

ASX/Media Release

QANTAS WELCOMES DECISION ON PRICING PRINCIPLE IN PERTH AIRPORT COURT ACTION

18 February 2022: The Qantas Group welcomes a decision by the Supreme Court of Western Australia that upholds the established formula for determining aeronautical pricing – but is concerned that an assumed return on investment of almost 10 per cent for Perth Airport could ultimately put significant upward pressure on fares.

The judgment is the result of a three year legal battle between Qantas and Perth Airport after the two parties failed to reach an agreement on pricing.

The Court's decision upholds the industry standard 'building block model' of setting pricing for monopoly airports – namely, that it should be based on the cost of providing the service. However, the judgment also set the figure of 9.6 per cent as the allowed return on that investment (the weighted average cost of capital). This is higher than comparable rates used by airports overseas and well above most rates set by regulators for other Australian monopolies.

The judgment covers a five and a half month period from June 2018 (when Qantas' pricing agreement with Perth Airport expired) to the start of legal action by the airport in December 2018. The weighted average cost of capital will have reduced significantly in-line with interest rates since then.

The Court rejected Perth Airport's preferred approach to aeronautical pricing because it found the airport "possesses, and has likely exercised, substantial market power".

In approving a cost-based 'building block' model for price setting, the Court's judgment can be seen as a warning to airports about unreasonable attempts to recover unrelated overheads from airlines. Documents emerged in evidence showing that Perth Airport was including costs such as Christmas decorations, corporate hospitality, memberships to associations and discounts used to attract new airlines in its price setting with Qantas.

While Qantas has continued to pay Perth Airport for access, as well as provisioning for an adverse judgment, today's decision will result in a 'true up' payment, which will be finalised through the courts in coming weeks, but it will be significantly below what Perth Airport demanded at the start of the case.

Perth Airport has yet to pay Qantas for the purchase of Terminal 4 in 2019, for which the national carrier has received valuations in excess of \$150 million.

COMMENTS FROM QANTAS GROUP CFO VANESSA HUDSON

"When our pricing agreement with Perth Airport expired in 2018, they wanted a 40 per cent price increase. We obviously couldn't agree to that. After some frustrating negotiations, the airport took us to court for underpayment instead of accepting our suggestion of an independent arbiter.

"The decision is positive because it upholds the building block model that is the established basis for setting prices. But it also sets a return on investment that we think is far too high for a low risk monopoly infrastructure asset.



“Excessive returns for monopolies usually result in over investment to chase returns, which customers ultimately end up paying for.

“We’ve seen this story play out before when electricity networks in NSW and Queensland over invested and prices for consumers almost doubled in ten years before regulators stepped in.

“Perth Airport ultimately wants Qantas to move to their proposed new terminal but the price to use that facility would not be commercially viable for Qantas if the return on investment in this judgment was applied.

“This decision only applies to the five and a half month period in 2018 and given how much has changed since then you simply can’t apply this rate to the subsequent multi-year period that we now need to come to an agreement on with Perth Airport.

“Given the Court’s conclusions about Perth Airport having monopoly power, this whole process shows the real issue here is that the light touch approach to airport regulation isn’t working. Three years in court to determine five months of pricing shows why the industry needs an expert umpire to resolve stalemates quickly when they occur.”

Media Enquiries: Qantas Media +61 418 210 005 qantasmedia@qantas.com.au

Investor Relations Enquiries: +61 416 058 178 filipkidon@qantas.com.au

Authorised for release by the Group General Counsel and Company Secretary

