll out our strategy to operate all-economy class aircraft on leisure routes that have little or no demand for business travel,” Mr Dixon said. “Before the end of this financial year, for example, we will begin flying single class 767-300s to the Gold Coast.”

Mr Dixon said that in recent weeks the solid recovery seen in international markets and the growth in domestic flying experienced in the first half had come under pressure from the heightened tensions surrounding Iraq and the very public threat of terrorism.

“Forward bookings for the next 16 weeks have slowed considerably in some markets, including Japan, Europe and the United Kingdom. All carriers appear to be affected.”

Mr Dixon said Qantas had taken steps in recent weeks to meet the changing market and economic conditions. These included:

- Reductions in planned flying from March in both the domestic and international operations;

- The use of accumulated annual and long service leave entitlements to reduce staffing between now and 30 June, 2003 by the equivalent of 1,500 full time employees. This initiative will closely match the reductions in flying and will also involve management and non-flying staff;

- A freeze on discretionary expenditure.

Mr Dixon said that, with these and other initiatives and assuming no further deterioration in demand, Qantas was still on track to achieve its full year profit target.

However, if tensions continue around Iraq and terrorism, bookings could further deteriorate.

"In such an environment, our profit target would certainly become more difficult to achieve," he said.

Mr Dixon said Qantas was well positioned to maximise its opportunities when the global travel market recovered.

**Subsidiary Operations**

Subsidiary operations contributed $112.8 million in EBIT, an increase of 6.5 per cent over the previous corresponding period.

- Qantas Holidays increased EBIT by 14.2 percent to $19.3 million, primarily due to growth in the domestic market. The outbound market was detrimentally affected by the Bali bombings and travel warnings to destinations including Thailand and Malaysia.

- Qantas Flight Catering EBIT fell by $1.4 million, or 3.7 per cent, to $36.6 million. SnapFresh, one of the most modern meal production centres in the world, commenced sales of domestic and international economy meals to Qantas and a number of other major international airlines during the period.

- QantasLink, which operates more than 2,700 flights each week to 55 destinations within Australia, improved its EBIT result by $16.6 million, or 78.3 per cent, to $37.8 million primarily due to improved load. QantasLink also benefited from the cessation of Beechcraft 1900 operations.

- Australian Airlines, which commenced operations in late October 2002, achieved an underlying operational EBIT of $4.4 million for the period to 31 December 2002. Start-up costs, including crew and pilot training and recruitment, totalled $6.9 million resulting in a total EBIT loss for the period of $2.5 million.

**Group Revenue**

Revenue for the half year totalled $5.9 billion, an increase of $0.5 billion or 9.3 per cent. Excluding the impacts of foreign exchange rate movements, total revenue increased by 10.5 per cent.

Passenger revenue increased by 10.8 per cent, with RPKs growing 9.4 per cent and yield improving 1.2 per cent.

**Expenditure**

Total expenditure rose by 4.6 per cent to $5.3 billion. Excluding the impacts of foreign exchange rate movements, total expenditure increased by 6.5 per cent. This was primarily due to a 5.2 per cent increase in overall capacity and higher manpower costs following EBA settlements.

Cost per Available Seat Kilometre, excluding the impact of exchange, increased by 0.2 per cent.

Fuel costs decreased by 7.9 per cent, or $69.0 million. The hedged fuel price was 1.5 per cent lower than last year. This was driven by a higher underlying fuel price, increasing costs by $28.8 million. Additional activity further increased fuel costs by $8.6 million. Higher fuel hedging benefits lowered costs by $47.6 million while the strengthening of the Australian dollar relative to the US dollar further reduced fuel costs by $58.8 million.

There were substantial cost increases in insurance, security costs and domestic landing charges which were partly offset by direct passenger recoveries.

Net interest expense decreased by 39.5 per cent. While average net debt was higher than the prior half year, interest rates were lower and $49.3 million of interest was capitalised into aircraft progress payments (compared with $31.9 million in the previous corresponding period).

The net impact of favourable foreign exchange movements was a $32.5 million benefit to profit.

**Balance Sheet and Cash Flow**

Cash flow from operations totalled $909.1 million, an increase of $497.6 million versus the prior period. This was due to increased profitability, lower tax payments and favourable movements in working capital.

The debt to debt plus equity ratio, (including operating leases on a hedged basis) moved from 48:52 at 31 December 2001 and 49:51 at 30 June 2002 to 47:53 at 31 December 2002. The improvement was driven by strong operating cashflow and the raising of $717.6 million in equity during the year, offset by progress and delivery payments made for the fleet upgrade

The fully franked interim ordinary dividend of 8 cents per share is payable on 9 April 2003, with a record date (books close) of 12 March 2003

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