ASX and Media Release

Hong Kong, 21 February 2019

QANTAS DELIVERS STRONG FIRST HALF RESULT DESPITE HIGHER FUEL BILL

- Underlying Profit Before Tax: $780 million (down $179 million)
- Statutory Profit Before Tax: $735million (down $105 million)
- Fuel cost: $2.0billion (up $416 million)
- Record result for Qantas Domestic, Jetstar Domestic and Qantas Loyalty[1]
- Net free cash flow: $218 million
- Statutory Earnings Per Share: 30c
- Return On Invested Capital: 19.3%
- Up to $500 million shareholder return: interim dividend increased to 12 cents per share fully franked, plus an on-market buyback of up to $305 million
- Higher fuel costs for FY19 expected to be fully recovered by end-of-year
- Major environmental program to remove 100 million single-use plastic items, slash waste to landfill by 75%.

The Qantas Group has delivered a strong first half profit despite a $416 million (27 per cent) increase in its fuel bill.

Underlying Profit Before Tax was $780 million and Statutory Profit Before Tax was $735 million compared with the record first half result in FY18 – a $179 million drop at the underlying level.

Reducing the gap between the increased fuel bill and fall in earnings shows that the Group succeeded in substantially recovering much of the higher fuel cost through a 5.7 per cent increase in unit revenue, which was helped by disciplined capacity management.

This strong revenue performance also helped the Group deal with a rise in non-fuel costs, including the impact of a weaker Australian Dollar and higher commission costs, to post record profits in its domestic flying business and Qantas Loyalty.

CEO COMMENTARY

Qantas Group CEO Alan Joyce said: “We’re really pleased with how the business responded to the challenges and opportunities we saw in the half.

“Our dual brand strategy with Qantas and Jetstar in the domestic market meant these segments delivered another set of record earnings. Across our network, capacity is broadly meeting demand, including shifts to capitalise on the continued strength of the resources sector.

[1] Underlying EBIT for periods reported on a post AASB 15 basis.

"Higher oil prices were a significant headwind and we moved quickly to recover as much of the cost as we could. That's easier to achieve in the domestic market than on longer international routes, where fuel is a much bigger factor, and that's reflected in the segment results we're reporting today.

"We also saw an increase in selling costs, simply due to the commissions associated with the 6 per cent rise in revenue, as well as costs linked to a weaker Australian dollar.

"Importantly, we made good progress against our longer-term strategy. More 787s arrived and more 747s are being retired; Loyalty continued to diversify with new revenue streams to deliver another record result; and we started or completed several lounge upgrades to help maintain the revenue premium Qantas achieves.

"Looking ahead, we're seeing strong forward bookings. Competitor capacity growth has slowed internationally and is relatively flat domestically. And oil prices have declined from the peaks we saw late last year.

"These factors point to a strong second half and we expect to completely recover our increased fuel costs by the end of this financial year.

"We are mindful of potential signs of weakness in the broader economy and we're always adjusting capacity to meet demand in individual markets – but overall revenue and yield indicators remain positive.

"Above all, the resilience we've built into the business gives us plenty of confidence about our performance going forward."

GROUP DOMESTIC

Group Domestic achieved another record profit, up 1 per cent to $659 million, made up of record earnings from both Qantas and Jetstar.

Qantas Domestic achieved an EBIT of $453 million – 1 per cent higher than the same time last year. Capacity continues to be adjusted in line with demand in different markets, with more seats added to intra-WA resources markets for the second half as revenue from the sector grew by $28 million in the first half. Average load factor grew by almost 1 percentage point to 79.6 per cent and unit revenue was up 7.5 per cent.

Jetstar's record domestic result was helped by an increase of average load factor to 87.8 and an 11 per cent increase in ancillary revenue per passenger. Affordability remains key to stimulating travel demand on Jetstar routes – almost two-third of fares sold domestically and internationally in the past 12 months cost less than $100.

GROUP INTERNATIONAL

Qantas International's revenue increased by almost 7 per cent to $3.7 billion but EBIT declined by 60 per cent to $90 million, largely due to a rapid rise in fuel costs (up by $219 million for the half) that couldn't be fully recovered.

Benefits from the introduction of the Dreamliner into Qantas International continued to flow, as did the upside from hub and network changes. Load factor grew by 1 percentage point to 85.5 per cent and capacity growth rate moderated to 1.3 per cent in a market that grew by 3.8 per cent.

A strong unit revenue performance by Jetstar International helped substantially offset its higher fuel costs, with healthy levels of demand on key leisure routes. Earnings of Jetstar airlines in Asia were reduced by higher fuel costs and airport charges, while Jetstar Japan remained profitable in the half.

LOYALTY

Qantas Loyalty achieved another record result with profit up 4 per cent to $175 million. This was driven by the fundamental strength of the Frequent Flyer program and its growing list of retail partners, as well as continued revenue growth from new ventures including health insurance and financial services. Total revenue grew by 8.3 per cent.

The result highlights the continued demand for Qantas Points and their ability to influence consumer choice. Credit cards that earn Qantas Points grew by 4 per cent compared with a decline of 1 percent[2] for the market. Take-up of Qantas' two own credit cards grew during the half, with a third 'super-premium' card added to the portfolio during Q3.

FLEET

Qantas International took delivery of three 787-9s in the half with a further six arriving from the first half of FY20 to take the total fleet to 14. This is facilitating accelerated retirement of the 747 in the next two years; a further three 747s will have been removed by the end of FY19, leaving seven.

As recently announced, Qantas has formalised with Airbus its decision not to take eight additional A380s that were ordered in 2006. These aircraft have not been part of the airline's fleet and network plans for some time. Qantas remains committed to a major upgrade of its existing A380s, which begins in mid-calendar 2019.

Several streams of work on Project Sunrise – which aims to deliver non-stop flights from the east coast of Australia to New York and London by 2022 – continued in the half and it remains on-track.

FINANCIAL FRAMEWORK

The Group met all targets of its financial framework in the half. Net debt was at the bottom of the target range at $5.2 billion. Debt maturity has been improved by a 10 year, $450 million debt program and short term liquidity remained strong at $2.5 billion.

---

[2] Based on RBA credit and card charge statistics at December 2018 and Qantas internal analysis

Operating cash flow remained strong at nearly $1.3 billion, down $480 million chiefly due to timing of payments including fuel hedging for all of FY20. The Group's ongoing transformation program delivered $206 million of cost and revenue benefits in the half.

REWARDING SHAREHOLDERS

In addition to the $500 million shareholder return announced August 2018, the Qantas Board has announced a further return of up to $500 million. This comprises an interim franked dividend increased to 12 cents per share to be paid on 28 March 2019 with a record date of 5 March 2019, as well as an on-market share buy-back of up to $305 million. This additional buy-back is expected to bring the total reduction of shares on issue to 28 per cent since 2015.

As at 23 January 2019, foreign persons potentially held relevant interests in 40.3 per cent of the issued share capital of Qantas.

MAJOR WASTE REDUCTION PROGRAM

The Qantas Group has announced an ambitious plan to become the world's first airline to reuse, recycle and compost at least three-quarters of its waste to landfill by the end of 2021. More than 100 million single use plastic items per annum will be removed from lounges and cabins by the end of 2020.

In the process of carrying 50 million people each year, Qantas, Jetstar and QantasLink generate more than 30,000 tonnes of waste – the equivalent weight of about eighty 747 aircraft.

Examples of reduction measures include switching to alternative packaging, donating or composting food and increasing digitisation of paper-based products ranging from manuals to boarding passes.

INVESTING FOR OUR CUSTOMERS AND PEOPLE

During the half, the Group delivered several key improvements in customer experience:

- Completion of a total redesign of the Melbourne Domestic Lounge precinct
- Continued rollout of Wi-Fi on the domestic 737 fleet (almost two-thirds complete) and expansion to A330 aircraft.
- Cabin upgrade of QantasLink turboprops as part of an ongoing refresh program (12 now complete).
- Completion of 80 per cent of a cabin refit of Jetstar's A320/21 fleet.
- Expansion of discounted resident fares in select regional areas and upgrade of the Tamworth lounge.
- Ongoing work towards lounge upgrades in Singapore, Tokyo, Auckland, Sydney International, Brisbane and Hobart.

Fleet renewal continues to drive further career opportunities across the Group. Over 1,000 pilots have been recruited since 2016 and a further 1,000 have received promotions.

During the half, Toowoomba in Queensland was announced as the first of two sites for the Qantas Group Pilot Academy, due to open by mid-2019. A process is underway to select a second location, with the two sites capable of training up to a combined 500 pilots a year to meet demand for the Group and broader industry.

OUTLOOK

With strong forward revenue projections, reduced fuel headwinds and continued transformation, the Group expects to generate strong net free cash flow during 2H19. Key assumptions are:

- Group capacity growth is expected to be flat across domestic and international in 2H19[3].
- FY19 fuel cost expected to be $3.90 billion, an increase of 21 per cent compared with FY18, with almost two-thirds of this increase occurring in the first half. Fuel for FY20 is fully hedged with 73 per cent participation in favourable price movements.
- FY19 transformation benefits expected to be at least ~$400 million.
- Capital expenditure net of asset sales expected to be $1.6 billion for FY19, with $1.0 billion of this spent in the first half.
- FY19 net depreciation and non-cancellable aircraft operating lease rentals expected to be ~$120 million higher than FY18 on an underlying basis.
- Upside from more favourable alignment of school and public holidays in the second half compared to FY18.

**All quoted currency in Australian dollar unless otherwise noted*

For Media Enquiries:
GHC Asia- Hong Kong
Clement Huang (Mr) / Ines Yu (Ms)
(+852) 3163 0122 / (+852) 3163 0155
Clement.Huang@ghcasia.com / Ines.Yu@ghcasia.com

Qantas Corporate Communications
Shannon Lim (Mr)
+65 9232 7034
shannon.lim@qantas.com.au

About Qantas Airways

Founded in regional Queensland in 1920 – as Queensland and Northern Territory Aerial Services – Qantas is one of the world's oldest airline and Australia's most iconic brands, with a central role in the development of the Australian and international aviation industry.

For the fourth year in a row, Qantas has been ranked the world's safest airline by AirlineRatings.com. Qantas also holds many major awards for service, food and wine, technology and innovation, including the world's best lounges by airlineratings.com in 2019.

[3] Compared to 2H18

Qantas Airways is part of the Qantas Group, a diverse global aviation business comprising Qantas Domestic, Qantas International, low-cost carrier group Jetstar, and Qantas Loyalty. Operating more than 7,300 flights each week, Qantas Group carries over 50 million passengers each year to more than 1000 destinations around the world together with its codeshare and oneworld partners.