ASX/Media Release

QANTAS GROUP POSTS HALF YEAR LOSS; FOCUSING ON CASH GENERATION TO REPAIR BALANCE SHEET

- Underlying Loss Before Tax: $1.03 billion
- Statutory Loss Before Tax: $1.47 billion
- $6.9 billion revenue impact from COVID-19 crisis in HY21 (down 75%)
- Underlying operating cash flow: $1.05 billion
- Total liquidity of $4.2 billion, providing capital for restructuring and buffer against uncertainty
- Domestic airlines generating positive underlying cash flow
- Losses in Qantas International offset by record Qantas Freight performance
- Continued strong cash generation by Qantas Loyalty
- Restructuring program on track to deliver $0.6 billion in cost benefits in FY21
- International flying now aiming to restart end-October 2021

Sydney, 25 February 2021: The Qantas Group has continued to navigate the impacts of the COVID crisis as it positions the company for recovery and balance sheet repair.

In the six month period – which covered Victoria's extended lockdown and nationwide border closures – the Group managed to limit a $6.9 billion drop in revenue into a $1.03 billion Underlying Loss Before Tax.

The Group generated Underlying EBITDA of $86 million, reflecting the fundamental resilience of the portfolio.

The Group's Statutory Loss Before Tax was $1.47 billion. This included further redundancy and restructuring costs of $284 million (in addition to the $642 million provided for in FY20) and a further $71 million writedown of the A380 fleet in-line with its Australian dollar market value.

CEO COMMENTS

Qantas Group CEO Alan Joyce said: "These figures are stark but not surprising.

"During the half we saw the second wave in Victoria and the strictest domestic travel restrictions since the pandemic began. Virtually all of our international flying and 70 per cent of domestic flying stopped, and with it went three-quarters of our revenue.

"Despite the huge challenges, these results show the Group's underlying strength.

"When we had the opportunity to fly domestically, we saw significant pent up travel demand and generated positive cash flow.

"Qantas Loyalty still had significant income because the program has evolved to the stage where the vast majority of points are earned from activity on the ground. Qantas Freight had a record result and has been a natural hedge to the lack of international passenger flying, which has created a shortage of cargo space globally.

"These factors couldn't overcome the massive impact of this crisis, but they have softened it.

We've maintained a high level of liquidity because we were quick to cut costs and because we've been able to raise debt and equity. This gives us the breathing room to deal with the levels of uncertainty we're still facing, and funding for the restructuring that will ultimately speed up our recovery.

"Our priorities remain the safety of everyone who travels with us, getting as many of our people back to work as possible and generating positive cash flow to repair our balance sheet.

"The COVID vaccine rollout in Australia will take time, but the fact it's underway gives us more certainty. More certainty that domestic borders can stay open because frontline and quarantine workers will be vaccinated in a matter of weeks. And more certainty that international borders can open when the nationwide rollout is effectively complete by the end of October."

GROUP DOMESTIC

The Group's domestic flying operations across Qantas, QantasLink and Jetstar generated positive underlying cashflow despite a circa 70 per cent decline in both revenue and capacity.

Underlying EBITDA was positive $71 million, with depreciation and amortisation taking this to an EBIT loss of $407 million.

Improved planning processes have allowed rapid network and schedule changes that minimise exposure to sudden border closures and maximise revenue opportunities within a patchwork of restrictions. Twenty-three new domestic routes were announced in response to changing demand patterns as people looked for opportunities to travel within Australia. More new routes are planned in the second half.

Continued demand from the resources sector provided strong cashflow, with four additional Airbus A320s moved to Western Australia to support growth.

Broader restructuring will deliver significant and ongoing unit cost improvements across Qantas and Jetstar, with further cost reductions to be realised in the second half.

The Group's domestic market share rose to around 70 per cent, helped by the addition of more than 20 large corporate accounts as well as growth in small-to-medium enterprises choosing Qantas in particular.

Both Qantas and Jetstar saw extremely strong leisure demand during periods when travel restrictions eased. Jetstar saw a trebling of bookings in November, with more than 250,000 bookings during sale activity.

GROUP INTERNATIONAL AND FREIGHT

Continued border closures meant international operations remained largely grounded throughout the first half, resulting in an Underlying EBITDA loss of $86 million for Group International, with depreciation and amortisation taking this loss to $549 million. This was mostly driven by the cost of carrying the assets in these businesses but partly offset by a record performance by Qantas Freight.

The lack of passenger flights has created a temporary global shortage of space for cargo at a time when e-commerce is also surging – which Qantas Freight has been able to capitalise on. While this will ease when more international passenger services resume, much of the increased demand for e-commerce is expected to continue.

Qantas Freight received its first of three Airbus A321 freighters in October, taking its total operational fleet to 19. In addition, some of the Group's passenger A330s and 787s are being used for freight-only operations.

Repatriation services operated on behalf of the Australian Government, plus flights to New Zealand as part of a one-way bubble arrangement, meant the Qantas Group operated 8 per cent[1] of its pre-COVID flying – providing important operational readiness for the eventual opening of borders.

Jetstar airlines in Asia had their own COVID-related impacts, which couldn't be softened to the same extent as Australian-based parts of the Group. In response, cash outflows and fleet sizes are being reduced, including six A320 aircraft from Jetstar Japan that will be relocated to the Australian domestic market given opportunities locally for cash positive flying.

QANTAS LOYALTY

Qantas Loyalty generated a strong cash contribution of $454 million despite limitations on travel redemptions and a 10 per cent decline in total credit card spending on Qantas Points Earning Credit Cards – two of its main revenue drivers.

Underlying Earnings Before Interest and Tax were $125 million (down 29 per cent versus pre-COVID).

Loyalty's performance showed the benefits of diversifying the program in recent years, as well as high levels of engagement from members continuing to earn points on the ground.

Qantas health insurance grew in a generally static market and an expansion into home insurance was launched in December 2020. Shifts in consumer behaviour during lockdown saw record revenue for Qantas Wine (up 74 per cent) and the Qantas Rewards Store (up 41 per cent).

Frequent Flyers continue to prioritise using their points for travel, with record levels of redemptions for flights (up 2.5 times) when domestic travel restrictions eased in November. A further spike is expected once international travel resumes, which will also drive earnings.

Qantas Loyalty signed multi-year deals with three of the major banks, including a significant expansion with Commonwealth Bank to be rolled out later this calendar year. A new and much broader partnership with Accor will also launch in mid-2021.

LOOKING AFTER CUSTOMERS

Looking after customers remains core, with a focus on creating COVID-safe environments across Qantas and Jetstar and offering high levels of flexibility to help offset uncertainty on borders. Recent initiatives and improvements include:

- **Fly Well –** using technology to minimise physical contact at airports; social distancing in lounges; providing masks and sanitising wipes on board; and enhanced cleaning throughout. (The allied Work Well program applies COVID-safe principles for employees in both frontline and office-based roles.)
- **Fly Flexible –** offering unlimited date changes on all Qantas domestic and international fares through to at least February 2022, removing the biggest barrier to booking while border uncertainty persists.
- **Rewarding loyalty –** a further 12 month status retain offer for Frequent Flyers; offering status match to high-tier members of other airline programs; and increasing the number of reward seats on domestic flights by 50 per cent.
- **Better value –** extending complimentary drinks service on all Qantas domestic flights, in addition to existing inclusions like free Wi-Fi on 737s; eligible customers have access to 35 domestic lounges compared to the main competitor's seven; Jetstar domestic fares as low as $19.
- **Extension of flight vouchers –** Qantas has extended credit vouchers to enable travel until 31 December 2023 on domestic or international flights, with Jetstar doing the same for vouchers issued due to COVID-19 disruptions.

[1] On a block hours basis.

With the decision announced today to delay the restart of scheduled international flights (with the exception of Trans Tasman) from 1 July 2021 to 31 October 2021, impacted Qantas and Jetstar customers will be contacted directly and offered alternatives. *(See separate release for more detail.)*

FINANCIAL FRAMEWORK

The Group is one of only eight airlines in the world to retain an investment grade credit rating through the pandemic.

It maintains strong liquidity despite the revenue impact of travel restrictions and one-off redundancies, refunds and supplier payments. As at 31 December 2020, total cash was $2.6 billion and committed undrawn facilities were $1.6 billion (an increase of $600 million). Net debt was $6.05 billion.

The Group has more than $2.5 billion in unencumbered assets.

Net capital expenditure was $514 million in the first half, mostly for maintenance on the Group's fleet.

RECOVERY PROGRAM

Key to the Group's recovery from the COVID crisis is its plan for major restructuring over three years. This will deliver at least $1 billion in permanent annual savings from FY23 onwards.

The interim target of $600 million in permanent savings for FY21 remains on track.

As previously announced, this unfortunately involves the difficult decision of at least 8,500 people leaving the organisation. More than 5,000 have left so far with the remainder to have left by the end of FY21. A total of 14,500 full time equivalent roles are now stood up while around 11,000 full time equivalent roles remain stood down, most of which are associated with international flying.

Significant permanent savings are also being achieved through the following:

- New deals with major travel agents, reducing cost of sale.
- Rationalisation of the Group's property footprint, including handback or subleasing of surplus office space. Finalisation of a major review, which includes Qantas and Jetstar head offices, is expected by the end of March.
- Renegotiation of supplier deals (including expiring aircraft leases).

GOVERNMENT SUPPORT

Continued assistance from the Federal Government has helped the Group and thousands of its people deal with the profound impact of COVID-related travel restrictions.

The majority of this assistance has been in the form of JobKeeper payments that flowed directly to Qantas Group employees who are not working.

Support for regional and domestic passenger flights, and for some international freight routes, which would not otherwise have been commercially viable, helped to keep key transport links active.

Since the start of the pandemic, the Group has operated more than 200 flights as part of repatriation efforts by the Federal Government to bring Australians home from countries including India, UK, France and South Africa.

OUTLOOK

Recent domestic border closures have delayed the Group's recovery by an estimated three months. Based on a variety of factors, the working assumption for international travel to restart has moved to the end October 2021, with the exception of a material increase in trans-Tasman flying scheduled for July 2021.

Despite these setbacks, the Group's liquidity, position in the domestic market and progress towards restructuring gives confidence that the overall recovery plan remains on track. This is bolstered by the latest data on vaccine effectiveness and the increased pace of rollout globally.

Key assumptions for FY21 are:

- Group Domestic capacity expected to increase to 60% of pre-COVID levels in 3Q21 and 80% in 4Q21.
- Group International capacity currently at approximately 8% of pre-COVID levels (trans-Tasman and repatriation flights) on a block hours basis and unlikely to materially increase during 2H21. However, this level of activity reduces cost and lead time for re-activating the international network.
- Impact of domestic border closures since December 2020 on 2H21 EBITDA estimated to be ~$350-450m (exacerbated by coinciding with peak travel period).
- Continuing to manage the business to a positive net free cash flow (excluding one-offs).
- Net debt expected to peak in 2H21; balance sheet repair to begin in 4Q21.

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

Investor Relations Enquiries: **+61 419 871 138 francesvanreyk@qantas.com.au**

Authorised for release by Qantas' Board of Directors.