QANTAS

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Qantas Group Post-COVID Recovery Plan and Equity Raising

Qantas Airways Limited attaches the "Qantas Group Post-COVID Recovery Plan and Equity Raising" ASX and Media Release.

Yours faithfully,

Andrew Finch
Group General Counsel and Company Secretary

Authorised for release by Qantas' Board of Directors.

oneworld

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ASX and Media Release

QANTAS GROUP ANNOUNCES POST-COVID RECOVERY PLAN AND EQUITY RAISING FOR A STRONGER FUTURE

Sydney, 25 June 2020

- Three year strategy to guide recovery and return to growth in changed market.
- Costs reduced by $15 billion during three year period of lower activity; $1 billion in ongoing cost savings per annum from FY23.
- Around 100 aircraft to be grounded for up to 12 months; some for longer.
- Job losses and extended stand downs to manage long period of reduced flying (especially internationally).
- Equity raising of up to $1.9 billion to accelerate recovery and position for new opportunities.
  - Approximately $1.4 billion fully underwritten[1] institutional Placement and up to $500 million non-underwritten Share Purchase Plan[2].
  - Issue price for new shares under the Placement of $3.65.
  - Pro forma liquidity of $4.6 billion following completion of the underwritten Placement and before the SPP proceeds, with $3.6 billion of cash and $1.0 billion of undrawn facilities.

The Qantas Group has announced a three year plan to accelerate its recovery from the COVID crisis and create a stronger platform for future profitability, long-term shareholder value and to preserve as many jobs as possible.

The immediate focus of the plan is to:

- **Rightsize** the Group's workforce, fleet and other costs according to demand projections, with the ability to scale up as flying returns.
- **Restructure** to deliver ongoing cost savings and efficiencies across the Group's operations in a changed market.
- **Recapitalise** through an equity raising to strengthen the Group's financial resilience for recovery and the opportunities it presents.

Subsequent phases of the plan focus on the increasing ramp up of flying and pursuing new opportunities – including the airline's ambition for more non-stop international flights.

The plan is designed to account for the uncertainty associated with the crisis, preserving as many key assets and skills as the Group can reasonably carry to support the eventual recovery. COVID represents the biggest challenge ever faced by global aviation and the Group's response to the crisis is scaled accordingly. This unfortunately means a large number of job losses across Qantas and Jetstar.

The plan targets benefits of $15 billion over three years, in line with reduced flying activity including fuel consumption savings, and delivering $1 billion per annum in ongoing cost savings from FY23 through productivity improvements across the Group. Key actions of the plan include:

- Reducing the Group's pre-crisis workforce by at least 6,000 roles across all parts of the business.
- Continuing the stand down for 15,000 employees, particularly those associated with international operations, until flying returns.
- Retiring Qantas' six remaining 747s immediately, six months ahead of schedule.

[1] Refer to Appendix C of the Investor Presentation for a description of the terms and conditions of the underwriting arrangements.
[2] Qantas may, in its absolute discretion, scale back SPP applications above the cap amount or apply a higher cap to the SPP and scale back applications over the higher cap.

- Grounding up to 100 aircraft for up to 12 months (some for longer), including most of the international fleet. The majority are expected to ultimately go back in to service but some leased aircraft may be returned as they fall due.
- A321neo and 787-9 fleet deliveries have been deferred to meet the Group's requirements.

The cost of implementing the plan is estimated at $1 billion, with most of this realised during FY21.

CEO COMMENTARY

Announcing the plan Qantas Group CEO Alan Joyce said: "The Qantas Group entered this crisis in a better position than most airlines and we have some of the best prospects for recovery, especially in the domestic market, but it will take years before international flying returns to what it was.

"We have to position ourselves for several years where revenue will be much lower. And that means becoming a smaller airline in the short term.

"Most airlines will have to restructure in order to survive, which also means they'll come through this leaner and more competitive. For all these reasons, we have to take action now.

"Adapting to this new reality means some very painful decisions. The job losses we're announcing today are confronting. So is the fact thousands more of our people on stand down will face a long interruption to their airline careers until this work returns.

"What makes this even harder is that right before this crisis hit, we were actively recruiting pilots, cabin crew and ground staff. We're now facing a sudden reversal of fortune that is no one's fault, but is very hard to accept.

"This crisis has left us no choice but we're committed to providing those affected with as much support as we can. That includes preserving as many jobs as possible through stand downs, offering voluntary rather than compulsory redundancies where possible, and providing large severance payouts for long serving employees in particular.

"As we've done throughout this crisis, our decisions are based on the facts we have now and the road we see in front of us. Our plan gives us flexibility under a range of scenarios, including a faster rebound or a slower recovery.

"Despite the hard choices we're making today, we're fundamentally optimistic about the future. Almost two-thirds of our pre-crisis earnings came from the domestic market, which is likely to recover fastest – particularly as state borders prepare to open. We have the leading full service and low fares airlines in Australia, where distance makes air travel essential, and diversified earnings through Qantas Loyalty.

"We still have big ambitions for long haul international flights, which will have even more potential on the other side of this.

"As a business, recapitalising means we can get ready sooner for new opportunities, returning to profit and building long term shareholder value. As the national carrier, we remain committed to supporting tourism, connecting regional communities and safely flying millions of people every year."

EQUITY RAISING

The Board has today announced that the Group will seek to raise up to $1.9 billion, comprising of a fully underwritten[3] institutional Placement to raise approximately $1,360 million and a non-underwritten Share Purchase Plan for eligible existing shareholders to participate of up to $500 million[4].

Proceeds from the Equity Raising will be used to accelerate the Group's recovery, strengthen its balance sheet and position it to capitalise on opportunities aligned with its strategy.

The Placement issue price of $3.65 per share represents a 12.9% discount to the last traded price of $4.19 on 24 June 2020.

The approximately 372.7 million new fully paid ordinary shares issued under the Placement represents a 25% increase to total shares on issue – which itself has decreased by more than a third through share buybacks in recent years.

(See Transaction Summary at end of release plus full Investor Presentation here.)

[3] Refer to Appendix C of the Investor Presentation for a description of the terms and conditions of the underwriting arrangements.
[4] Qantas may, in its absolute discretion, scale back SPP applications above the cap amount or apply a higher cap to the SPP and scale back applications over the higher cap.

IMPACT ON OUR PEOPLE

Of the Group's 29,000 people, around 8,000 are expected to have returned to work by the end of July this year. It's anticipated that this will increase to around 15,000 by the end of calendar year 2020 in line with the opening up of domestic flying, and increase further during calendar 2021 and 2022 as the international network returns, reaching 21,000 active employees by June 2022.

Redundancies are proposed to manage a surplus of around 6,000 roles, with the temporary surplus of around 15,000 managed through a mix of stand down, annual leave and leave without pay.

Stand-ups will increase as travel restrictions lift and flying returns. This allows the Group to preserve as many jobs as possible for the longer term and respond faster if recovery timelines improve.

In line with its obligations, the Group will consult with relevant unions on the proposed job losses announced today. These span the following areas of Qantas and Jetstar:

- **Non-operational –** at least 1,450 job losses, mainly in corporate roles, due to less flying activity.
- **Ground operations –** at least 1,500 job losses across airports, baggage handling, fleet presentation and ramp operations due to less flying activity.
- **Cabin crew –** at least 1,050 job losses due to early retirement of the 747s and less flying activity. A further 6,900 cabin crew will be on stand down from July 2020 onwards.
- **Engineering –** at least 630 job losses due to 747 retirement, less flying activity (particularly of the wide-body fleet) and redistribution of work from Jetstar's Newcastle base to make better use of existing maintenance capacity in Melbourne.
- **Pilots –** at least 220 job losses mostly due to early retirement of the 747s. A further 2,900 pilots will be on stand down from July 2020 onward.

Additional reduction in total roles will result from contractors, particularly in corporate areas such as IT, not returning.

ASSET IMPAIRMENTS

While most of the Group's long-haul aircraft are expected to steadily return to service over time, there is significant uncertainty as to when flying levels will support its 12 Airbus A380s. These assets will be idle for the foreseeable future, which represents a significant percentage of their remaining useful life. As a result, the carrying value of the A380 fleet, spare engines and spare parts will be written down to their fair value, resulting in an estimated non-cash impairment charge in the FY20 statutory result. This represents the majority of the asset impairment charge of $1.25–$1.4 billion, outlined in the table below. As a consequence of the writedown, future depreciation expenses will reduce.

FUEL HEDGING

The Group's fuel was fully hedged for the second half of FY20, and 90% hedged for the first half of FY21. With the significant decline in flying activity, the Group's overall capacity flown has resulted in a substantial reduction in fuel consumption from April 2020 and the anticipated decline in consumption to June 2021 will lead to the non-cash recognition of hedge ineffectiveness of $550–$600 million in the FY20 statutory result.

FY20 FINANCIAL PERFORMANCE

After reporting a strong Underlying Profit Before Tax of $771 million in the first half of FY20, the Group saw a significant reduction in revenue during the second half. By taking swift action to reduce its cash burn as travel demand evaporated, the Group expects to report a full year result between breakeven and a small Underlying Profit Before Tax.

Qantas Loyalty is expected to make the largest positive contribution to this result, with only a 5%–10% reduction in earnings compared to FY19 as a result of the impact of COVID on travel related products and credit card spend. The program continues to see strong levels of engagement, with a range of initiatives planned over the next six months to maintain and improve its value to members and partners.

Qantas Freight performed strongly, driven by major increases in ecommerce that are also expected to continue.

The table below reflects the Group's current expectations of significant items it expects to recognise outside of its Underlying FY20 result.

Items outside of Underlying FY20	1H20 Impact (previously reported)	Estimated FY20 impact (subject to review and audit processes)
Transformation costs and discretionary bonuses to non-executive employees awarded in prior years	$123 million	~$200 million
Recovery plan restructuring costs including redundancies	NIL	$600-700 million
Asset impairments including the A380 fleet (non-cash)	NIL	$1,250-1,400 million
Hedge ineffectiveness[5] (non-cash)	NIL	$550-600 million[6]
Total	$123 million	~$2.8 billion

CURRENT FINANCIAL POSITION

Following completion of the underwritten Placement, the Group's available liquidity is expected to be $4.6 billion excluding the SPP proceeds, including a $1 billion undrawn facility. As at 31 May 2020, pro forma net debt is expected to be $4.7 billion with no major debt maturities until June 2021 and no financial covenants on its debt.

CEO TENURE

At the Board's request, Alan Joyce has agreed to remain Qantas Group CEO as the recovery plan is implemented and through to at least the end of FY23. This will provide the leadership, experience and stability required as the Group navigates this incredibly challenging period.

REVOCATION OF INTERIM DIVIDEND

On 19 March 2020, the Group announced the deferral of its interim dividend due to uncertainty caused by the unfolding coronavirus crisis.

This uncertainty has now crystallised into a significant detrimental impact on the Group's earnings and cash position. Further, the fully franked nature of the interim dividend was based on franking credits expected from taxable profits in the second half, which will now not materialise.

Accordingly, the Board has decided to revoke the interim dividend, avoiding the outflow of $201 million of cash and helping to maintain strong liquidity in the face of this unprecedented crisis. Decisions on future dividends will continue to be made in-line with the Group's financial framework.

EQUITY RAISING – TRANSACTION SUMMARY

Placement

The approximately $1,360 million Placement is fully underwritten[7] and will be offered to institutional investors at $3.65 per share (**Placement Price**), representing a 12.9% discount to the last traded price of $4.19 on Wednesday 24 June 2020. The Placement will result in the issue of 372.7 million new shares (**Placement Shares**), representing approximately 25.0% of Qantas' existing shares on issue.

The Placement is being conducted today, Thursday, 25 June 2020, and Qantas' shares will remain in a trading halt pending completion of the Placement.

The Placement is within Qantas' placement capacity under the Temporary Extra Placement Capacity Class Waiver Decision (as amended) effective from 23 April 2020, and accordingly no shareholder approval is required in connection with the Placement.

It is intended that eligible existing institutional shareholders who bid for up to their 'pro-rata' share of new shares under the Placement will be allocated their full bid, on a best endeavours basis. For the remaining shares under the Placement, Qantas will seek to prioritise allocations to existing shareholders and then introduce new shareholders, in each case based on factors including likelihood of long term support for the Group, the nature of the investor, support to date and existing holdings (if applicable) and the size and timeliness of bids into the book[8].

Share Purchase Plan (SPP)

Eligible shareholders in Australia and New Zealand will have the opportunity to apply for up to $30,000 of new fully paid ordinary shares (**SPP Shares**) free of any brokerage, commission and transaction costs.

[5] Subject to fuel/fx rate movements, option time value movement and additional close out activity. Cash flows associated with hedge ineffectiveness are spread across FY19-FY23.
[6] As at 23 June 2020. Assumes forward market rates of jet fuel (USD48.33/bbl and AUDUSD 0.6931 in FY21).
[7] Refer to Appendix C of the Investor Presentation for a description of the terms and conditions of the underwriting arrangements.
[8] Refer to slides 28 and 46 to 48 of the Investor Presentation for important information regarding allocations under the Placement.

The price paid by eligible shareholders for SPP Shares will be the lesser of:

- the Placement Price; and
- a 2.5% discount (rounded down to the nearest cent) to the 5-day VWAP of Qantas shares up to, and including, the closing date of the SPP (expected to be 22 July 2020).

Qantas considers that the SPP will cater for the vast majority of its non-institutional shareholders, enabling them to participate and potentially increase their relative percentage holdings in Qantas.

The Qantas Board has determined to cap the size of the SPP at $500 million, in aggregate.

As the SPP is not underwritten, the SPP may raise more or less than this amount. If the SPP raises more than $500 million, Qantas may decide in its absolute discretion to accept applications (in whole or in part) that result in the SPP raising more than $500 million. If Qantas decides to conduct any scale back of applications, for example because the aggregate amount applied for under the SPP exceeds Qantas' requirements, the scale back will be applied on a pro rata basis to shareholdings of participating eligible shareholders at the record date of the SPP.

Further details of the SPP will be provided to eligible shareholders in due course. A SPP booklet will be sent to eligible shareholders on 2 July 2020. The closing date for applications by eligible shareholders is 22 July 2020.

Eligible shareholders wishing to acquire new shares under the SPP will need to apply in accordance with the instructions in the SPP booklet.

The Placement Shares and SPP shares will rank equally in all respects with Qantas' existing ordinary shares from the date of allotment.

A timetable in respect to the Placement and SPP is provided at Appendix A.

Under ASX listing rules, Qantas Directors are not entitled to participate in the Placement, but can (and intend to) participate fully in the SPP if they are Australian/New Zealand residents.

Further details of the Placement and SPP are set out in the Investor Presentation, here. The Investor Presentation contains important information including key risks and foreign selling restrictions with respect to the Placement.

APPENDIX A – PLACEMENT AND SPP TIMETABLE

Event	Date
Record date for the SPP	7:00pm (Sydney time), Wednesday, 24 June 2020
Trading halt and announcement of Equity Raising	Thursday, 25 June 2020
Placement bookbuild	Thursday, 25 June 2020
Announcement of outcome of Placement	Friday, 26 June 2020
Trading halt lifted – trading resumes on ASX	Friday, 26 June 2020
Settlement of Placement Shares	Tuesday, 30 June 2020
Allotment and normal trading of Placement Shares	Wednesday, 1 July 2020
SPP offer opens and SPP offer booklet dispatched	Thursday, 2 July 2020
SPP offer closes	Wednesday, 22 July 2020
Announcement and settlement of SPP	Monday, 27 July 2020
SPP allotment date	Wednesday, 29 July 2020
Normal trading of SPP Shares and dispatch of holding statements	Thursday, 30 July 2020

The above timetable is indicative only and subject to change. The commencement and quotation of New Shares is subject to confirmation from ASX. Subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable rules, Qantas reserves the right to amend this timetable at any time, including extending the period for the SPP or accepting late applications, either generally or in particular cases, without notice.

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IMPORTANT INFORMATION

Future performance and forward-looking statements

This announcement contains certain forward-looking statements. The words 'anticipate', 'believe', 'aim', 'estimate', 'expect', 'intend', 'may', 'plan', 'project', 'will', 'should', 'seek' and similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies that are subject to change without notice and involve known and unknown risks, uncertainties, assumptions, contingencies and other factors, many of which are beyond the control of Qantas and its related bodies corporate and affiliates and each of their respective directors, securityholders, officers, employees, partners, agents, advisers and management. This includes statements about market and industry trends, which are based on interpretations of market conditions. Refer to the 'Key risks' on slides 19 to 29 of Qantas' investor presentation dated 25 June 2020 ("**Investor Presentation**") for a summary of certain risk factors that may affect Qantas.

Investors are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic. Forward-looking statements are provided as a general guide only and should not be relied on as an indication or guarantee of future performance. Actual results, performance or achievements may differ materially from those expressed or implied in those statements and any projections and assumptions on which these statements are based. These statements may assume the success of Qantas' business strategies, the success of which may not be realised within the period for which the forward-looking statements may have been prepared, or at all.

No guarantee, representation or warranty, express or implied, is made as to the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects, returns, statements or tax treatment in relation to future matters contained in this announcement. The forward-looking statements are based only on information available to Qantas as at the date of this announcement. Except as required by applicable laws or regulations, none of Qantas, its representatives or advisers undertakes any obligation to provide any additional or updated information or revise the forward-looking statements or other statements in this announcement, whether as a result of a change in expectations or assumptions, new information, future events, results or circumstances.

Past performance and pro forma historical financial information is given for illustrative purposes only. It should not be relied on and it is not indicative of future performance, including future security prices.

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General

In addition, this announcement is subject to the same "Important Notice and Disclaimer" as appears on slides 42 to 48 of the Investor Presentation with any necessary contextual changes.