ASX/Media Release

QANTAS GROUP MARKET UPDATE – BALANCE SHEET RECOVERY FROM DELTA LOCKDOWNS

- Growing travel demand underpinning continued recovery.
- Net debt expected to be approximately $5.65 billion.
- All stood down Australian-based employees able to come back to work.
- Group domestic capacity expected to be 102% of pre-COVID levels for 3Q FY22 rising to 117% in 4Q FY22.
- Group international capacity expected to be around 30% of pre-COVID levels for 3Q FY22 rising to around 60% in the fourth quarter.
- Group EBITDA loss of between $250-300 million expected in 1H22.
- Strong total liquidity position of approximately $4.2 billion, boosted by Mascot land sale.
- Recovery program on track to deliver $850 million annual cost benefits by end FY22.
- Qantas Loyalty continuing to make strong cash contribution.
- Qantas Freight expected to deliver a record performance in 1H22.
- Project Winton: Airbus A320neo and A220 families chosen as preferred aircraft for domestic fleet renewal. Order anticipated to be finalised by the end of FY22.

Sydney, 16 December 2021: The Qantas Group has been able to accelerate the repair of its balance sheet and expects to finish the first half of FY22 with a materially better net debt position than it had prior to the start of Delta variant lockdowns in June.

This improvement was made possible by the $802 million[1] sale of land in Mascot that was not core to the Group's long-term strategy and strong sales that flowed once firm opening dates for international and domestic borders were announced.

Continued strength from Qantas Freight and Qantas Loyalty have also made significant contributions to cash flow.

Collectively, these positive factors helped to partly offset trading conditions that were heavily depressed for most of the first half due to prolonged lockdowns in Melbourne and Sydney and compounded by border closures in other states that brought domestic flying down to a low of around 30 per cent of pre-COVID levels.

Based on current forecasts, the Group expects net debt to be approximately $5.65 billion by the end of December 2021.

Liquidity levels continue to remain strong and are forecast to be approximately $4.2 billion by the end of the current half. This includes cash of $2.6 billion and $1.6 billion of undrawn debt facilities. The Group has maintained its Baa2 investment grade credit rating.

While the recent boost in travel activity has partially offset the material impact from months of lockdowns, the Group nonetheless anticipates a significant loss in the first half. Assuming no further lockdowns or significant travel restrictions, the Group expects an Underlying EBITDA loss for the first half of FY22 in the range of $250 million to $300 million.

When compared to the prior corresponding period, this reflects stranded costs due to sudden lockdowns and a lower level of aircraft hibernation to facilitate a faster ramp-up based on the national recovery roadmap.

[1] $758 million settled on 16 December 2021.

Once non-cash depreciation and amortisation costs are included, the 1H FY22 Underlying EBIT loss is expected to exceed $1.1bn.

The Group expects to incur additional ramp-up costs in the second half of FY22. This reflects the decision to return all Australian-based employees to work earlier than expected and ahead of demand to ensure capability is maintained and to end a long period of stand down for employees.

The Group's fuel cost for 1H22 is expected to be around $495 million[2]. The Group is highly hedged for the second half of FY22 primarily in options and a significant portion of those are participating at current forward prices[3].

GROUP DOMESTIC

Across both Qantas and Jetstar, the Group is holding significant levels of domestic bookings over the Christmas and summer holiday period. Demand momentum slowed in late November due to uncertainty regarding the Omicron variant but there has been recent improvement.

With almost all states and territories now open, the Group expects domestic flying to be about 75 per cent of pre-COVID[4] levels by the end of December rising to more than 100 per cent in February 2022.

Domestic demand is being driven by leisure travel as Australians visit family and friends or take long-awaited holidays. Travel for business purposes continues to be underpinned by the resources, government and construction sectors, with initial signs of a broader recovery in other parts of the corporate market that is expected to gather pace after the summer holidays.

Domestic competition is expected to intensify in the second half of FY22. The Qantas Group is well placed to respond through its frequency of flights, network reach advantages and reduced cost base, and will continue serving customers through its dual brand approach. The Group expects its market share will normalise at around 70 per cent once all state borders open.

GROUP INTERNATIONAL AND FREIGHT

Qantas moved quickly to take advantage of the faster-than-expected opening of international borders into New South Wales and Victoria. Routes to London, Los Angeles and Singapore restarted in November, enabling the Group to capture high levels of pent up demand.

Bookings are extremely strong on new routes from Sydney and Melbourne to Delhi starting in December, and initial bookings on the recently announced Perth-Rome seasonal service are encouraging.

There was a significant drop in booking momentum for international flights due to news of the Omicron variant and the additional quarantine restrictions imposed, but current loads have held and booking activity has started to pick up.

Over the past month, the Group has adjusted the restart timing for some routes, including Japan, New Zealand, Hong Kong and Shanghai in response to extended border restrictions in those countries. The return of Sydney-San Francisco and Brisbane-San Francisco have been paused.

Due to these and other smaller adjustments, the ramp up of Group international capacity has been slowed by about 10 per centage points in 2H FY22 and is now expected to be at the bottom end of the previously quoted 40-55 per cent range of pre-COVID levels.

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[2] The total fuel cost includes an "into plane" logistics cost which is averaging A$14 per barrel for 1H22.
[3] Average 2H22 current forward Brent Price of USD$73.71 as at 14 December.
[4] Pre-COVID is the prior corresponding period of FY19.

Qantas Freight continued to benefit from a growth in e-commerce and favourable international yields and is on-track to deliver record earnings[5] in the first half of FY22. While yields are expected to ease as more international passenger flights return, domestic freight demand is expected to remain strong through a structural expansion of e-commerce.

This expansion underpinned the recent announcement that two A330s will be converted for freight use in partnership with Australia Post and a third A321 converted freighter being added to the fleet.

QANTAS LOYALTY

Qantas Loyalty continues to perform well, generating significant positive cash flow in the first half of FY22.

Following the announcement of international borders re-opening, Qantas Loyalty had its single biggest day for flight redemptions with almost half a billion points redeemed in 24 hours.

In November points earned from credit card related spend recovered to pre-COVID levels. A five year renewal was signed with American Express in the half, meaning four of Qantas Loyalty's major financial services partners have re-signed since the start of the pandemic.

New partnerships, including with Accor and Optus, have already proved popular with members, and Qantas Loyalty will continue to build its portfolio in the coming months.

Plans for a new 'Green' Frequent Flyer tier have been announced, providing rewards in return for customers making eco-friendly decisions on the ground and in the air.

PROJECT WINTON

After a detailed tender process, Qantas has selected the Airbus A320neo and A220 families to renew the airline's existing domestic narrowbody jet fleet. Both aircraft types will be powered by Pratt and Whitney engines.

Subject to final Board approval, an order is anticipated by the end of FY22 consisting of 40 firm commitments and 94 purchase right options, with flexibility on timing and mix of aircraft from within these two families. *(See separate release.)*

Aircraft would start arriving by the first half of FY24 and deliveries would be spread over the following 10-plus years as the airline's existing Boeing 737-800s and 717s reach the end of their economic lifespan.

Qantas will enter discussions with its key work groups on the arrangements required to operate the aircraft and meet the business case for this investment, before Board approval is sought for an order to be placed.

CEO COMMENTARY

Qantas Group CEO Alan Joyce said:

"This has been one of the worst halves of the entire pandemic, where most states had their borders closed and the majority of Australians were in lockdown. Domestically, our capacity fell to around 30 per cent of pre-COVID levels for several months.

"Fortunately, the structural changes we made earlier in the pandemic put us in a good position to weather these extremely poor trading conditions while the national vaccination rate reached a point where states started to open back up.

"Australia now has one of the highest levels of vaccination and it's still rising. That sets us apart from many other countries and puts us in a much better position to manage uncertainty around variants and seasonal surges.

[5] Underlying EBIT.

"One of our biggest strengths throughout the pandemic has been the fact we've responded quickly to change. We've significantly reduced our cost base which improves our ability to recover. We were able to switch on an initial wave of international flights in time for the accelerated border opening in November, which meant we could capitalise on pent-up demand.

"We added new domestic routes based on changing demand patterns and we're now doing the same internationally. Our new flights to India are some of the fastest selling Qantas has ever had, with virtually all flights in December full.

"The news of the Omicron variant had a clear impact on people's confidence to book international trips in particular, but we haven't seen large numbers of cancellations. Many customers have strong intentions to travel if the border and quarantine settings are right and in the past few days we have seen intakes improve.

"Domestic demand has started to pick up again and we're expecting a strong performance over the Christmas period and continued strength into early next year as more restrictions ease," added Mr Joyce.

QANTAS GROUP CAPACITY FORECAST

ASKs vs FY19 (%)	1Q22*	2Q22	1H22	3Q22	4Q22	2H22	FY22
Group Domestic	37%	50%	43%	102%	117%	109%	76%
Group International	3%	7%	5%	30%-40%	50%-70%	40%-55%	20%-30%
Total Group	**15%**	**22%**	**18%**	**50%-60%**	**70%-85%**	**60%-75%**	**40-45%**

* Actual

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Authorised for release by Qantas' Board of Directors

Media Release

QANTAS SELECTS AIRBUS AS PREFERRED AIRCRAFT FOR DOMESTIC FLEET RENEWAL

- Airbus A320neo and Airbus A220 families selected as preferred aircraft types.
- In-principle agreement for up to 134 orders and purchase right options over 10 plus years with deliveries from FY24 onwards.
- Combines with existing Jetstar order to give the Qantas Group significant flexibility on timing and aircraft type/size.
- Order is expected to be finalised by the end of FY22.

Sydney, Thursday 16 December: Qantas has selected the Airbus A320neo and Airbus A220 families as the preferred aircraft for the long-term renewal of its domestic narrow-body fleet.

A firm commitment for 40 aircraft – 20 A321XLR (extra long-range) and 20 A220 aircraft – is expected to be placed with Airbus by the end of FY22, following discussions with employees about arrangements to operate the new aircraft types and a final decision by the Qantas Board.

Qantas will also have a further 94 purchase right options[1] on aircraft over a 10-plus year delivery window as its existing Boeing 737-800s and 717s are gradually phased out.

The order is in addition to Jetstar's existing agreement with Airbus for over 100 aircraft in the A320neo family. Part of this new deal includes combining these two orders so that the Group can draw down on a total of 299 deliveries across both the A320 and A220 families as needed over the next decade and beyond for Qantas, QantasLink and Jetstar.

Once finalised, this will represent the largest aircraft order in Australian aviation history.

Financial details of the deal are commercial in confidence but represent a material discount from list prices.

Today's announcement follows a detailed review by the airline's engineering, flight operations, customer experience, network, fleet procurement and finance teams. The airline conducted detailed evaluation of the A320neo and B737 MAX families as well as the smaller A220 and Embraer E190/195-E2s.

SELECTED AIRCRAFT

The initial firm order concentrates on the larger, single-aisle A321XLR, and the mid-size A220-300 with purchase right options for the smaller A220-100, giving Qantas a fleet mix that can deliver better network choices and route economics.

The XLR can carry around 15 per cent more passengers on each flight than the airline's existing B737-800s, making it well suited to busy routes between capital cities like Melbourne, Sydney and Brisbane. Its longer range means it can also be used to open up new city pairs.

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[1] Purchase right options provide the Qantas Group with a firm price and preferred access to delivery slots with flexibility to match deliveries to demand.

The small and medium size A220s provide the Group with flexibility to deploy these aircraft throughout most of its domestic and regional operations. They could be used during off peak times between major cities and on key regional routes to increase frequency.

Both aircraft types will be powered by Pratt & Whitney GTF engines and will deliver fuel savings of between 15-20 per cent, contributing to the airline's broader emission reduction efforts.

CEO COMMENTARY

Qantas Group CEO Alan Joyce said the airline had called the renewal of its domestic fleet Project Winton after the town where the national carrier was born 101 years ago, because it's a key strategic decision for the future of Qantas Domestic.

"This is a long-term renewal plan with deliveries and payments spread over the next decade and beyond, but the similarly long lead time for aircraft orders means we need to make these decisions now.

"Qantas is in a position to make these commitments because of the way we've navigated through the pandemic, which is a credit to the whole organization.

"This is a clear sign of our confidence in the future and we've locked in pricing just ahead of what's likely to be a big uptick in demand for next-generation narrow-body aircraft. That's good news for our customers, our people and our shareholders.

"We'll be having discussions with our people to ensure we have the arrangements necessary to support such a large investment.

"Can I thank Airbus, Boeing, Embraer and the engine manufacturers for the efforts they put into this process. This was a very tough choice to make. Each option delivered on our core requirements around safety, capability and emissions reductions. But when you multiply even small benefits in areas like range or cost across this many aircraft and over the 20 years they'll be in the fleet, Airbus was the right choice as preferred tenderer.

"The Airbus deal had the added advantage of providing ongoing flexibility within the order, meaning we can continue to choose between the entire A320neo and A220 families depending on our changing needs in the years ahead. The ability to combine the Jetstar and Qantas order for the A320 type was also a factor.

"The A320 will be new for Qantas Domestic, but we already know it's a great aircraft because it's been the backbone of Jetstar's success for more than 15 years and more recently operating the resources industry in Western Australia.

"The A220 is such a versatile aircraft which has become popular with airline customers in the United States and Europe because it has the capability to fly regional routes as well as longer sectors between capital cities.

"The combination of small, medium and large jets and the different range and economics they each bring means we can have the right aircraft on the right route.

"For customers, that means having more departures throughout the day on a smaller aircraft, or extra capacity at peak times with a larger aircraft. Or the ability to start a new regional route because the economics of the aircraft make it possible.

"We have some exciting plans for the next-generation cabins we'll put on these aircraft, which will offer improvements for passengers that we'll share in coming months.

"Importantly, these aircraft will deliver a step change in reducing fuel burn and carbon emissions compared with our current fleet, which gets us closer to the net zero target we've set," added Mr Joyce.

AIRCRAFT SPECIFICATIONS

Note: Aircraft information has been sourced from manufacturers' websites. Specifications are indicative only and not reflective of the specifications of any potential aircraft order by Qantas.

Airbus A320 family

- Includes the Airbus A320neo and A321neo
- A320neo seats – from 150 to 180 for a two-class configuration. 6,300km range
- A321neo seats – from 180 to 220 for a two-class configuration. 7,400km range
- A321XLR seats – from 180 to 220 for a two-class configuration. 8,700km range
- The A320neo family offers fuel improvements of 14 per cent from A320ceos
- 50 per cent quieter than the A320ceos
- Pratt & Whitney GTF (PW1100G-JM) engines

Airbus A220

- Specifically designed for the 100-150 seat market
- More than 20 per cent lower fuel burn per seat than B717s, half the noise footprint, and decreased emissions
- Up to 6,390km range
- Pratt & Whitney GTF (PW1500G) engines