ASX/Media Release

QANTAS GROUP TRADING UPDATE: THIRD QUARTER FY22

- Domestic travel returning to pre-COVID levels ahead of expectations.
- Strong demand for international travel but some key markets yet to open.
- Underlying EBITDA for 2H22 expected to be $450–$550 million.
- Reduction in Net Debt to below pre-COVID levels at $4.5 billion by end April 2022.
- Recovery and transformation progress give additional confidence for fleet investment decisions announced today.

2 May 2022: The Qantas Group is seeing a strong, sustained recovery in travel demand as Australia transitions to living with COVID.

The return of domestic travel demand ahead of expectations, solid international performance, and strong contributions from Qantas Loyalty and Freight drove significant levels of positive free cash flow in the quarter. Based on April trading and forward booking performance, free cash flow is expected to increase further in 4Q22.

Revenue growth¹ during the third quarter has led to a rapid reduction in the Group’s Net Debt, from $5.5 billion at 31 December 2021 to $4.5 billion by the end of April 2022 to below pre-COVID levels. This compares to a peak of more than $6.4 billion at the height of border closures.

Based on current market conditions, Net Debt is projected to reach the bottom of the Group’s target range by the end of FY22.

While the Group still expects to post a significant full year Underlying EBIT loss for FY22 that includes the worst of the Delta and Omicron impacts as well as one-off restart costs, the business is on track for 2H22 Underlying EBITDA of between $450 million to $550 million based on current expectations.

Group Domestic is expected to be EBIT positive in 4Q22 and Group International is on a clear pathway to full recovery. Combined with benefits from the company-wide $1 billion transformation program, this trajectory supports the Group returning to profitability in FY23.

In mid-April, Moody’s reaffirmed Qantas’ Baa2 investment grade credit rating and upgraded its outlook to ‘stable’.

The Group’s capital expenditure forecast for FY23 is unchanged at $2.3 – $2.4 billion.

SEGMENT UPDATE

All categories of domestic travel are performing well. Leisure demand is very strong, with Qantas and Jetstar operating at approximately 110 per cent of pre-COVID capacity over the Easter school holidays. The rebound in travel for business purposes has been above expectations, with small business now above pre-COVID levels and corporate travel at 85 per cent.

With the reopening of Western Australia in early March and the return of east-west flying, the Group’s overall domestic market share has increased and is expected to be 70 per cent between the two main competitors.

¹ Includes revenue received in advance.
Demand for international travel continues to recover, particularly as more restrictions ease. Removal of Australia’s pre-flight testing requirement and early opening of New Zealand’s borders provided tailwinds during April.

Bookings for markets including London, Los Angeles, South Africa and Bali are all above pre-COVID levels and Jetstar has restarted more than 60 per cent of its international routes as more leisure destinations in Asia have re-opened.

Freight volumes and yields remain significantly higher than pre-COVID. Higher domestic volumes are expected to be largely maintained given the structural shift in Australia’s ecommerce activity. Some softening of international yields is anticipated as more passenger flights return in the months ahead.

Qantas Loyalty has continued to perform strongly, with new program partners, increased flying and consumer spending supporting an increase in billings and point redemptions. Loyalty’s Underlying EBIT is expected to approximately double from quarter three to quarter four. New business opportunities remain a focus for Loyalty as it looks to grow earnings further.

**MANAGING HIGHER FUEL PRICES**

The Group’s hedging position has provided significant protection from the recent spike in oil prices, giving time to adjust its capacity, schedule and fares in response. Ninety per cent of the Group’s fuel needs are hedged for the second half of FY22 at levels below current prices.

Strong demand for international travel – particularly direct long haul flights – is expected to support recovery of higher fuel prices in the first half of FY23. Recovery of domestic fuel costs will be maximised by capacity reductions and some fare increases during July and August. The Group will continually assess and adjust these settings as necessary.

Group domestic capacity is expected to be 105 per cent of pre-COVID levels in the fourth quarter of FY22, rising to approximately 110 per cent (revised down from around 115 per cent) for the first quarter of FY23. Group international capacity is expected to be just under 50 per cent by the end of the fourth quarter, rising to around 70 per cent for the first quarter of FY23.

**FLEET AND NETWORK UPDATE**

Qantas has today announced several previously flagged fleet decisions that will create opportunities for its people, deliver significant shareholder value and improve travel options in the years ahead.

Domestically, Qantas will take delivery of 20 Airbus A321XLRs from FY25 and 20 A220s from FY24. This order also includes 94 purchase order rights as the airline’s existing Boeing 737s and 717s are gradually retired over the next decade.

Internationally, Qantas will order 12 Airbus A350-1000s to operate Project Sunrise – the long-held plan for non-stop flights from Australia to destinations including London and New York from FY26, starting in Sydney. This builds on the success of existing direct long-haul services, demand for which has increased post-COVID.

*(See separate release for more detail)*.

Qantas now has 11 Embraer E190s in operation via Alliance Airlines, which will grow to 18 by January 2023. These have opened up new routes including Darwin-Canberra and Darwin-Dili, as well as freeing up Qantas’ Boeing 737s on some existing routes to better match capacity with demand.

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2 Refers to Brent hedging.
Jetstar is on track to take delivery of 18 Airbus A321LRs from July 2022. In addition, 20 of Jetstar’s existing A320neo orders will be converted to A321XLRs for delivery from the second half of calendar 2024. Qantas expects to take delivery of its three remaining Boeing 787-9s in the second half of FY23. Two of Qantas’ Airbus A380s have returned to service with a total of six reactivated by the first half of FY23.

Qantas recently announced new international routes including Melbourne-Dallas, Sydney-Bangalore and Sydney-Seoul to take advantage of changing demand patterns. Domestically, it has added seven new routes in the quarter. Jetstar also announced a Sydney-Seoul service and has started flying Melbourne-Busselton (Margaret River).

**SUSTAINABILITY**

Since releasing its Climate Action Plan in March 2022, the Group has seen a positive response from industry regarding its Sustainable Aviation Fuel (SAF) targets. This plan committed Qantas to meeting 10 per cent of its total fuel needs from SAF and reduce total emissions by 25 per cent by 2030, as interim targets towards its commitment of reaching net zero emissions by 2050.

Qantas continues to investigate SAF offtake agreements offshore as well as working with Australian governments on support for a local SAF industry.

**CEO COMMENTS**

Qantas Group CEO Alan Joyce said: “After a few false starts, we’re finally seeing a sustained recovery in travel demand.

“People have confidence in domestic borders now that we’ve shifted to living with COVID and that’s bringing us back towards pre-pandemic levels of flying.

“The Easter peak shows how strongly the leisure segment is performing, notwithstanding the temporary resourcing constraints we faced in some areas.

“The recovery in business traffic has been faster than we expected. Once mask mandates were removed and people went back to the office, there was a clear uptick in demand. We’re now at around 85 per cent of pre-COVID levels for domestic corporate travel and more than 100 per cent for small business.

“As expected, international flying is slower to recover because several markets remain closed or heavily restricted. But key routes like London, Los Angeles and Johannesburg are performing above pre-COVID levels and early signs on our newest direct routes to India, Europe and Korea are very positive.

“With total Group capacity heading towards 100 percent and beyond, as well as growth in our Loyalty and Freight divisions, we’re recruiting in line with demand. We have over 2,500 roles to fill over the next 12 months and have already received more than 20,000 applications in the past eight weeks.

“Our strategy has been to restructure the business so we could survive the pandemic and then recover quickly when travel normalised. That’s why reducing cost was absolutely crucial.

“We’re seeing the benefits of that strategy now and it gives us the confidence to make the long-term investment decisions that are key to future growth and shareholder value.

“The major fleet decisions we’ve announced today are a huge vote of confidence in the future of the national carrier, and will deliver for our people, customers and shareholders.”
### GROUP CAPACITY

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