ASX/Media Release

QANTAS GROUP RETURNS TO PROFIT WITH RECORD HALF YEAR RESULT

- Underlying Profit Before Tax: $1.43 billion.
- Statutory Profit After Tax: $1.0 billion.
- Statutory earnings per share: 53.9 cents.
- Net debt declined to $2.4 billion.
- $1 billion COVID recovery plan on track for completion by end of FY23.
- On-market share buy-back of up to $500 million announced.
- Material improvement in operational performance and customer satisfaction.
- Ongoing investment in lounges, technology and customer experience.
- Update to fleet plan including converting nine purchase right options into firm orders for Airbus A220s.
- More than one million sale fares released today by Jetstar and Qantas.
- 20,000 non-executive staff rewarded with $500 travel credit; recovery bonuses now up to $11,500 each in cash and shares[1].

Sydney, 23 February 2023: After three years and $7 billion in statutory losses due to the pandemic, the Qantas Group has returned to profit with a record result for the first half of FY23.

The Group earned $1.43 billion Underlying Profit Before Tax to 31 December 2022, which is 49 per cent higher than the prior first half record result achieved in FY18. Statutory Profit After Tax was $1.0 billion.

The drivers of this result were consistently strong travel demand, higher yields and cost improvements from the Group's $1 billion recovery program that is nearing completion. Total operating margin was 16 per cent and came despite significantly higher fuel prices.

A $200 million investment[2] in operational resilience – including holding some aircraft in reserve and rostering more backup crew – delivered a significant improvement in operational performance for customers. Qantas has been the most on-time major domestic airline for five months in a row.

The strong financial position means the Group can reinvest, particularly in fleet and customer experience, as well as rewarding employees and shareholders.

CEO COMMENTS

Qantas Group CEO Alan Joyce said: "This is a huge turnaround considering the massive losses we were facing just 12 months ago.

"When we restructured the business at the start of COVID, it was to make sure we could bounce back quickly when travel returned. That's effectively what's happened, but it's the strength of the demand that has driven such a strong result.

"Fares have risen because of higher fuel costs, but also because supply chain and resourcing issues meant capacity hasn't kept up with demand. Now those challenges are starting to unwind, we can add more capacity and that will put downward pressure on fares.

[1] Total value will depend on Qantas share price at time of vesting.
[2] Cost spread across FY23.

“In terms of overheads, we expect the costs we’re carrying from the extra operational buffer will start unwinding from this half and into next financial year.

“Our people have been absolutely central to our recovery and that’s why we’re so pleased to be in a position to reward them with up to $11,500 in cash and shares, and why we’ve given them another $500 staff travel credit today.

“Returning to profit means we can get back to reinvesting for our customers, which is clear from the network, fleet and lounge announcements we’ve made, and from the Project Sunrise cabins we’re previewing. Importantly for our investors, this also sets us up to deliver long term shareholder value,” added Mr Joyce.

GROUP DOMESTIC

Group Domestic delivered Underlying EBIT of $915 million, with flying increasing from 86 per cent of pre-COVID capacity in 2H22 to 94 per cent during the half.

Qantas’ domestic operations delivered $785 million and Jetstar’s $130 million, with margins of 22 per cent and 11 per cent respectively.

Leisure demand continued to lead the recovery, which the Group is well-placed to serve through both its premium and budget brands. Corporate and SME travel demand remained strong.

GROUP INTERNATIONAL AND FREIGHT

Group International delivered Underlying EBIT of $511 million as capacity almost doubled from 31 per cent of pre-COVID capacity in 2H22 to 60 per cent during the half. Two routes were re-opened and seven new routes were started, which represented a major logistical effort in port readiness and training after a long period of shutdown in most countries.

Qantas Freight continued to deliver earnings well above pre-COVID levels. While international yields are softening with the return of more capacity to the market, a permanent increase in e-commerce domestically has created a structural shift in freight volumes and earnings.

QANTAS LOYALTY

Qantas Loyalty delivered $1 billion in revenue and Underlying EBIT of $220 million for the half, a 73 per cent increase on 1H22, and is on track to reach the top end of the $425 million to $450 million range for its full year target. Key drivers were the rebound in travel combined with growth in partners and products across the Loyalty portfolio.

There was a 40 per cent increase in bookings made via the rebooted Qantas Holidays and Hotels[3]; a record number of points earned on credit cards; and a doubling of revenue from online holiday package website, TripADeal[4].

There was also a 14 per cent increase in the number of Qantas health insurance customers and, with the return of international travel, a tripling in the number of travel insurance policies compared with 1H22.

More than 3 million flights were taken using Qantas Points in the half, which is a doubling of activity compared with 1H22. The total number of Frequent Flyer members grew to 14.7 million, representing an increase of approximately 1 million in 12 months.

[3] Compared with pre-COVID; compared with 1H22, the increase was circa 200 per cent.
[4] Compared with 2H22.

INVESTING FOR CUSTOMERS

The Group has announced several major investment streams to improve customer experience over the short and longer term.

- A $100 million expansion of domestic and international lounges over three years *(see separate announcement)*, in addition to three new and upgraded lounges opening during calendar 2023.
- A 50 per cent increase in Frequent Flyer Classic Reward seats on international services through to the end of calendar 2023.
- Progressive renewal of the Qantas and Jetstar fleets.
- Ongoing improvements in catering, in-flight entertainment, customer-facing apps and staffing levels.
- Opening up new routes, including Auckland-New York, Sydney-Seoul, Melbourne-Dallas and Sydney-Rarotonga.

Qantas has today unveiled prototypes of First and Business Class suites that will be fitted to its Airbus A350 aircraft from late 2025. Offering a new level of luxury, privacy and clever use of space, these interiors have been designed with Project Sunrise in mind, which will see Qantas fly direct from the east coast of Australia to New York and London. *(See separate release and images.)*

REWARDING OUR PEOPLE

Our people have been fundamental to the Group's recovery. In recognition, around 20,000 non-executive employees are on track to receive up to 1,000 Qantas shares, currently valued at around $6,500 dollars. They are also eligible for a $5,000 cash recovery boost.

As a further thank you announced today, non-executive employees will receive a $500 credit for staff travel, which is already heavily discounted because of its standby nature, and a 20 per cent employee discount for any stay booked through Qantas Hotels. This follows significant improvements to the staff travel scheme and an 'always on' discount of 25 per cent on commercial fares.

The Group expects its FY23 wages bill to be more than $4 billion, including significant investment in non-executive pay increases as part of its wages policy.

FARES

Average domestic and international fares remain above pre-COVID levels in Australia and in all major markets. The key drivers are:

- A 65 per cent increase in the price of fuel[5], which is a combination of higher oil costs, a stronger US dollar in which fuel is bought, and higher refiner margins.
- Less capacity from all airlines due to supply chain issues (including delayed delivery of new aircraft), maintenance bottlenecks as the global fleet of widebody aircraft return from storage and efforts to improve operational performance after challenging restarts.
- High levels of demand as people prioritise travel.

The factors that have constrained capacity are gradually easing and forecasts show domestic and international flying into Australia continuing to grow through the rest of the calendar year. This additional supply will put downward pressure on fares.

While average prices are about 20 per cent higher than 2021, there is still significant value available to consumers, especially when purchasing well in advance and outside of peaks.

Qantas and Jetstar today released more than one million sale fares, with discounted seats to almost every Australian city and regional town on the domestic network. *(See separate release.)* This is the ninth Qantas or Jetstar network-wide sale in the past six months.

[5] Compared with FY19; refers to 'into plane' cost.

FINANCIAL FRAMEWORK AND SHAREHOLDER RETURNS

As at 31 December 2022, the Group had liquidity of $5.4 billion, including $4.1 billion in cash. Net debt fell to $2.4 billion at the end of the half, down from $3.9 billion at last results and well below the target range[6].

The acceleration of balance sheet repair has enabled the Board to make the following decisions:
- A return to shareholders of up to $500 million in the form of an on-market share buy-back[7], due to commence in March 2023. This follows a $400 million share buy-back completed in December 2022 at an average price of $5.78.
- Buying up to $300 million of Qantas shares on-market to fund employee entitlements under the recovery and retention plan, ahead of expected vesting in August 2023. This is instead of issuing new shares and therefore avoids the 2.4 per cent dilution of existing shareholders that would have otherwise occurred.
- Rephasing the Group's long-term capital expenditure pipeline associated with new aircraft orders in the years ahead on commercially beneficial terms. As a result, forecast capex in FY23 will increase by up to $400 million to between $2.6 and 2.7 billion.

The Group expects to remain below its target net debt range by the end of FY23, accounting for these decisions.

FLEET UPDATE AND SUSTAINABILITY

Qantas is at the start of the biggest fleet renewal program in its history, with up to 299 aircraft (including purchase right options) spread over 10-plus years. Twelve new aircraft are due to be delivered to Qantas and Jetstar by the end of this calendar year[8]. The fleet plan contains substantial flexibility but, overall, the Group expects to receive an average of one new plane every three weeks for the next three years.

Supply chain and design certification issues have created manufacturing delays for all airlines, but the Group has been able to effectively limit these to less than six months with Airbus.

The Group has today announced a number of updates to its fleet plan, which are summarised below. *(See separate release for more detail.)*
- Five mid-life Airbus A319/320 aircraft to be sourced for Network Aviation to meet continued demand growth from resources clients in Western Australia.
- Options for up to 12 additional E190s to be wet leased to QantasLink from Alliance Airlines.
- Nine purchase right options for A220-300 aircraft for the domestic fleet to be exercised, taking the total number of A220s on firm order to 29. These additional aircraft will arrive during FY26 and FY27.
- Two mid-life A320s for Jetstar Asia, to be based in Singapore, following the downsizing of its fleet during COVID to seven aircraft.
- Three additional Airbus A321P2F freighters to help Qantas Freight meet demand with more efficient aircraft.

These changes allow the Group to maintain required capacity despite manufacturer delays to new aircraft, and do not materially impact overall capital expenditure.

Fleet renewal is a key pillar of the Group's progress towards its interim emissions reduction target of 25 per cent by 2030[9]. These new aircraft burn up to 25 per cent less fuel than the models they replace.

Sustainable Aviation Fuel is another key pillar, with a target of increasing this to 10 per cent of the Group's total fuel mix by 2030. The Group currently has agreements in place to source SAF from the UK and US and is working with federal and state government to generate supply in Australia.

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[6] Target net debt range $3.9 – 4.8 billion.
[7] Determined by the Board to be the most efficient way to return capital to shareholders in the absence of franking credits.
[8] 3 x 787-9s for Qantas International; 7 x A321LRs for Jetstar; 2 x A220s for Qantas Domestic. Excludes wet-leased aircraft.
[9] Compared with 2019 levels.

OUTLOOK

A summary of the Group's key planning assumptions is outlined below, with more detail available in our investor presentation.

- Travel demand expected to remain strong throughout FY23 and into FY24.
- Group Domestic capacity to increase to from 94 per cent to 103 per cent[10] through 2H23.
- Group International capacity to increase from 60 per cent to 81 per cent[11] through 2H23.
- Fares expected to moderate during 2H23 as capacity increases but will remain significantly above FY19 levels.
- Fuel cost for FY23 expected to be $4.8 billion, with hedging in place.
- Depreciation and amortisation for FY23 expected to be $1.8 billion; net financing costs expected to be $0.2 billion.

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Authorised for release by the Qantas Board of Directors.

[10] Compared with FY19 as a proxy for pre-COVID flying.
[11] Compared with FY19 as a proxy for pre-COVID flying.