

ASX/Media Release

QANTAS GROUP MARKET UPDATE: STRONG DEMAND ACCELERATES RECOVERY

- Group expects 1H23 Underlying Profit Before Tax of between \$1.2 billion and \$1.3 billion.
- Operational performance continues to improve; Qantas back at or around pre-COVID service levels in first half of October.
- Further \$200 million investment in continued operational resilience against sick leave spikes, supply chain delays.
- Accelerated financial recovery enables improvement to wages policy at total cost of approximately \$40 million p.a.
- Translates to additional pay increase for around 20,000 employees on top of \$10,000 in bonuses and improvement to staff travel benefits.
- Over 1 million domestic sale fares released today by Qantas and Jetstar.

13 October 2022: Strong travel demand is accelerating the Qantas Group's recovery from the COVID crisis, enabling the national carrier to keep investing for customers and its people while also strengthening its balance sheet.

Based on forward bookings, current fuel prices and latest assumptions about the second quarter, the Group expects Underlying Profit Before Tax of between \$1.2 billion and \$1.3 billion for the first half of FY23. This follows five consecutive halves of heavy losses due to the pandemic and cumulative statutory losses of \$7 billion.

Net debt is expected to fall to between \$3.2 billion and 3.4 billion at 31 December 2022, which is below the bottom of the target range of \$3.9 billion.

Domestic travel demand remains strong across all categories. Revenue intakes for business purposes are over 100 per cent of pre-COVID levels and leisure intakes have further strengthened to over 130 per cent. Yields from international markets are particularly strong but are expected to moderate as Qantas and other carriers steadily increase capacity.

Qantas Loyalty expects to post record earnings for the first half and is on track to reach its FY23 EBIT target of \$425–\$450 million.

The broader operating environment remains complex with high fuel prices and high inflation, as well as higher interest rates impacting on consumer confidence. However, robust demand indicates that people are prioritising spending on travel above other categories, which supports the Group's ability to fully recover higher fuel costs through fares. Fuel prices are now around 75 per cent higher than pre-COVID, compared with around 60 per cent in August 2022.

GROUP CAPACITY SETTINGS AND FLEET

Group International capacity is now expected to increase from 61 per cent of pre-COVID levels in first half of FY23 to 77 per cent in the second half. This is largely determined by the ability to return additional A380s from storage and required maintenance, as well as the delivery of three new Boeing 787-9 Dreamliners for Qantas International and additional Airbus A321LRs for Jetstar.



Group Domestic capacity will be 94 per cent of pre-COVID levels for 1H23, growing to around 100 per cent for the second half – which is six percentage points below previous capacity guidance. This reduction is designed to protect the sustained improvement in operational performance as the broader industry recovers.

OPERATIONAL PERFORMANCE

Operational performance has continued to improve towards pre-COVID levels, despite some extreme weather events on the east coast, air traffic control limitations and a busy school holiday period nationally.

Qantas Domestic's on time performance increased from 67 per cent in August to 69 per cent in September, finishing ahead of its main competitor. While this is below the 75 per cent target for some of the reasons mentioned above, performance in October has so far averaged 75 per cent despite a four percentage point impact from continued extreme weather conditions.

Qantas' cancellations fell from 4 per cent in August to 2.4 per cent in September. In October so far, only 1.7 per cent of flights have been cancelled, which is market leading and better than pre-COVID levels. Mishandled bags remained low at 6 per 1000 passengers in September and into October.

Jetstar's performance in September suffered significantly from six of its 11 wide-body aircraft being out of service simultaneously as a result of several lightning strikes, a bird strike, damage from runway debris and challenges with global supply chains for replacement parts. These aircraft have since returned to service; Jetstar's domestic and international performance have stabilised significantly in October, with further improvements expected in November.

INVESTING FOR OUR CUSTOMERS

The Group will continue to invest in extra resourcing to provide a buffer against the challenges that impacted reliability earlier in the year, including unexpected sick leave spikes and supply chain delays for aircraft parts. This further \$200 million investment for the remainder of FY23 involves rostering additional crew, training of new recruits and overtime in key areas such as contact centres.

It also involves a conservative approach to scheduling that means around 20 per cent of the Group's flying capacity will be left in reserve and can be called upon to reduce delays and cancellations. This includes up to 10 narrow-body, six wide-body and four regional aircraft on standby across Qantas and Jetstar. This capacity can be gradually added back as certainty improves and the additional cost is expected to be similarly temporary.

Both Qantas and Jetstar have announced [the Group's largest joint sale of](#) the year starting today, with more than 1 million fares across 67 domestic destinations starting at \$35 one-way.

INVESTING IN OUR PEOPLE

The Qantas Group today announced a change to the wages policy covering around 20,000 employees. After a two year freeze that reflects the bulk of the time the airline was in hibernation, annual wage increases will be adjusted upwards from 2 per cent to 3 per cent. This represents an extra \$40 million per annum before compounding and is a return to the Group's pre-COVID level of increase due to the speed of its financial recovery.

The increase will automatically apply to around 5,000 employees who have already agreed to 2 per cent as part of their Enterprise Bargaining Agreements. (The average non-executive salary at Qantas is more than \$100,000.)

This wage increase is in addition to the \$5,000 recovery boost announced in June and the 1,000 share rights awarded to non-executive staff as part of a retention program, worth a further \$5,000 on the current share price.



As part of decisions announced today, around 3,600 employees who joined the Group after the cut off date for the retention program in mid-2021 will now receive 250 share rights to recognise their role in the accelerated recovery. This applies to those employed with the Group today with rights expected to vest in August next year.

In August, the Group announced an upgrade to its staff travel program by increasing the benefits to employees and expanding access to more of their family and friends. To date, more than 10,000 new beneficiaries have been added.

BUYBACK UPDATE

In mid-September, the Group commenced an on-market share buyback worth up to \$400 million. This buyback is now 26 per cent complete with around 20 million shares purchased at an average price of \$5.24 per share.

CEO COMMENTS

Qantas Group CEO, Alan Joyce, said: “It’s been a really challenging time for the national carrier but today’s announcement shows how far we’ve come.

“Since August, we’ve seen a big improvement in our operational performance and an acceleration in our financial performance.

“It’s clear that maintaining our pre-COVID service levels requires a lot more operational buffer than it used to, especially when you consider the sick leave spikes and supply chain delays that the whole industry is dealing with. That means having more crew and more aircraft on standby and adjusting our flying schedule to help make that possible, until we’re confident that extra support is no longer needed.

“Qantas’ operations are largely back to the standards people expect, and Jetstar’s performance has improved significantly in the past few weeks and will keep getting better with the extra investments we’re making.

“The fact our financial recovery has accelerated means we can invest more in rewarding our employees, who are doing an amazing job. We’ll spend an additional \$40 million a year on permanent pay increases for our people on top of the \$200 million in cash and share bonuses we’ve announced for our people.”

QANTAS GROUP CAPACITY

ASKs vs FY19 (%)	1Q23	2Q23	<u>1H23</u>	3Q23	4Q23	<u>2H23</u>	<u>FY23</u>
Group Domestic	93%	95%	<u>94%</u>	98%	102%	<u>100%</u>	97%
Group International	56%	66%	<u>61%</u>	72%	82%	<u>77%</u>	69%
Total Group	69%	76%	<u>73%</u>	81%	89%	<u>85%</u>	79%

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Authorised for release by the Qantas Board of Directors.

