ASX/Media Release

QANTAS GROUP DELIVERS STRONG PERFORMANCE IN FIRST HALF FY20

- Underlying Profit Before Tax: $771 million (down 0.5%)
- Statutory Profit Before Tax: $648 million (down 6.2%)
- Record revenue for the Group and record profit for Loyalty
- Statutory Earnings Per Share: 28.8c (up 3.2%)
- Return On Invested Capital: 19.6%
- Net free cash flow: $213 million
- Shareholder return of up to $351 million: 13.5 cents per share fully franked dividend (up 12.5% from 1H19) plus an off-market share buy-back of up to $150 million
- Coronavirus response: Group International capacity to Asia cut by 15 per cent to at least end of May; flexibility to adjust up or down depending on developments. Annual leave program to manage employee impact
- Impact of Coronavirus after capacity adjustments and lower fuel costs on FY20 Underlying EBIT is estimated at $100 million – $150 million.

Sydney, 20 February 2020: The Qantas Group continued to deliver strong earnings in a mixed market in the first half of FY20, with an Underlying Profit Before Tax of $771 million and a Statutory Profit Before Tax of $648 million.

The Underlying result was $4 million less than the same period last year – despite $51 million in higher foreign exchange related cost impacts, a $68 million impact from global freight weakness and disruption in Hong Kong, and a $55 million increase in operating costs from the sale of domestic airport terminals.

The strong performance despite these factors was underpinned by capacity discipline, ongoing transformation and growing share in key markets.

The Group has triggered a response to mitigate the impact of Coronavirus on second half earnings, which is focused on cutting capacity on affected markets and retaining flexibility to scale this response up or down as circumstances require.

CEO COMMENTARY ON FIRST HALF PERFORMANCE

Qantas Group CEO Alan Joyce said: “Overall, our performance in the first half was very positive and it shows we remain in a strong position going forward.

"In the domestic market we dealt with some travel demand weakness and a structural change in our overheads from the sale of domestic terminals. Fundamentally, Qantas and Jetstar both did well.

"Internationally, the growth in passenger revenue outweighed the impact of disruption in Hong Kong and a freight market affected by trade wars. Our ultra-long haul routes like Perth-London continue to perform extremely well.

"Loyalty achieved another record result. The overhaul of the Frequent Flyer program has increased member engagement, which is key to the program's long-term success."

GROUP DOMESTIC

The fundamentals of Group Domestic remained strong in the first half but headwinds saw a reduction in Underlying EBIT – down $47 million to $645 million – compared with the record achieved in the prior corresponding period.

There was some improvement in travel demand in the second quarter, and continued market capacity reductions helped to support yields.

Qantas Domestic's Unit Revenue increased by 0.9 per cent but higher airport costs led to an overall Underlying EBIT reduction of 2.7 per cent to $465 million. The premium airline maintained its lead in corporate market share and continued to grow its share of small-to-medium enterprise travel, helped by a 26 per cent growth in Qantas Business Rewards members. Earnings from the resources sector continued to increase; resources-related capacity is planned to grow by around 10 per cent in the second half and the Group is assessing moving additional A320s into the WA market.

Jetstar Domestic's Underlying EBIT was $180 million, down 16 per cent due to pockets of demand weakness, the impact of higher foreign exchange related costs and industrial action.

Jetstar ancillary revenue rose by 7 per cent per passenger off the back of new products and Club Jetstar membership increased by 10 per cent.

GROUP INTERNATIONAL

Group International Underlying EBIT rose by $4 million to $162 million.

Qantas International achieved a 2.5 per cent increase in Underlying EBIT to $122 million. Its 6 per cent increase in Unit Revenue was helped by a 2 per cent decrease in competitor capacity.

The airline continues to benefit from the 747-to-787 fleet transition and the ultra-long haul network opportunities this opens up. Perth-London continued to outperform and new routes from Brisbane to Chicago and San Francisco went on sale in the first half. The joint business with American Airlines started in October and is performing above expectations.

Jetstar International's routes into South East Asia and Japan did well but a lower Australian dollar impacted price sensitive leisure demand to markets impacted by a strong US dollar. Foreign exchange related costs had a particular impact on Jetstar given its relatively low proportion of US dollar revenue compared with Qantas International.

Jetstar withdrew from loss-making regional routes in New Zealand in December, with jet services continuing to operate domestically.

Jetstar Japan was profitable but Jetstar Pacific (Vietnam) was exposed to significant competitor capacity additions while Jetstar Asia (Singapore) remained challenged by higher airport costs.

QANTAS LOYALTY

Qantas Loyalty continued its earnings growth momentum, with Underlying EBIT up 12 per cent to $196 million.

An overhaul of the Frequent Flyer program helped drive an increase in member engagement. Over 400,000 flights were taken by members who had not redeemed any in the past 18 months and there was a 22 per cent increase in seats redeemed in premium international cabins.

Member engagement levels also translated into a record number of total points earned across Qantas Loyalty – including a record number from credit cards and an increase from Woolworths customers following improvements to that partnership.

There was also revenue growth from new businesses including Qantas-branded credit cards, health insurance and the new car insurance venture that launched in October.

FINANCIAL FRAMEWORK AND FLEET

The Group met all targets of its financial framework during the half. Strong cashflow helped to keep net debt at the lower end of the target range, at $5.3 billion. Debt maturity has been improved and short term liquidity remained strong at $1.7 billion in cash and a further $1 billion in undrawn facilities.

Qantas International took delivery of three 787-9 Dreamliners during the first half (taking the total fleet to 11) and retired one 747 (with six remaining).

The Airbus A350-1000 was selected as the preferred aircraft for Project Sunrise, with an order for up to 12 aircraft depending on finalisation of the business case. A final decision is expected by the end of March 2020.

REWARDING SHAREHOLDERS

The Group returned $647 million to shareholders in the first half through dividends and an off-market share buy-back.

In line with its financial framework, the Group has today announced a further return of up to $351 million. This is made up of an increased 13.5 cents per share fully franked dividend (up from 12 cents in 1H19) to be paid on 9 April 2020 with a record date of 3 March 2020, and an off-market share buy-back of up to $150 million that is expected to use all available franking credits. Detail on the buyback is available via https://investor.qantas.com/.

QANTAS GROUP CORONAVIRUS RESPONSE

The Qantas Group has taken immediate action in response to demand weakness as a result of the evolving Coronavirus situation, focused chiefly on capacity management. *(See separate release for details.)*

Mr Joyce said: “Coronavirus resulted in the suspension of our flights to mainland China and we’re now seeing some secondary impacts with weaker demand on Hong Kong, Singapore and to a lesser extent, Japan. Other key routes, like the US and UK, haven’t been impacted.

“We’re taking action now to limit our exposure to softening markets. The Group’s total capacity to Asia will reduce by 15 per cent from now until at least the end of May and Qantas’ only route to mainland China (Shanghai) will remain suspended for the same period.

“A sudden capacity reduction like this will have an impact on our people, which we’re working to minimise through annual leave.

“We’ve also seen some domestic demand weakness emerging in February, so we’re adjusting Qantas and Jetstar’s capacity by about 2 per cent in the second half.

“What’s important is that we have flexibility in how we respond to Coronavirus and how we maintain our strategic position more broadly. We can extend how long the capacity cuts are in place, we can deepen them or we can add seats back in when demand rebounds, which we know it will.

“Ultimately, when you look across our portfolio, we’re in a much stronger position than many of our peers and that gives us confidence in our business despite some external uncertainty.”

OUTLOOK

Through mitigants such as capacity cuts and the anticipated benefit from recent material falls in fuel costs, the Group expects the net negative impact of Coronavirus to be between $100 million and $150 million EBIT in 2H20. This is based on current analysis of an evolving situation and will be updated at the Q3 Trading Update in April.

Current assumptions for FY20 are:

- Group capacity in 2H20 is expected to decline by 3.8 per cent across international (reductions focused on Asia network; growth on US routes) and decline by 2.3 per cent in domestic.
- For purposes of comparison, fuel cost before capacity reductions is expected to be $3.85 billion; the fuel price benefit and reduced consumption from capacity changes announced today has been factored into the net impact figure for Coronavirus.
- Transformation benefits expected to be ~$400 million.
- Gross capital expenditure is expected to be $2.0 billion for FY20, with $1.3 billion of this spent in the first half.
- Underlying depreciation and amortisation net of interest expense expected to be ~$100 million higher than FY19.
- Sale of domestic terminals is expected to reduce earnings by $100 million, including $70 million non-cash.

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