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QANTAS GROUP MARKET UPDATE – BALANCE SHEET REPAIR UNDERWAY

- Sustained domestic recovery driving strong cash generation.
- Statutory free cash flow positive for 2H21; Jetstar Underlying EBIT positive in April.
- Underlying EBITDA of $400-450 million expected in FY21.
- Strong total liquidity position of $4.0 billion[1].
- Net debt has peaked and starting to decline.
- Forecast statutory loss before tax of more than $2 billion in FY21.
- Qantas Loyalty returning to earnings growth in 2H21.
- Revised assumption for phased return of material international flying from late December 2021 onwards.
- Recovery program on track to deliver $600 million ongoing cost reduction in FY21.

Sydney, 20 May 2021: A sustained rebound in domestic travel demand, and the performance of its Freight and Loyalty divisions, continues to drive the Qantas Group's recovery from the impacts of COVID-19.

Based on current trading conditions the Group expects to be statutory free cash flow positive for the second half of FY21. Net debt levels peaked in February at $6.4 billion and are expected to be lower than they were in December ($6.05 billion) by the end of the financial year.

Liquidity levels remain strong with total funds of $4.0 billion, including cash of $2.4 billion and $1.6 billion of undrawn debt facilities as at 30 April 2021.

The total revenue loss for the Group since the start of COVID[2] is now projected to reach $16 billion by the end of FY21 – however the role of domestic travel demand in the Group's recovery is highlighted by the fact revenue from domestic flying is expected to almost double between the first and second half of this financial year.

Assuming no further lockdowns or significant domestic travel restrictions, the Group expects to be Underlying EBITDA positive in the range of $400 – 450 million for FY21. At a statutory level before tax, the Group is still expecting a loss in excess of $2 billion, which includes the significant costs associated with previously announced redundancies, aircraft write downs and non-cash depreciation charges.

GROUP DOMESTIC

Consumer confidence in domestic travel is proving more resilient compared with earlier in the pandemic, despite the temporary tightening of some border restrictions.

A three-day lockdown in Perth during April cost the Group an estimated $15 million in EBITDA. This follows the $29 million impact from the Brisbane lockdown in late March and the Sydney (Northern Beaches) outbreak that resulted in an impact of around $400 million in EBITDA for the period.

[1] As at 30 April 2021
[2] FY19 is used as a proxy for pre-COVID performance

Corporate travel, including the small business segment, continues to recover and is now at 75 per cent of pre-COVID levels[3] (up from 65 per cent in April). Leisure demand is growing strongly, with deferred international holidays converting into multiple domestic trips.

The Group is on track to reach 95 per cent of its pre-COVID domestic capacity for the fourth quarter of FY21. Qantas and Jetstar expect to average 107 and 120 per cent respectively of their pre-COVID domestic capacity in FY22.

To meet this demand, Qantas and Jetstar have now brought all domestic aircraft back into service. In addition, QantasLink has activated eight (of up to 14) Embraer E190 aircraft as part of its deal with Alliance Airlines. Jetstar is reactivating up to five Boeing 787-8s for domestic use as well as six A320s on loan from Jetstar Japan.

With the increase in domestic leisure travel demand, Qantas and Jetstar have now announced a total of 38 new routes since July last year.

GROUP INTERNATIONAL AND FREIGHT

Travel demand between Australia and New Zealand is rebuilding steadily. Several pauses and additional restrictions from both countries in response to small outbreaks have impacted confidence, leading to capacity being limited to around 60 per cent of pre-COVID levels. This is expected to gradually normalise, following a similar pattern as key domestic routes.

All of Qantas' Boeing 787-9s and about half of its A330 aircraft are active, flying a mix of freight, repatriation and regular passenger services.

Qantas Freight continues to serve as a natural hedge for the downturn in international passenger travel and the cargo capacity that it normally brings. Freight is expected to exceed the revenue it achieved in the first half of FY21.

The Group has revised its expectations for the return of a significant level of international flying from end-October 2021 to late December 2021 (except Trans Tasman). This is in line with the Australian Government's revised timeline for effective completion of the national COVID-19 vaccination program, and the Qantas Group is optimistic that the opportunities for additional travel bubbles with other countries will increase significantly from that point. We will continue to liaise with the Australian Government and adjust our planning assumptions as necessary.

The net cash cost of carrying the international division has improved with the two-way Trans Tasman travel bubble and strong performance from Freight, dropping from $5 million per week to around $3 million.

QANTAS LOYALTY

The Loyalty division continues to perform well, with strong revenue from partners and high engagement from members. It has returned to growth, with second half earnings expected to be higher than the first half of FY21 and the prior corresponding period in FY20.

Redeeming Qantas Points for domestic and now Trans Tasman flights is increasing in popularity, with redemption levels 85 per cent higher in April 2021 compared to the same month pre-COVID.

Status match promotions to attract more high tier members since late 2020 have now resulted in almost 20,000 applications from Gold or Platinum equivalent flyers from other airlines.

RECOVERY PROGRAM

The Group's target of at least $1 billion in annual cost reduction by FY23 is well on track, with $600 million to be delivered this financial year.

[3] Based on May weekly intakes.

Recent developments include:

- Ninety per cent of redundancies associated with the 8,500 job losses (already announced) are complete, with the remainder finalised by the end of FY21.
- A two-year wage freeze will apply to the next round of enterprise agreements across the Group, with 2 per cent annual increases after that compared with 3 per cent pre-COVID. Management will be subject to these same wage conditions.
- As part of reducing its costs of sale, Qantas will lower front-end commissions paid to travel agents on international tickets from 5 per cent to 1 per cent. The change won't take effect until July 2022, giving time for the industry to adapt. Travel agents remain an important partner and Qantas will work them on broader revenue opportunities, particularly through technology.
- The offer of voluntary redundancy for Qantas international cabin crew. This will be run as an expression of interest program and is expected to generate several hundred applications, with the total number accepted to be balanced against retaining key capability for the longer term. This is in addition to job losses already announced.

Of approximately 22,000 roles across the Group, some 16,000 are currently stood up, including all domestic crew, all corporate employees and some international crew.

CEO COMMENTARY

Qantas Group CEO Alan Joyce said:

"We have a long way still to go in this recovery, but it does feel like we're slowly starting to turn the corner.

"It's great to see so many of our people now back at work and the majority of our fleet back in the air. Our recovery strategy of targeting cash-positive flying rather than pre-COVID margins is helping increase activity levels and repair our balance sheet.

"The fact we're making inroads to the debt we needed to get through this crisis shows the business is now on a more sustainable footing. The main driver is the rebound of domestic travel, which now looks like it will be bigger than it was pre-COVID, at least until international borders re-open.

"Jetstar was profitable on an underlying EBIT basis in April, which was largely due to strong leisure demand over Easter and school holidays, but it's an important sign that we're on the right path.

"Managing costs remains a critical part of our recovery, especially given the revenue we've lost and the intensely competitive market we're in.

"We've adjusted our expectations for when international borders will start opening based on the government's new timeline, but our fundamental assumption remains the same – that once the national vaccine rollout is effectively complete, Australia can and should open up. That's why we have aligned the date for international flights restarting in earnest with a successful vaccination program.

"No one wants to lose the tremendous success we've had at managing COVID but rolling out the vaccine totally changes the equation. The risk then flips to Australia being left behind when countries like the US and UK are getting back to normal.

"Australia has to put the same intensity into the vaccine rollout as we've put on lockdowns and restrictions, because only then will we have the confidence to open up."

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