Media Release

QANTAS RESULTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2003

HIGHLIGHTS

- Profit before tax of $530.3 million
- Net profit after tax of $357.8 million
- Revenue of $5.8 billion
- Fully franked interim dividend of 8 cents per share
- Earnings per share of 19.9 cents per share

QANTAS REPORTS HALF YEAR PROFIT OF $530.3 MILLION

SYDNEY, 19 February 2004: Qantas today announced a profit before tax of $530.3 million for the six months to 31 December 2003. The net profit after tax was $357.8 million.

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

The Chairman of Qantas, Margaret Jackson, described the result as excellent given the circumstances existing in the aviation industry.

Ms Jackson said all the company's businesses had returned to profitability during the period, following the severe impact of the war in Iraq and SARS in the first half of 2003.

"Qantas has responded quickly and effectively to the many challenges that have hit aviation in recent years, while continuing to invest in product, aircraft and technology," she said.

"This has put us in a good position to take advantage of what appears to be a return to more stable market conditions."

The Chief Executive Officer and Managing Director of Qantas, Geoff Dixon, said the main drivers of the half-year result were:

- a strong performance in the domestic market, due largely to a simplified fare structure and an overall improvement in the efficiency of the domestic operation;

- improved efficiency from cost-reduction initiatives and the introduction of new aircraft;

- a recovery in the international market in the second half of the six month period; and

- continued improvement in earnings from subsidiary businesses, particularly Qantas Holidays and Qantas Flight Catering.

Mr Dixon said total revenue for the six months fell by 4.4 per cent, or $267.8 million, compared to the corresponding period in 2002.

"This was entirely due to the continued impact of SARS and the war in Iraq in July, August and September when international capacity was still down by 10.5 per cent.

"Revenue recovered well in October, November and December when the low-yielding SARS 'recovery' fares ended."

Total revenue was down $228.7 million in the first three months but recovered to be down only $39.1 million in the second three months.

Mr Dixon said the total revenue fall of 4.4 per cent was offset by a reduction in expenditure of 6.0 per cent, or $332.5 million.

“Our Sustainable Future Program aims to cut net operating costs by $1 billion over two years, with $350 million designated for 2003/04,” he said.

“We are on track to exceed the target of $350 million and will reduce costs by $500 million in 2003/04, of which $221 million has been achieved in the first half.

“This program is now going to be extended over another year and the expenditure reduction target increased by another $500 million.”

Mr Dixon said the expenditure reduction had been achieved despite depreciation and amortisation costs increasing by 49.4 per cent to $536.2 million as a result of the purchase of new aircraft and investment in product improvements.

“We are confident of the industry’s growth prospects and believe Qantas is well placed to participate profitably in this growth,” Mr Dixon said.

“However, as we plan to invest a further $7 billion in aircraft, product and technology between now and mid-2006, it is imperative that we continue to remove inefficiencies and grow revenue in all our business segments.”

During the half-year, Qantas:

- took delivery of eight new aircraft – three Boeing 737-800s, one Extended Range Boeing 747-400, two Airbus A330s and two Dash 8-300s;

- launched its new International Business Class, a $385 million investment featuring Skybed, the award-winning sleeper seat, and 1,200 dedicated and specially trained First and Business Class flight attendants;

- introduced a world-first Short Message Service (SMS) system allowing all international customers to use their in-seat telephone handset to send messages and receive replies; and

- continued to expand and refurbish its international network of lounges with improved facilities opening in Los Angeles, Perth, Canberra, Gold Coast and Townsville.

Qantas also entered into agreements to acquire:

- the former Ansett engine maintenance facility in Melbourne through a joint venture with Patrick Corporation, providing additional engine maintenance jobs in Australia; and

- the express road freight operator Star Track Express through a joint venture with Australia Post, adding to the quality portfolio of freight businesses operated by Qantas.

Qantas continued its major investment in technology that will deliver substantial efficiency gains in the years ahead.

Mr Dixon said Qantas’ new low cost carrier Jetstar would launch in May with its route network and fare structure to be announced later this month.

“We are confident Jetstar will commence with a cost base of 8.25 cents per ASK compared to Virgin’s unit cost of 8.72 cents per ASK, as stated in its prospectus.

“This confidence is based on certified agreements Jetstar has with its staff and Unions and contracts already signed with suppliers.

“When Jetstar has an all A320 aircraft fleet, we expect its cost base to be 7.8 cents per ASK.”

Mr Dixon said Jetstar would complement the premium Qantas domestic product.

“Qantas domestic will continue to offer a two-class, full service product with increased frequency on key business routes,” he said.

“The latest official figures show that Qantas’ domestic market share is 66.2 per cent with Virgin Blue, Rex and other carriers making up the remaining 33.8 per cent.

“From what we know of the capacity plans of Virgin Blue and the other domestic carriers over the next two years, and our own plans for capacity increases, the three-product offering of Qantas, Jetstar and QantasLink will have around 65 per cent of the domestic market.

“This is our line in the sand and we will provide the capacity and infrastructure to defend it against Virgin Blue and the other carriers. This is the most profitable course of action for our business.”

Group Revenue

Total revenue for the half-year was $5.8 billion, a decrease of $267.8 million or 4.4 per cent. Excluding the unfavourable impact of foreign exchange rate movements, total revenue decreased by 0.7 per cent.

Passenger revenue decreased by 4.8 per cent (0.9 per cent excluding exchange), reflecting a drop in RPKs of 0.8 per cent and a decline in yield of 1.1 per cent.

Expenditure

Total expenditure, excluding net borrowing costs, decreased by 6.0 per cent to $5.2 billion. Excluding the favourable impact of foreign exchange rate movements, total expenditure decreased by 1.1 per cent.

Cost per Available Seat Kilometre, excluding the impact of exchange, decreased by 0.9 per cent.

Manpower expenditure decreased by 2.5 per cent. Wage and salary rises under EBA settlements were offset by a 3.5 per cent reduction in full-time employees from the restructuring program implemented during the SARS and Iraq War crises and other productivity improvements implemented under the Sustainable Future program.

Aircraft operating variable costs decreased by 11.3 per cent or $141.7 million. International landing fees and aviation charges fell 5.1 per cent in line with international movements while engineering material costs fell 6.5 per cent including savings from the progressive disposal of the B767-200 fleet.

Fuel costs decreased by 20.3 per cent or $164.6 million. The underlying fuel price was 7.5 per cent higher than the comparative half-year, increasing costs by $31.0 million. However, favourable foreign exchange rate movements reduced fuel costs by $116.3 million and hedging benefits were $46.9 million better than the previous half-year. In addition, decreased flying and fuel efficiency gains from new fleet acquisitions reduced fuel consumption by 3.8 per cent.

Depreciation and amortisation charges increased by 49.4 per cent or $177.2 million. Major increases included depreciation of $85.9 million on new aircraft and product compared to the previous half-year. A change in the residual value assumption for wide-bodied aircraft increased depreciation charges by $15.0 million.

Net borrowing costs increased by $47.5 million. This reflected lower capitalised interest into aircraft progress payments of $24.2 million (compared with $49.3 million in the comparative half-year) and increased borrowings and higher interest rates.

The net impact of favourable foreign exchange movements was $45.2 million.

International operations

International market conditions gradually recovered across all routes in the period following price-driven initiatives to stimulate demand following the Iraq war and SARS.

Earnings before interest and tax (EBIT) for international operations, including Australian Airlines, totalled $200.1 million, a decrease of $61.3 million on the corresponding period. International RPKs decreased by 1.5 per cent while yields deteriorated marginally by 0.2 per cent.

Australian Airlines, which commenced operations in October 2002, launched its second phase of routes focusing primarily on the outbound Australia market to Bali and Sabah in July 2003. A fifth B767-300 aircraft was added to the fleet in October 2003, which saw a return to pre-SARS capacity to Osaka, Fukuoka and Hong Kong.

Domestic operations

Domestic operations, including QantasLink, contributed $323.9 million in EBIT, up 63.7 per cent on the comparative half-year. The introduction of the new fare structure in July 2003 contributed to an increase in RPKs of 0.6 per cent and minimised yield deterioration to 2.8 per cent (after excluding the unfavourable impact of foreign exchange movements).

Qantas Holidays

Qantas Holidays increased EBIT by 24.4 per cent to $24.0 million, primarily due to stronger domestic demand. While the residual impact of SARS reduced international tourism during July and August 2003, travel to Asia has recovered toward pre-SARS levels. The appreciation of the Australian dollar, coupled with continued cost control, has contributed towards an improvement in profitability.

Qantas Flight Catering

Qantas Flight Catering's EBIT improved by 27.3 per cent to $46.6 million. Additional contracts were secured with third party airlines and cost savings were achieved through a variety of programs across the various catering centres.

Balance Sheet and Cash Flow

Net cashflows from operations totalled $966.6 million, up 6.3 percent on the comparative half-year. Net cashflows from investing activities totalled $1,229.8 million and included capital expenditure predominantly related to new aircraft progress payments, aircraft reconfiguration costs, engine modifications and spares, and the acquisition of Star Track Express.

The net cash position as at 31 December 2003 decreased by $364.1 million to $1.7 billion compared to 30 June 2003, primarily as a result of the Star Track Express acquisition.

Book debt to equity ratio (including operating leases and hedges) moved from 51:49 at 30 June 2003 to 50:50 at 31 December 2003, principally as a result of stronger earnings during the half-year.

Interest cover (EBIT divided by net interest expense) for the period was 8.4 times compared to 22.6 times for the comparative half-year which included higher levels of capitalised interest costs.

Earnings per share dropped 5.2 per cent to 19.9 cents per share because there were more shares on issue compared with the half year to 31 December, 2002.

Outlook

Historically, Qantas earns 60 per cent of its profits in the first half of the financial year. Trading conditions so far this year show that Qantas is on track to achieve a full year profit in line with this trend.

The fully franked interim ordinary dividend of 8 cents per share is payable on 7 April 2004, with a record date (books close) of 10 March 2004.

Issued by Qantas Corporate Communication (Q3035)
Media Enquiries: Michael Sharp - Telephone 02 9691 3469