CEO Remarks

HY22 RESULTS – QANTAS GROUP CEO ALAN JOYCE

Sydney, 24 February 2022

Good morning.

Can I start by acknowledging the traditional owners of the land we're meeting on, and pay my respects to their elders – past, present and emerging.

Today, the Qantas Group has announced an underlying loss before tax of $1.28 billion dollars, and a statutory loss before tax of $622 million.

It's our fourth statutory half year loss in a row, as we continue to deal with the twists and turns of COVID. It takes our total statutory losses since the start of this crisis to well over $6 billion and revenue losses to more than $22 billion.

A lot happened in the six months covered by these results – even by COVID standards.

Just as domestic travel was returning to pre-pandemic levels, the Delta outbreak in July cut the majority of Australians off from each other for months.

In those months, people came out in droves to get vaccinated – which meant lockdowns could end and international borders could open much earlier than expected.

And then, just as demand was building again for the Christmas holidays, the Omicron variant emerged – putting another dent in consumer confidence.

In all honesty, it's been a real rollercoaster.

PATHWAY TO RECOVERY

But, we have kept focus.

As all of this was happening, the Qantas Group made a series of decisions that meant we finished the half in better shape than the circumstances would suggest.

Firstly, we were quick to adjust capacity as events unfolded.

We cut services overnight as various state borders slammed shut. Across the half, domestic flying averaged just 42 per cent of pre-COVID levels.

But Qantas and Jetstar launched 15 new routes in the half, aimed at serving the places where people could travel. New city pairs like Adelaide to Cairns or Brisbane to Albury, performed really well, when borders allowed.

When international borders opened early in November, we were one of the first carriers ready to go on sale, and captured a lot of pent up demand – including on our new flights to India.

In the past few weeks, as more border restrictions have dropped away, we've seen international bookings strengthen even further. In mid-February, we had our best week for international ticket sales since pre-COVID.

We'll get more positive momentum from Western Australia opening in March. Qantas certainly wasn't the only business caught short when that opening was delayed. We had relied on that date and we've lost more than $60 million as a result. Not to mention the thousands of customers who were disappointed. Hopefully, we can count on this new date and rebuild confidence in travelling to Western Australia.

Despite all the uncertainty in the half, over 90 per cent of our passenger flights were cash positive. And across all of our flying businesses, we brought in close to $700 million more in revenue compared with the prior first half.

That includes another record profit from Qantas Freight, which has been a natural hedge against the downturn in international passenger flights – and the cargo capacity that goes with them.

Another key decision we made was the sale of surplus land in Mascot. That sale of $802 million – which took advantage of a surging property market – is the main reason we're back within our target debt range, well ahead of schedule.

We've continued growing Qantas Loyalty. We've expanded our program partners, which has helped drive earnings. We've reinvested in more reward seats on flights and reduced the points for a holiday or hotel by at least 30 per cent. That's kept our members highly engaged, which is the bedrock for the program's continued success.

We've also offered customers more flexibility. Understandably, people were gun shy about booking flights with all the uncertainty. Relaxing fare conditions gave customers the confidence that if circumstances change, it's much easier to change your flight. By doing that, we removed one of the biggest blockers to forward bookings.

People have through till December 2023 to use any outstanding flight credits. And they can use them on either domestic or international flights. It's the most generous policy we've ever had on credits and it's great to see people starting to use them as travel comes back.

We pressed ahead with our recovery program, which is running ahead of schedule. We've now taken around $400 million of cost out of Qantas Domestic and over $300 million out of Qantas International. These savings are a combination of us being more efficient, taking costs out of our head office and restructuring our operations.

These are annual saving figures based on pre-COVID activity levels and will total at least $1 billion by the end of FY23. That means we can repair our balance sheet faster, and why we have the confidence to make upcoming investment decisions that I'll touch on shortly.

INVESTING IN OUR PEOPLE – BONUS SCHEME

We've already made a significant investment in our people. At the start of December, we made the decision to stand up all of our Australian-based employees. For some international crew, that call came six months ahead of schedule.

The impact of Omicron means we don't have the level of flying we expected – but have continued to pay our people regardless, and are using the time for training where we can.

The impact of higher labour costs – *without* all the revenue to support it – will have a material impact on the third quarter. This is expected to equalise in the fourth quarter, but we believe the decision to end the uncertainty of stand down was the right one.

Today, we announce another significant investment in our people.

Our non-executive employees – around 20,000 people – will be eligible for 1,000 Qantas shares each. This is part of a retention and reward program to say thank you. Thank you for sticking with us. And thank you for all your work towards getting the national carrier back on its feet.

Eligible employees will receive 1,000 rights, which will convert to shares in August next year provided some key conditions are met – in particular:

- that they stay with the company until then;
- and that we deliver on our recovery program.

At today's share price, this award is worth over $5,000 per employee. But it could be worth a lot more by the time it vests, given our focus on growing long term shareholder value and given our recovery program. Seeing that value rise would be a great result for our people and our shareholders.

These will be new shares, issued by Qantas direct to employees.

Managers and senior executives will also be eligible for share rights, based on the same performance and service conditions as non-executives. This comes after:

- three years of no annual bonuses;
- two years of wage freezes;
- and the demands of guiding this company through a terrible crisis.

It has been a tough few years and retention is an issue among our managers and executives.

As our Chairman said at last year's AGM – it was not a forgone conclusion that Qantas would survive this pandemic. The hard work of our people has been a key factor and we need to retain their skills and experience into the future.

We're still having difficult conversations about changes we need to make in some parts of the business. But we want everyone who contributes to our recovery to share in the success when the time is right.

FUTURE FOCUS – SUSTAINABILITY AND FLEET

COVID has forced us to focus on the near term for much of the past two years. So, let me wrap up by talking briefly about two things that we are focused on for the longer term.

The first is sustainability.

We know the importance of mapping out a clear path to net zero emissions by 2050. And a lot of work is already happening – including a shift to Sustainable Aviation Fuel, which cuts emissions by up to 80 per cent. Next month, we'll be releasing more detail on our broader sustainability strategy, including our interim 2030 emissions target and the steps to get there.

The second is fleet renewal.

Subject to Board approval, we expect to finalise the order for our domestic fleet renewal with Airbus – a decade long program that we call Project Winton – by mid calendar year. These aircraft will be the backbone of Qantas Domestic, will deliver a big reduction in fuel consumption, and represent a huge part of our future.

Work has also resumed on Project Sunrise. Our latest customer research shows the demand for direct long-haul flights is even stronger than it was pre-COVID, so our focus on delivering non-stop services from Sydney and Melbourne to New York and London remains.

We know the road to recovery still has some way to go. But as Australia completes its shift to truly living with COVID, we can see things are stabilising. In the past month alone, I've travelled to Brisbane, Hobart, Melbourne and Darwin – and the airports are getting busier and busier. Our forward bookings in the past few months have been very encouraging and keep trending upwards. And the Qantas Group is in a strong position to keep serving Australia well into the future.

Thank you.

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