ASX AND MEDIA STATEMENT

22 August 2019

QANTAS GROUP POSTS RECORD REVENUE, STRONG PROFIT IN FY19

- Underlying Profit Before Tax: $1.30 billion (down 17%)
- Statutory Profit Before Tax: $1.27 billion (down 6%)
- Record revenue for the Group
- Statutory Earnings Per Share: 54.6c (flat on last year)
- Return On Invested Capital: 18.4%
- Net free cash flow: $1,244 million
- Shareholder return of 13 cents per share fully franked dividend, plus an off-market buyback of up to 79.7 million shares
- $1,250 staff travel bonus for 25,000 non-executive employees, worth $32 million
- Direct New York and London to Sydney research flights for Project Sunrise announced.

The Qantas Group has achieved an Underlying Profit Before Tax of $1.30 billion and a Statutory Profit Before tax of $1.27 billion for the Financial Year 2019.

While the Underlying result was 17 per cent lower compared with the Group's record profit in FY18, it was impacted by an $614 million increase in fuel costs from higher oil prices and a further $154 million of the foreign exchange impacts on non-fuel net expenditure.

The result was also impacted by a $92 million non-cash expense on provisions for items including employee leave entitlements – part of an accounting requirement that means this charge increases when interest rates fall.

All key parts of the Group's portfolio remain strongly profitable, generating significant cashflow that allows for ongoing investment as well as shareholder returns.

CEO COMMENTARY

Qantas Group CEO Alan Joyce said the FY19 performance was particularly positive given mixed market conditions.

"This result shows the strength of our individual businesses but also the strength of our portfolio as a whole. Even with headwinds like fuel costs and foreign exchange, we remain one of the best performing airline groups in the world.

"Our performance is the result of having the right strategy and the ability to deliver it.

"Domestically, our dual brand approach with Qantas and Jetstar continued to give us a leadership position in the corporate, premium leisure and budget travel categories, all with strong margins.

“Qantas International has improved its competitive position by evolving its fleet, network and partnerships. We’ve carved out some unique advantages like the Perth-London route and there is a lot of value still to be unlocked through our alliances.

“Qantas Loyalty returned to double-digit earnings growth in the second half, thanks to new revenue streams from insurance and financial services as well as improvements to the Frequent Flyer program.

“The simple message from this result is that the Qantas Group has solid foundations to keep investing and innovating, and to keep rewarding our shareholders as a result.

“We’re pleased to reward around 25,000 of our people with a $1,250 staff travel bonus each, which would take a family of four from Sydney to Honolulu on Jetstar. Since 2015, we’ve now set aside more than $340 million in cash and staff travel bonuses for non-executives.

“Looking ahead, the overall market remains mixed. Domestically, we’re seeing weakness in the price sensitive leisure market but premium leisure demand is steady.

“Overall demand from our corporate customers is flat, with continued strength in the resources sector offsetting weaker demand from other industries, like financial services and telecommunications. In competitive terms we’re growing our overall share of the corporate and SME sectors.

“Internationally, the outlook remains positive for premium international travel demand, helped by a reduction in broader market capacity.

“Our anticipated flat Group domestic capacity for the first half of FY20 reflects the mixed environment, and we’ll continue to monitor our settings against demand and our strategic position,” said Mr Joyce.

GROUP DOMESTIC

Group Domestic delivered an Underlying EBIT of $1.03 billion, down by 4 per cent. Unit Revenue from Qantas and Jetstar’s domestic operations grew by a combined 4 per cent on flat capacity, as fares caught up to higher oil costs.

Qantas Domestic, which achieved its second-highest Underlying Profit, increased Unit Revenue by 5 per cent and seat factors were steady at 78 per cent.

Qantas’ share of both the corporate and small business markets grew, helping to offset some broader weakness in travel demand. Qantas maintained a 15 point customer satisfaction premium to its domestic competitor.

The resources market continued to strengthen, with capacity added in Western Australia and Queensland contributing to a $47 million revenue increase from this part of the market.

Jetstar's domestic Unit Revenue increased by 3 per cent and ancillary revenue per passenger rose by 12 per cent, driven largely by take-up of new baggage options and Club Jetstar reaching 340,000 members. The airline's upgrade of its A320 cabins is now complete, delivering a 3 per cent capacity improvement per aircraft.

As a low fares leader, the Jetstar Group sold almost two-thirds of its fares for less than $100.

GROUP INTERNATIONAL

Qantas International delivered an Underlying EBIT of $285 million, down by 28 per cent. There was a significant improvement in second half performance, as competitor capacity and overall fare levels adjusted to higher fuel prices.

Unit Revenue grew by 6 per cent compared with FY18 and seat factor grew by 2 percentage points to 86 per cent.

Network and fleet changes continue to deliver benefits, with particularly strong performances on the Perth-London route and Singapore hub services. Competitive pressure on the Pacific remained intense but Qantas' performance is expected to improve following implementation of the American Airlines joint business and the start of new routes, including Brisbane-Chicago in FY20.

Qantas Freight continued to provide steady earnings, which will be supported going forward by an expanded seven-year contract with Australia Post.

Jetstar's international services achieved significant Unit Revenue growth, with solid performance on key leisure routes such as Bali and Japan.

Jetstar Japan delivered a record profit[1] and Jetstar Pacific remained profitable, while Jetstar Asia faced challenges due to a significant increase to airport charges and taxes in its home market of Singapore. Jetstar's regional services in New Zealand were loss-making and market conditions are being monitored closely.

QANTAS LOYALTY

Qantas Loyalty achieved a record Underlying EBIT of $374 million, up 8 per cent.

Earnings growth was driven by the core Frequent Flyer Program as well as new insurance and financial products.

Total points redeemed grew by 12 per cent compared with a 5 per cent increase in membership. High levels of engagement with the program are expected to keep improving as the recent changes to

[1] Record AUD profit share.

redemption costs and flight availability take full effect from September 2019. Already, there has been a 24 per cent increase in Classic flight redemptions since these changes were announced in June.

The Qantas Business Rewards program, which helps drive airline market share in the SME segment as well as earnings from Loyalty partners, reached 250,000 members.

Growth of credit cards that earn Qantas Points continued to outperform the broader market[2] and Qantas' own premium cards performed well. Qantas health insurance customers grew by 46 per cent[3], helped by one of the lowest average premium increases in the market.

FINANCIAL FRAMEWORK

The Group continued to deliver on the three pillars of its financial framework.

Operating cashflow was strong at $2.81 billion and net debt is now below the target range[4] at $4.7 billion. Net capital expenditure was $1.6 billion after adjusting for cash received from the sale of Qantas Catering and the Melbourne Domestic Terminal lease. This resulted in net free cashflow of $1.24 billion.

Ongoing transformation delivered $452 million of revenue and cost benefits.

The Group's total fuel cost was $3.85 billion, an increase of $614 million on FY18. Ongoing efficiency measures, including fleet modernisation and a new flight planning system, drove a 2.2 per cent improvement in fuel efficiency.

The Group incurred $374 million income tax on its FY19 profit.

REWARDING SHAREHOLDERS

The Qantas Board has announced a fully franked dividend totaling $204 million dollars or 13 cents per share to be paid on 23 September 2019 with a record date of 3 September 2019, as well as an off market buy-back of up to 79.7 million shares. Detail on the buyback, which is worth approximately $400 million at yesterday's share price, is available via https://www.investor.qantas.com.

This latest buyback, once complete, will bring the total reduction in shares on issue by nearly one third since 2015 – the most of any company in the ASX All Ordinaries in the past five years.

Surplus capital will continue to be assessed at each half, in-line with our financial framework. The first tranche of this surplus will be allocated to a base dividend, which is currently assessed at $400

[2] Qantas Points earning credit cards includes co-branded credit cards and Qantas Premier cards. Based on RBA credit and card charges statistics at June 2019 and Qantas internal analysis.
[3] Qantas/ NIB internal analysis and estimates.
[4] Net Debt Target Range as at 30 June 2019 is $5.2 billion to $6.5 billion.

million a year. Adjusting for the EPS benefits from the buyback announced today, this equates to 27 cents a share per annum.

INVESTING FOR THE FUTURE

The Qantas Group continues to invest for the future, with key initiatives including:

- Today's announcement of **three research flights for Project Sunrise** before the end of calendar 2019. Operating non-stop from New York and London to Sydney using Qantas' existing 787-9s, and made possible by carrying a small number of people to minimise weight, the flights will test different approaches to crew and passenger wellbeing as part of designing unique ultra-long haul services. The research flights, which are re-routed delivery flights, will have their emissions fully offset. The final business case for Project Sunrise has several hurdles to pass ahead of a final decision in December 2019. *(See separate release.)*
- A complete **refurbishment of Qantas' 12 Airbus A380 aircraft**, including upgrades to each class of cabin, a new on-board lounge and 27 per cent increase in premium seating. Work on the first aircraft is underway, which is expected to be in service by September.
- Delivery of **six additional 787-9s** for Qantas International from October 2019, taking the total fleet to 14 aircraft.
- Increasing **lounge capacity in Qantas' Singapore hub** by 60 per cent, including an expansion to the existing Business Lounge and opening of a new First lounge.
- Rolling out $25 million of **improvements to Frequent Flyer**, including 1 million more reward seats per annum, reducing some carrier charges for points bookings by up to 50 per cent and cutting the points required for international Economy seats by up to 10 per cent.
- Progress towards cutting 100 million single-use plastics by end-2020 and **eliminating 75 per cent of waste to landfill** by end-2021.
- Preparations to introduce the **A321 NEO to Jetstar**, with 18 aircraft to begin arriving from mid-2020.

OUTLOOK

The Group continues to focus on matching capacity with demand, together with growing revenue to recover higher fuel costs.

The Group's current operating expectations for FY20 are[5]:

- Total fuel bill is expected to increase to ~A$3.95 billion (up ~$100 million) and is fully hedged.
- Group capacity is expected to increase by ~1 per cent in in the first half of FY20. Group Domestic is expected to be flat to slightly down. Group International is expected to increase by ~1.5 per cent while competitor capacity is expected to decline by ~1 per cent in the first half of FY20.
- Inflation impact on Group expenditure (including wage growth) expected to be ~$250 million.

[5] See Investor Presentation for detailed outlook assumptions.

- Transformation benefits are expected to be ~$400 million.
- Gross capital expenditure expected to be $2.0 billion for FY20.
- Net underlying depreciation and amortisation expected to be ~$130 million higher than FY19.

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