20 August 2020

ASX Market Announcements Office
Australian Securities Exchange Limited

Lodged electronically via ASX Online

Qantas Group FY20 Results ASX and Media Release

Qantas Airways Limited attaches the Qantas Group FY20 Results ASX and Media Release.

Yours faithfully,

Andrew Finch
Group General Counsel and Company Secretary

Authorised for release by Qantas' Board of Directors.

Qantas Airways Limited, ABN 16 009 661 901, 10 Bourke Road Mascot NSW 2020 Australia
Telephone +61 2 9691 3636, qantas.com

QANTAS

100 CELEBRATING 100 YEARS (1920-2020)

ASX/Media Release

QANTAS GROUP FY20 FINANCIAL RESULTS – NAVIGATING EXCEPTIONAL CONDITIONS

- Underlying Profit Before Tax: $124 million (down 91%)
- Statutory Loss Before Tax: $2.7 billion (majority of which is non-cash, including aircraft write downs)
- $4 billion revenue impact from COVID crisis in 2H20
- Operating cash flow: $1.1 billion
- Liquidity of $4.5 billion providing considerable buffer to manage uncertainty
- Significant progress on initial steps of three-year recovery plan

Sydney, 20 August 2020: In what has been the most challenging period in its long history, the Qantas Group reported a $124 million Underlying Profit Before Tax for the 12 months ended 30 June 2020, down 91 per cent on the prior year.

This reflects a strong first half of the year ($771 million Underlying Profit Before Tax) followed by a near total collapse in travel demand and a $4 billion drop in revenue in the second half[1] due to the COVID-19 crisis and associated border restrictions.

Fast action to radically cut costs and place much of the flying business into a form of hibernation helped minimise the financial impact from this extraordinary sequence of events. From April to end of June, Group revenue fell 82 per cent while cash costs were reduced by 75 per cent, helping to limit the drop in Underlying Profit Before Tax in 2H20 to $1.2 billion[2].

At the statutory level, the Group reported a $2.7 billion Loss Before Tax — due mostly to a $1.4 billion non-cash write down of assets including the A380 fleet and $642 million in one-off redundancy and other costs as part of restructuring the business for recovery.

Despite significant uncertainty across most markets, the Group remains well positioned to take advantage of the eventual return of domestic and, ultimately, international travel demand. In the meantime, Qantas Freight and Qantas Loyalty continue to generate significant cashflow and charter operations for the resources sector are performing strongly.

[1] Compared to 2H19.
[2] Compared to 2H19.

CEO COMMENTARY

Qantas Group CEO Alan Joyce said the second half of FY20 was the toughest set of conditions the national carrier had faced in its 100 years – but that it had the resilience to deal with them.

“The impact of COVID on all airlines is clear. It’s devastating and it will be a question of survival for many. What makes Qantas different is that we entered this crisis with a strong balance sheet and we moved fast to put ourselves in a good position to wait for the recovery.

“We’ve had to make some very tough decisions in the past few months to guarantee our future. At least 6,000 of our people will leave the business through no fault of their own, and thousands more will be stood down for a long time.

“Recovery will take time and it will be choppy. We’ve already had setbacks with borders opening and then closing again. But we know that travel is at the top of people’s wish lists and that demand will return as soon as restrictions lift. That means we can get more of our people back to work.

“COVID is reshaping the competitive landscape and that presents a mix of challenges and opportunities for us. Most airlines will come through this crisis a lot leaner, which means we have to reinvent how we run parts of our business to succeed in a changed market.”

Mr Joyce said the FY20 result showed how the COVID crisis had derailed what would have been a strong financial performance.

“We were on track for another profit above $1 billion when this crisis struck. The fact that we still delivered a full year underlying profit shows how quickly we adjusted when revenue collapsed.

“Qantas Loyalty’s profit was down less than 10 per cent and member satisfaction increased in the fourth quarter, which shows the strength of that business. Qantas Freight has been a major beneficiary of the shift to people shopping online and our charter flying for resources companies is strong.

“COVID will continue to have a huge impact on our business and we’re expecting a significant underlying loss in FY21.

“Looking further ahead, we’re in a good position to ride out this storm and make the most of the recovery. Our market position is set to strengthen as the only Australian airline with a full service and low fares domestic offering as well as long haul international services,” added Mr Joyce.

GROUP DOMESTIC

A very strong performance by Group Domestic in the first half more than offset the 50 per cent drop in revenue in the second half caused by COVID-related restrictions.

Qantas Domestic achieved EBIT of $173 million while Jetstar’s domestic flying achieved EBIT of $112 million, including absorbing a $33 million impact of industrial action over the peak summer period.

Both Qantas and Jetstar demonstrated high levels of adaptability in responding to cascading domestic border restrictions – cutting costs and maximising limited revenue opportunities. This included launching new Qantas routes such as Sydney to Ballina and Orange, and redeploying A320s to meet resources sector demand in Western Australia.

A three-day Jetstar sale in June saw some 150,000 fares sold, reaching a record rate of 220 bookings per minute – demonstrating the latent demand for travel when borders do re-open.

As a result of the Group's main domestic competitor significantly reducing its fleet and closing its low-cost carrier, the Group expects its market share to naturally grow from around 60 per cent to up to 70 per cent as the market recovers.

GROUP INTERNATIONAL

Qantas International made a $56 million profit for the year, driven largely by a record performance by Qantas Freight and a huge increase in e-commerce.

The Group's regular scheduled international flights effectively ceased in April, replaced by over 100 services operated by Qantas on behalf of the Federal Government to cities including Hong Kong, London, Los Angles, Lima, Buenos Aires and Mumbai.

Jetstar's international businesses moved into losses driven by border closures. Domestic flying in New Zealand was planning a return to near-full capacity by end-August but remains flexible given changing restrictions.

Jetstar Asia in Singapore is reducing its fleet and workforce by more than 25 per cent. Jetstar Japan was impacted by local lockdowns but resumed all domestic routes in July and is planning to operate 75 per cent of pre-COVID capacity in August.

In June, the Group announced its plans to exit Jetstar Pacific in Vietnam, of which it is a 30 per cent shareholder.

QANTAS LOYALTY

Qantas Loyalty achieved an underlying EBIT of $341 million – the largest single positive contribution to the Group's FY20 profit and only 9 per cent lower than its result last year. The main reasons for this decline were lower earnings from travel-related products and a softening in consumer spending on credit cards.

Total Frequent Flyer membership increased by 4 per cent and membership of the Qantas Business Rewards program (aimed at small enterprises) increased by 20 per cent.

Despite limited opportunities to redeem points for travel, Frequent Flyer member satisfaction set a quarterly record in Q4. This is supported by engagement initiatives including automatic extension of tier status for 12 months; more opportunities to earn points on the ground, including with BP fuel (with more than 500,000 signing up for this part of the program) and Afterpay (with 55,000 members signing up to earn in the first four weeks); and a significant increase in reward seats on domestic flights.

Other new businesses, including retail, health insurance and car insurance, continued to diversify Loyalty's earnings.

GOVERNMENT SUPPORT

The Group acknowledges the significant industry assistance provided by the Federal Government in response to COVID, reflecting the importance of aviation to the broader economy.

As one of the most heavily impacted companies, the Qantas Group collected $267 million in JobKeeper payments, the majority of which was paid directly to employees on stand down and the rest used to subsidise wages of those still working.

Qantas and Jetstar operated a series of domestic, regional and international flights on behalf of the Federal Government, as well as some freight services, to maintain critical links that had been made commercially unviable by travel restrictions. These flights were operated on a fee-for-service basis, with fare revenue offsetting the cost to the taxpayer.

To 30 June 2020, the total gross benefit of Government support was $515 million and the net benefit (after costs for flights operated) was $15 million.

The nature of ongoing industry assistance means the level of support received in FY21 will depend on the amount of flying activity.

SUPPORTING OUR CUSTOMERS

A number of customer initiatives were introduced during the year, including:

- Launched the Fly Well program with range of measures (including masks, hand sanitising stations, changes to inflight service) to ensure a safe travel environment and give extra peace of mind.
- Offered customers with new bookings the option to move flights with no change or cancellation fees.
- Significantly increased flexibility for travel credits as well as providing refunds.

SUPPORTING OUR PEOPLE

In recognition of the significant impact of the COVID crisis on its people, the Group has put a variety of support mechanisms in place, including:

- Working with other companies to connect people on stand down with secondary employment opportunities.
- Offering a suite of support mechanisms, including financial counselling and psychological support.
- Running weekly virtual town hall meetings to give updates and answer live questions.
- Offering voluntary (rather than compulsory) redundancy wherever possible and providing large severance payouts for long-serving employees in particular.

FINANCIAL FRAMEWORK

The Group's available liquidity was $4.5 billion at 30 June 2020, including $1 billion of undrawn facilities.

The Group successfully raised more than $1.4 billion through a fully underwritten institutional placement and retail Share Purchase Plan.

As at 30 June 2020, net debt was $4.7 billion and remains at the lower end of the target range. The Group has no major debt maturities until June 2021 and no financial covenants on debt.

Planned net capital expenditure was reduced by $400 million in the second half for a total of $1.6 billion for FY20. Significant further reductions are forecast in FY21 with the deferral of 787-9 and A321neo deliveries to meet the Group's requirements.

FUEL HEDGING

The Group's fuel consumption was fully hedged for the second half of FY20 and 90 per cent hedged for the first half of FY21 with significant participation to falling prices. Given the significant decline in flying activity from April 2020 and the anticipated decline in fuel consumption in FY21, the Group has recognised $571 million of de-designated hedge losses in the FY20 statutory result.

UPDATE ON RECOVERY PLAN

Implementation of the three-year recovery plan, announced in June 2020, is well underway. The plan will create a stronger platform for future profitability, long-term shareholder value and preserve as many jobs as possible.

Several key parts of the plan are complete or in progress, including:

- Around 4,000 of at least 6,000 redundancies expected to be finalised by end-September 2020, with continued union consultation.
- Ongoing stand down of around 20,000 employees, enabling retention of core skills until work returns.
- Early retirement of the Boeing 747 fleet and more than 100 aircraft now in storage (in a state that significantly reduces the need for ongoing maintenance).
- Raised $1.4 billion in equity in addition to the $1.75 billion of long term debt funding secured during the second half of FY20.

The plan targets $15 billion in benefits over three years from reduced activity, with $1 billion per annum in ongoing cost savings from FY23 through efficiency gains across the Group.

Recent developments in Victoria and the reimposition of some border restrictions in other parts of Australia are not expected to have a material impact on the delivery of the three-year plan.

OUTLOOK

The Group's recovery plan allows for a high level of flexibility given uncertainty on border restrictions and travel demand, while also acknowledging the critical nature of air transport to the Australian economy. Key assumptions and indicators at this stage include:

Group Domestic

- Given current border restrictions, 20 per cent of pre-COVID Group Domestic capacity is scheduled for August.
- Recent sales activity shows high levels of latent travel demand when restrictions are eased.

Group International

- International network unlikely to restart before July 2021; possibly earlier for Trans Tasman.

Loyalty

- Expected to continue strong cash flow contribution in FY21.
- Recovery in domestic travel an opportunity to increase reward seats and maintain member engagement.
- Actively growing opportunity to earn points on the ground, but this is linked to broader consumer confidence levels.

Qantas Freight

- Domestic demand expected to remain strong due to growth in e-commerce.
- Strong international freight demand expected to continue but not at peak levels seen in 4Q20.

Media Enquiries: Qantas Media +61 418 210 005 qantasmedia@qantas.com.au