Media Release

QANTAS RESULTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2004

HIGHLIGHTS

- Profit before tax of $601.3 million
- Net profit after tax of $458.4 million
- Revenue of $6.4 billion
- Fully franked interim dividend of 10 cents per share
- Earnings per share of 24.7 cents per share

QANTAS REPORTS HALF YEAR PROFIT OF $601.3 MILLION

SYDNEY, 17 February 2005: Qantas today announced a profit before tax of $601.3 million, a 13.4 per cent increase on the same period last year.

The net profit after tax was $458.4 million, up 28.1 per cent from the comparative half year.

The Directors declared a fully franked interim dividend of 10 cents per share, two cents higher than the interim dividend paid last year.

The Chairman of Qantas, Margaret Jackson, said Qantas continued to benefit from an emphasis on growing its core flying while seeking efficiencies in all its business segments.

Ms Jackson said the increased dividend was a change from Qantas' existing dividend policy, but reflected the confidence of the Board and Management in the company's ability to internally fund future growth and investment while reducing gearing.

"This will be achieved by growing future cashflow so that it exceeds capital expenditure," she said.

"We do not believe this will be easy, but we must have the discipline to reward our shareholders – by paying franked dividends – while investing for growth."

The Chief Executive Officer of Qantas, Geoff Dixon, said Qantas had continued to grow its operations and its workforce while delivering increased profitability.

Mr Dixon said the main drivers of the result were:

- a strong performance from the domestic flying business which contributed $390.1 million in earnings before interest and tax (EBIT), up $66.2 million or 20.5 per cent on the prior half year;
- improved yields in the international business market, particularly as a result of the introduction of new A330 aircraft for regional flying and the continued roll out of the Skybed sleeper seat;
- a reduction in the impact of historically high fuel prices through a hedging program and a fuel surcharge;
- a 4.0 per cent reduction in unit costs, excluding the benefit of favourable foreign exchange movements; and
- further growth in the Group's freight business, with the introduction of additional freighter services.

Mr Dixon said the result in the domestic flying business highlighted the success of the company's strategy to co-ordinate network and capacity while delivering the appropriate product, service and economics for each market segment.

“The launch of Jetstar in May 2004 was the central plank in this domestic strategy and its EBIT of $19 million was ahead of our expectations.

“Jetstar will continue to grow in domestic leisure markets and will look for further opportunities as it moves towards a single fleet of new A320 aircraft,” he said.

Mr Dixon said the international market remained extremely competitive with substantial capacity increases being accompanied by heavy discounting.

He said Qantas strategically increased its capacity to key international markets in the period. Whilst revenue growth did not match capacity in the half-year, product enhancements – including Skybed – position Qantas favourably for improved performance later in the year.

“Our strong brand, the market’s continued enthusiasm for the new Business Class Skybed, new routes to India and China and growth on existing core routes – including the new London service via Hong Kong – drive our strategies,” he said.

“However, our costs must be further improved if we are to compete successfully against the myriad carriers that are either subsidised or owned by their national Government.”

Mr Dixon said Qantas supported the further liberalisation of aviation markets where this resulted in balanced outcomes and genuine opportunities to compete.

"We need liberalisation for our own growth and accept that this involves a mix of opportunities and challenges,” he said.

“However, the bilateral system of international air services arrangements is complex and there will not be effective reciprocity to compete in third markets unless liberalisation is sequenced carefully.

“This lies at the heart of our concern that Singapore Airlines should not be granted access to the trans-Pacific route at this time."

Mr Dixon said excellent progress had been made in recent years to change the way the Qantas Group operated.

“The Sustainable Future program on costs and efficiencies delivered savings totalling $245 million in the past six months and is on track to exceed the $500 million full year target,” he said.

“However, as we continue to invest we must also continue to address the legacy of our past and, in particular, the complex processes that have been built into our business models over decades.

“To this end we will, over the next three months, conduct a review of processes and activities, with a focus on processes that can be removed or redesigned.

Mr Dixon said Qantas would expand the Sustainable Future program to co-ordinate these internal initiatives, including the Segmentation program and the process review.

“Delivering streamlined processes will be crucial to our future and this will result in Qantas obtaining greater efficiency out of its existing asset base and having an increased focus on core activities,” he said.

“Standing still is not an option in the aviation business.

“Our competitors are further reducing their costs by a variety of means, including bankruptcy protection in the USA, Government-mandated industrial reform in Asia and consolidation in Europe.”

Mr Dixon said Qantas would continue to focus on profitable growth – a strategy that, in contrast to nearly all other legacy airlines, had produced 10,000 more jobs over the last eight years.

He said Qantas would also continue to examine alternatives to source its services and products.

“We will source from the most suitable locations globally, while at the same time remaining committed to growing Australia-based businesses,” he said.

“The new cabin crew base in London, which will open later this month with over 400 flight attendants, is an example of this approach.”

Mr Dixon said Qantas faced some negative issues in the second half of the year:

- Australian Airlines, which had doubled its EBIT to $8.5 million in the first half, was experiencing difficulties in the second half, with travel to several key leisure destinations being affected by the tsunami that devastated South-East Asia in late December 2004. Australian will withdraw its twice a week service to Sabah, in Malaysia, on 29 April;

- second half revenue for the Qantas Group would be reduced by at least $30 million as a result of the tsunami; and

- the start-up of Jetstar Asia, the low-cost Singapore-based carrier in which Qantas has a minority interest, has been affected by an inability to obtain flying permits in some countries despite having rights allocated by the Singapore authorities.

Outlook

Mr Dixon said that taking the above issues and current booking and cost profiles into account, and provided trading conditions did not deteriorate, Qantas still believed it would improve on its 2003/04 result in 2004/05 and provide an outcome in line with market consensus.

Group Revenue

Total revenue for the half-year was $6.4 billion, an increase of $629.2 million or 10.8 per cent on the prior half-year. Excluding the unfavourable impact of foreign exchange rate movements, total revenue increased by $672.7 million or 11.6 per cent.

Net passenger revenue, including fuel surcharge recoveries, increased by $362.8 million or 7.9 per cent to $5.0 billion with Revenue Passenger Kilometres (RPK) growing 8.6 per cent and yield deteriorating by 1.0 per cent. Excluding unfavourable foreign exchange rate movements, passenger revenue was up 8.5 per cent reflecting the growth in RPKs and a marginal yield decline of 0.4 per cent, predominantly in the domestic market.

Non-passenger revenue increased by 22.4 per cent reflecting additional wet-leased freighter capacity, freight fuel surcharge, growth in outbound tours and travel, various service fees and charges and the release of surplus revenue provisions.

Expenditure

Total expenditure, including borrowing costs, increased by 10.6 per cent or $558.2 million to $5.8 billion. This increase reflects higher fuel prices which, after hedging benefits, increased fuel costs by $163.2 million. After adjusting for post-hedging fuel price increases, total expenditure was up by 7.5 per cent compared to Available Seat Kilometre (ASK) growth of 13.3 per cent.

Excluding the favourable impact of movements in foreign exchange rates, total expenditure, including fuel price rises, increased by 12.3 per cent.

Manpower and staff related costs increased by 11.8 per cent, predominantly due to Enterprise Bargaining Agreement (EBA) wage increases of 3.0 per cent and a 5.2 per cent increase in full-time equivalent (FTE) employees. Lower FTEs compared to ASK growth reflects the continued progress being made under the Sustainable Future program to deliver productivity and cost efficiency benefits across the business. The result also reflects the partial provision for executive and staff bonuses, subject to the achievement of profitability targets for the full year.

Aircraft operating variable costs increased by 10.4 per cent or $115.5 million, due to higher landing fees and en-route charges, security charges and other operating costs.

Fuel costs increased by 32.3 per cent or $208.0 million. The underlying average jet fuel price was 56.7 per cent higher than the comparative half-year, increasing costs by $390.0 million. However, hedging benefits were $226.8 million better than the previous half-year, significantly reducing the underlying fuel price rise to $163.2 million, whilst favourable foreign exchange rate movements reduced fuel costs by $46.9 million. The impact of greater flying increased fuel costs by $91.7 million.

Depreciation and non-cancellable operating lease charges increased by 4.0 per cent or $26.5 million and included the accelerated write-down of modifications on some aircraft.

The share of net profit in associates and joint ventures decreased by $1.7 million reflecting increased contributions from Australian air Express, Star Track Express and Air Pacific less start-up costs associated with Jetstar Asia and Jet Turbine Services.

Sustainable Future Program Benefits

The Sustainable Future program delivered $245 million in benefits across the Group in the half-year. This comprised labour savings of $94 million, distribution savings of $58 million and $93 million in fleet, product and overhead savings.

Group Unit Costs

Net expenditure cost per ASK, excluding the favourable impact of foreign exchange rate movements, decreased by 4.0 per cent.

Net Impact of Foreign Exchange Rate Movements

The net impact of favourable foreign exchange movements was a $47.2 million benefit to profit.

Business Reorganisation

The EBIT results that follow reflect the progressive implementation of financial reporting system changes to transition the Qantas Group into three separate business types (Flying, Flying Services and Associated Businesses) supported by a corporate centre.

Recharges from Qantas to segments have increased by approximately $48 million compared to the prior half-year. The recharges include IT, airport and distribution costs based on a more accurate allocation of activities.

International Operations

EBIT for international operations, including Australian Airlines, totalled $229.0 million, up $28.9 million or 14.4 per cent on the prior half-year. Excluding the impact of segmentation, EBIT improved by 3.8 per cent.

International RPKs increased by 8.1 per cent reflecting ASK growth of 14.2 per cent due to the addition of new A330-300 aircraft to improve the international product offering and operating schedule cutbacks implemented in response to SARS during the prior period. Continued aggressive competition was reflected in total international market growth of 14.9 per cent for the first four months of the 2004/05 financial year. This lead to a decline in seat factor of 4.2 percentage points.

Yield, excluding the unfavourable impact of foreign exchange rate movements, improved by 3.6 per cent. The yield improvement was partly attributable to a significant increase in business class yields following the introduction of the new Business Class Skybed product.

International net expenditure increased by 12.8 per cent, which despite fuel cost rises of 37.1 per cent (including exchange), was in line with capacity growth.

Domestic Operations

Domestic operations, including QantasLink and Jetstar, contributed $390.1 million in EBIT, up $66.2 million or 20.5 per cent on the prior half-year. Excluding the impact of segmentation, EBIT improved by 19.9 per cent.

Domestic RPKs increased 9.7 per cent on capacity growth of 11.3 per cent, leading to a decline in seat factor of 1.1 percentage points to 79.6 per cent. This reflected a full six-month operation of Jetstar, which began flying in May 2004. Yield, excluding the unfavourable impact of foreign exchange rate movements, deteriorated 5.3 per cent as the market continued to absorb increased capacity by both the Qantas Group and Virgin Blue. Qantas Group domestic market share for November 2004 was 65.5 per cent.

Qantas Domestic operations reduced capacity following the transfer of the Boeing 717 aircraft to Jetstar which was partly offset by capacity increases on key business and long-sector routes.

QantasLink Dash 8 operations benefited from an expansion of flying on profitable routes and the replacement of older Dash 8-100 aircraft with Dash 8-Q300 aircraft that deliver better customer comfort, fuel efficiency and improved economics.

Jetstar recorded an EBIT result of $19.0 million, which was ahead of expectations and reflected tight cost control in a highly competitive market. Jetstar's total cost per ASK for the half-year was 8.49 cents, which was lower than budget and reflected introduction costs associated with the A320 aircraft of $5.0 million and ongoing costs of Boeing 717 operations. Jetstar is now expected to beat its full year operating cost target of 8.25 cents per ASK.

Once fully transitioned to an all A320 fleet, Jetstar is expected to improve on its previously advised cost estimate of 7.8 cents per ASK, which compares favourably to the Virgin Blue reported operating cost once adjusted for sector length differences.

Qantas Holidays

Qantas Holidays increased EBIT by 12.9 per cent to $27.1 million reflecting significant growth in outbound tourism compared to the SARS affected prior half-year. Adjusted for the impact of segmentation, EBIT improved by 32.1 per cent or $7.7 million.

Qantas Catering

Qantas Catering reported EBIT of $10.9 million for the six months ending 31 December 2004, which represents a decline of $35.7 million. The underlying variance, once adjusting for the allocation of inter-company segmentation charges of $18.5 million and other one-off items of $8.6 million, was a decline of $8.7 million or 19 per cent. The loss of the QantasLink Boeing 717 and Cathay Pacific (Melbourne and Brisbane) contracts, combined with more competitive pricing are the key contributors to the decline.

Balance Sheet and Cash Flow

Net cash held at 31 December 2004 was $2,030.5 million, which was $665.2 million higher than at 30 June 2004.

Cash flow from operations totalled $1,023.4 million, up $56.8 million on the prior half-year, reflecting increased profitability. This compares with net capital expenditure of $1,149.8 million on new aircraft, reconfiguration costs and spares.

Cash flows from financing activities totalled $559.5 million and included net proceeds from the over-subscribed re-financing of the $1.9 billion syndicated loan facility completed in October 2004.

Book debt to total capital ratio, including operating leases and hedges, improved from 49:51 at 30 June, 2004 to 48:52 at 31 December 2004, principally due to increased equity from higher earnings.

Interest cover was 9.6 times, up 1.2 on the comparative half year.

Earnings per share increased 24.1 per cent to 24.7 cents per share reflecting increased earnings and the positive impact of tax consolidations on income tax payable.

Interim Dividend

The interim dividend has been increased by 2.0 cents per share to 10.0 cents. Given the improvement in profitability over the past 18 months, Qantas is looking to reward shareholders while investing for growth.

Since the announcement of the Qantas fleet and product reinvestment plan, a constant dividend of 17.0 cents per share has been paid. Capital expenditure peaked at $5.6 billion over the 2001/02 and 2002/03 periods and has since stabilised at approximately $2 billion per annum.

Qantas aims to improve gearing whilst passing on franking credits to shareholders. This will be achieved by growing operating cashflow, the continued operation of the dividend reinvestment program and careful management of capital expenditure.

The fully franked interim ordinary dividend of 10 cents per share is payable on 6 April 2005, with a record date (books close) of 9 March 2004.

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