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QANTAS GROUP POSTS THIRD MAJOR LOSS FROM PANDEMIC, STRONG RECOVERY UNDERWAY

- Underlying Loss Before Tax: $(1.86) billion.
- Statutory Loss Before Tax: $(1.19) billion.
- Underlying EBITDA: $281 million following a $526 million EBITDA performance in 2H.
- Positive statutory operating cash flow: $2.67 billion.
- Recovery plan on track for completion, with $1 billion in savings in FY23.
- Net debt declined to $3.94 billion, below target range.
- Investment of more than $400 million in customer loyalty and experience; new lounges and new routes.
- On-market share buy-back of up to $400 million announced.
- Significant improvement in operational performance; key measures expected to be largely back to pre-COVID standards in September this year.
- Significant improvement in Staff Travel benefits for employees.

25 August 2022: The Qantas Group has posted its third consecutive Statutory Loss Before Tax of more than $1 billion, reflecting the Delta and Omicron impacts as well as upfront costs from restarting the airline as lockdowns finally ended.

For the full 2022 financial year, the Group experienced an Underlying Loss Before Tax of $(1.86) billion and a Statutory Loss Before Tax of $(1.19) billion. The difference between these two measures largely reflects the $686 million net gain on sale of surplus land, which helped reduce COVID-related debt.

While the first three quarters of the year were defined by border closures and waves of uncertainty caused by COVID variants, the fourth quarter saw the highest sustained levels of travel demand since the start of the pandemic. Overall, the Group's flying levels for the year averaged at 33 per cent of pre-pandemic levels but finished at 68 per cent.

Group Domestic operations were profitable at the Underlying EBIT level in 4Q22, while Qantas Freight posted another record annual performance and Qantas Loyalty accelerated its earnings growth to double digits in the second half.

The reopening of borders saw a huge increase in forward travel demand, which when combined with the Group's recovery plan, has resulted in a significant improvement to the balance sheet. Net debt has fallen from a high of more than $6.4 billion to $3.9 billion at the end of FY22, putting it below the optimal target range of $4.2 billion to $5.2 billion.

With the existential crisis posed by the pandemic now over, the Group is focused on responding to current operational challenges. Key customer measures for Qantas including contact centre wait times, cancellation rates and mishandled bag rates are trending back towards pre-COVID standards during August 2022.

There has been a significant improvement in on-time performance, which lifted from 52 per cent in July to 66 per cent for August (to date). This is expected to reach 75 per cent in September and around 80 per cent in October 2022, pending external factors such as extreme weather.

CEO COMMENTS

Qantas Group CEO Alan Joyce said: "This result takes the Statutory Loss Before Tax impact of COVID on the Qantas Group to nearly $7 billion and our total revenue losses to $25 billion. These figures are staggering and getting through to the other side has obviously been tough.

"The past year has been challenging for everyone. We had to ramp down almost all flying once Delta hit and stay that way for several months before ramping back up through multiple Omicron waves as we all learned to live with COVID in the community.

"We always knew travel demand would recover strongly but the speed and scale of that recovery has been exceptional. Our teams have done an amazing job through the restart and our customers have been extremely patient as the whole industry has dealt with sick leave and labour shortages in the past few months.

"Safety remains number one, but our service isn't at the level expected of the national carrier. There is a lot of work happening to bring us back to our best, including hiring more people, rolling out new technology and reducing domestic flying so we have more sick leave cover.

"We saw a big improvement in baggage handling and cancellations in August, which we expect will return to pre-COVID standards next month. On time performance also improved significantly and should be close to our usual high standard in September.

"We're even more confident in the future than we were six months ago, so today we're announcing more investment in our people and our customers, including a major boost to staff travel benefits, new routes and new lounges. We're also announcing the first capital return for shareholders since they provided us $1.4 billion at the start of the pandemic to support our Recovery Plan."

GROUP DOMESTIC

After several stop/start rebounds across FY22, domestic travel demand made a sustained recovery in the fourth quarter. Total domestic flying averaged 63 per cent of pre-COVID levels for the year and reached 103 per cent by 30 June.

This drove Group Domestic to positive Underlying EBIT for the fourth quarter, but long periods of low activity combined with restart costs resulted in a full year Underlying EBIT loss of ($1.1) billion.

Across Qantas and Jetstar, revenue intakes from leisure bookings in the fourth quarter were approximately 125 per cent of pre-COVID levels, with the Group's dual brand strategy putting it in a unique position to meet demand from both the budget and premium parts of the market. The rebound in leisure saw the Group add more than 20 new domestic routes during the year.

Revenue intakes from business purpose travel in the fourth quarter were around 90 per cent of pre-COVID levels.

With a cost base significantly below its competitors, Jetstar's commitment to low fares saw 47 per cent of its customers pay less than $100 for their domestic flight and 87 per cent paid less than $200 – a larger proportion than before the pandemic.

GROUP INTERNATIONAL AND FREIGHT

Heavy losses by the Group's international passenger business were again significantly offset by a record performance of Qantas Freight, which benefited from high yields due to a continued shortage of cargo space globally but also from the ongoing shift to e-commerce domestically.

Overall, the Qantas International and Freight division recorded an Underlying EBIT loss of $(238) million and Underlying EBITDA profit of $448 million.

While the reopening of Australia's border in November 2021 finally saw international passenger travel return, the rebound was initially slowed by the Omicron variant and the delayed opening of key markets such as New Zealand and Indonesia.

The Group's international capacity averaged just 17 per cent of pre-COVID levels for the year but rose to 49 per cent by 30 June. The Group has now resumed flying to 19 ports and announced eight new destinations, including Rome, Seoul and Delhi.

Jetstar suffered significant financial losses in New Zealand, Singapore and Japan due to continued border restrictions plus restart costs as flying gradually returned.

Globally, airlines are constrained by aircraft and labour availability in returning to pre-COVID capacity levels despite high levels of demand. While this situation is temporary it is driving strong yields across the Group's international flying, which are offsetting the significant rise in the cost of jet fuel.

QANTAS LOYALTY

Loyalty achieved a significant increase in revenue, up 36 per cent to $1.33 billion. Underlying EBIT rose by 7 per cent across the year and increased by double digits in the second half as consumer patterns changed out of lockdowns. The division has performed strongly throughout the pandemic by focusing on its value to members and, by extension, its program partners.

A decision to lower the number of points required for hotel and holiday redemptions in February 2022 helped drive a 40 per cent increase in bookings in 4Q22.

Acquiring a majority stake in online travel business TripADeal in May 2022 opened up new ways for members to earn and redeem points, and also offered a significant growth opportunity. TripADeal's sales rose 70 per cent in the first month following the acquisition compared with the month prior and with the same period in 2019. Over 150 million points have already been redeemed and 120 million points earned by Frequent Flyers on TripADeal packages.

During the year, agreements were renewed with all five major financial services partners as well as Woolworths. New partnerships were launched with Accor, Optus and Zip. Qantas Business Money was launched and will expand further in FY23.

Frequent Flyer members grew to 14.1 million during FY22, reflecting a total increase of around 1 million since the start of the pandemic.

FINANCIAL FRAMEWORK

Strong revenue intakes, plus the sale of surplus land, helped the Group to lower its net debt to $3.94 billion, taking it below the optimal target range of $4.2–$5.2 billion. Total liquidity at 30 June 2022 was $4.6 billion including $3.3 billion cash.

A further $270 million in cost benefits were realised in FY22, bringing the total achieved under the Group's COVID recovery plan to $920 million since FY20. The annualised benefit of $1 billion is on track from FY23 onwards.

Qantas was one of only six airlines to retain an investment grade credit rating through the pandemic and, during the year, had its outlook upgraded to 'stable' by Moody's.

The Board has approved an on-market share buyback of up to $400 million as the benefits of the recovery materialise. This is the first return to shareholders since 2019 and follows $1.4 billion of equity raised at the start of the pandemic.

INVESTING IN OUR CUSTOMERS

In addition to investment in operational performance, the Group is delivering the following improvements to customer experience:

- Introduction of a new route – Auckland to New York – from June 2023, using the 787 Dreamliner. This will be timed to offer convenient connections to Qantas' flights between Australia and New Zealand.
- Major improvements to several lounges starting progressively from late this year:
  - Creation of a Business Lounge in Adelaide (in addition to the existing Qantas Club) and full renovation of the Chairmans Lounge.
  - Complete upgrade of Qantas' Auckland lounge.
  - Port Hedland and Rockhampton lounges to be upgraded and expanded.
- As recently announced:
  - A $50 voucher offered to all Frequent Flyers towards their next Qantas flight.
  - Extension of the increase in Classic Reward redemption seats by up to 50 per cent for a further 12 months.
  - Complimentary extension of Frequent Flyer status (Silver through to Platinum One) for a further 12 months.

These improvements represent an investment of more than $400 million.

(See separate release for more detail on lounges and Auckland-New York.)

INVESTING IN OUR EMPLOYEES

The Group is delivering a record amount of training with more than 1,500 people joining the organisation and around 1,000 internal appointments made since April 2022. A new flight training centre in Sydney is scheduled to open by the end of calendar 2023 and a new cabin crew training centre has been officially opened in Mascot today.

The Staff Travel scheme will be made more generous, with better access for family members and an expansion of the already significant fare discounts on standby travel.

The Group expects to spend approximately $50 million on pay increases for EBA-covered employees as agreements are finalised in FY23, taking the average non-executive salary at Qantas to more than $100,000. This is in addition to approximately $200 million being set aside for a $5,000 recovery boost payment and 1,000 share rights for more than 17,000 people.

FLEET

All Qantas and Jetstar aircraft based in Australia and New Zealand have returned to flying, with the exception of some Airbus A380s. Five A380s with updated interiors have now returned to service with the remaining five to follow by December 2023 once mid-life maintenance is completed.

In July, Jetstar took delivery of its first Airbus A321LR, which is 15 per cent more fuel efficient than its existing A320s. This is the first of almost 300 next-generation narrow-body aircraft arriving across the Group in the next 10 years, which will improve emissions, noise, customer experience and route economics.

Work associated with the entry into service for the Airbus A220 and A321XLR for Qantas Domestic, and the A350 for Qantas International, is underway.

Qantas International is due to receive its three remaining Boeing 787-900s by the end of FY23. Qantas Freight will receive two converted A330s in the second half of calendar 2023 and six A321F freighters from early calendar 2024 onwards to replace five 737-400Fs and help meet demand from a permanent increase in e-commerce from key customers, including Australia Post.

OUTLOOK[1]

The Group has entered FY23 with its balance sheet repair process effectively complete, strong levels of travel demand and a clear path to improving its COVID-related operational challenges. Based on current forecasts, key settings and assumptions for FY23 include[2]:

- Recovery plan to be completed in FY23, delivering $1 billion in annual cost reduction. Parallel focus on offsetting CPI from FY19 to FY23 through additional cost and revenue initiatives.
- Fuel cost for FY23 expected to be $5.0 billion, driven by a ~60 per cent increase in fuel prices compared to FY19.
- RASK performance expected to fully recover increased fuel prices across the Group as well as temporary unit cost increase associated with addressing operational challenges.
- Group Domestic capacity reduced by a further ~10 percentage points[3] in response to higher fuel costs and operational challenges. Some capacity may be restored once operational resilience improves.
    - 1H23 – 95 per cent of pre-COVID levels
    - 2H23 – 106 per cent of pre-COVID levels
- Group International capacity to increase as more A380s and 787-900s enter service and overseas borders continue to reopen.
    - 1H23 – 65 per cent of pre-COVID levels
    - 2H23 – 84 per cent of pre-COVID levels
- Qantas Loyalty Underlying EBIT to increase to $425-450 million for FY23.
- Strong yields in Qantas Freight expected to moderate but remain above pre–COVID levels.
- Underlying depreciation and amortisation for FY23 expected to be $1.8b.

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Authorised for release by Qantas' Board of Directors

[1] Please refer to slides 32 to 35 in the Qantas Group's Investor Presentation for more detail and assumptions on FY23 Outlook.
[2] These outlook statements are predicated on the Group's current assessment of the profile of key external factors that will impact the Group's financial performance, including economic conditions, supply chain profile and public health settings.
[3] Compared with assumptions given in 24 June 2022 Market Update.