Qantas
Annual Report
2018

Contents

Financial Highlights[1]

$1.6 billion
UNDERLYING PROFIT BEFORE TAX
(highest in Qantas' history)

$1,391 million
STATUTORY PROFIT BEFORE TAX

56 cents
STATUTORY EARNINGS PER SHARE

22%
RETURN ON INVESTED CAPITAL

$3,413 million
OPERATING CASH FLOW

$1 billion
RETURNED TO SHAREHOLDERS
through dividends and on-market share buy-backs

Qantas Domestic
$768m
Underlying EBIT
Up 19%

Qantas International
$399m
Underlying EBIT
Up 7%

Jetstar Group
$461m
Underlying EBIT
Up 11%

Qantas Loyalty
$372m
Underlying EBIT
Up 1%

1 Refer to the Review of Operations section in the Qantas Annual Report 2018 for definitions and explanations of non-statutory measures. Unless otherwise stated, amounts are reported on an underlying basis.

Five-year History[1]

FINANCIAL PERFORMANCE

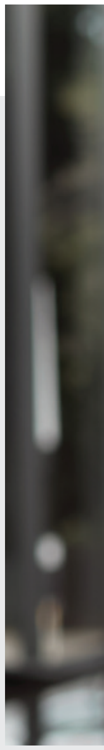
		2018	2017	2016	2015	2014
Total revenue	$M	17,060	16,057	16,200	15,816	15,352
Statutory Profit Before Tax	$M	1,391	1,181	1,424	789	(3,976)
Statutory Profit After Tax	$M	980	853	1,029	560	(2,843)
Underlying Profit Before Tax	$M	1,604	1,401	1,532	975	(646)
Underlying Earnings Before Interest and Tax (EBIT)	$M	1,786	1,590	1,751	1,233	(440)
Operating Margin	%	10.5	9.9	10.8	7.8	(2.9)
Underlying Earnings per share	Cents per share	64	55	53	32	(21)
Statutory Earnings per share	Cents per share	56	46	49	25	(129)
Return on Invested Capital (ROIC) %	%	22.0	20.1	22.7	16.2	(1.5)
Cash flow from operations	$M	3,413	2,704	2,819	2,048	1,069
Net free cash flow (excluding aircraft operating lease refinancing)	$M	1,442	1,309	1,674	1,104	-
Net on balance sheet debt	$M	3,054	3,062	2,880	2,594	3,455
Net debt (including capitalised operating leases)	$M	4,903	5,212	5,646	6,400	7,343
Net capital expenditure	$M	1,971	1,534	1,032	805	1,018
Unit Revenue (RASK)	c/ASK	8.31	8.00	8.08	8.21	7.89
Total unit cost	c/ASK	(7.26)	(7.07)	(7.05)	(7.54)	(8.35)
Ex-fuel unit cost	c/ASK	(5.15)	(5.03)	(4.79)	(4.97)	(5.05)

STATISTICS

		2018	2017	2016	2015	2014
Available Seat Kilometres (ASKs)	M	152,428	150,323	148,691	142,287	141,715
Revenue Seat Kilometres (RPKs)	M	126,814	121,178	119,054	112,543	109,659
Passengers carried	'000	55,273	53,659	52,681	49,181	48,776
Revenue Seat Factor	%	83.2	80.6	80.1	79.1	77.4
Aircraft in service at end of period		313	309	303	299	308

1 Refer to the Review of Operations section in the respective Qantas Annual Reports for definitions and explanations of non-statutory measures. Unless otherwise stated, amounts are reported on an underlying basis. 2016, 2015 and 2014 financial information reflects the information presented in the 2017, 2016 and 2015 Qantas Annual Reports and supporting documents respectively.

Chairman's Report



I'm pleased to report that the Qantas Group delivered another record profit in FY18, adding to the consistently strong results we've achieved since major restructuring four years ago.

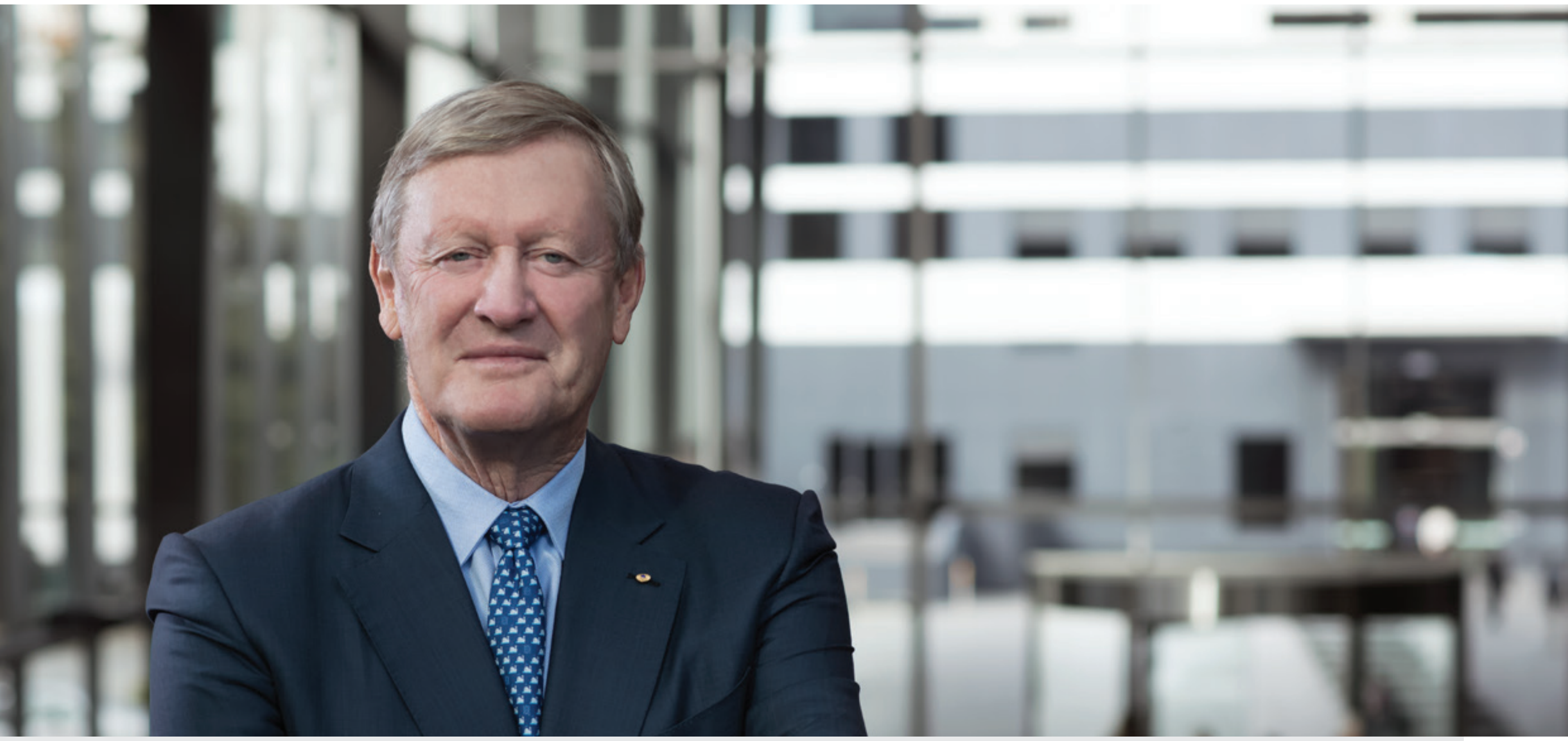
All segments of the business performed well. A record profit in **Group Domestic** showed the continued success of our dual brand strategy between Qantas and Jetstar.

Qantas International, which incorporates Qantas Freight, increased its earnings. This included the early benefits from some important changes — the introduction of the Dreamliner to replace our less efficient 747s, switching our hub from Dubai to Singapore and taking on some Trans-Tasman flying for our partner, Emirates.

Qantas Loyalty continued to grow. The core Frequent Flyer program remains strong and it successfully digested changes to credit card interchange fees that led banks to reduce the rate at which Qantas Points are earned. Revenue from new ventures, including health insurance and our own credit cards, increased.

Strong earnings across the Group meant we delivered on our **Financial Framework**. The framework demonstrates continued discipline towards net debt, capital expenditure and return on investment.

Strong earnings across the Group meant we delivered on our Financial Framework. The framework demonstrates continued discipline towards net debt, capital expenditure and return on investment.



This discipline allows us to keep **rewarding shareholders**. During FY18 we returned another $1 billion to shareholders through dividends and buybacks. When you add a further $500 million announced with our financial results in August 2018, we will have returned more than $3 billion to shareholders and reduced shares on issue by about 26 per cent since 2015.

We've also been in a position to **reward our people**, with $67 million set aside to recognise the contribution of about 27,000 non-executive employees towards the FY18 result. This is the fourth bonus in four years and takes the total amount set aside to reward our people to more than $300 million.

We look at multiple factors when we're assessing the Group's performance. Safety, customer satisfaction and employee engagement are all key, alongside the financial metrics. The strategy implemented by Alan Joyce and his management team delivered on all of these in FY18.

It's also crucial for us to look beyond annual reporting cycles and towards the longer term. We made good progress during FY18 in responding to the **four global trends** (https://www.qantas.com/au/en/qantas-group/looking-ahead.html) we know will influence our success in future — for instance, increasing our focus on new growth markets in Asia and development of our Pilot Academy.

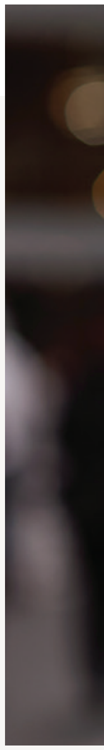
There have been some important changes on the Qantas Board as part of its ongoing renewal. Bill Meaney stepped down after six years of distinguished service and I'd like to sincerely thank him for his significant contribution. Subject to shareholder approval, two new members, Belinda Hutchinson and Tony Tyler, will bring extensive financial services and commercial aviation experience, respectively.

At the 2018 annual general meeting, Richard Goyder will become Qantas Chairman as I stand down after 11 years. Richard is a highly experienced business leader and an excellent choice to lead the Board into the future.

I have been privileged to serve as Chairman of the national carrier and such an iconic company. And I'm tremendously proud of what has been achieved over that time. The Group now moves towards its 100th year in the strongest position it's ever been in.

Leigh Clifford AO

CEO's Report



The past year saw many important developments at the Qantas Group.

As well as delivering a record financial result, rewarding shareholders and employees, and upholding our high safety standards, we made some strategically significant investments in customer experience and innovation.

Key among them is the **Perth–London route**. It's the first direct air link between Australia and Europe and it has quickly developed the highest customer satisfaction rating on our network. It was made possible by the arrival of the Boeing 787-9 and we have announced plans to grow this fleet to 14 aircraft by the end of 2020.

Through **Project Sunrise**, we continued feasibility work on another direct route — flying non-stop from the East Coast of Australia to London and New York. Journey times will be cut by up to four hours compared with today and we're working with Boeing and Airbus to start these flights by 2022.

We kept investing in our **network of lounges**, continued rollout of free Wi-Fi on the bulk of our domestic fleet and improved the digital customer experience from booking a flight through to checking-in. These things, plus many others, are key to the premium travel experience that underpins Qantas' margin advantage.

Jetstar continued to deliver on its promise of low fares, with 24 million people carried domestically or internationally for less than $100. Jetstar is upgrading the cabins of its A320 aircraft and we announced it will take delivery of 18 new A321LR NEOs from 2019.

Our ability to keep investing in the future depends on delivering today.

Industry figures show that global aviation will need up to 790,000 more pilots by 2030, and a third of that demand is in the Asia Pacific region. To make sure we have a strong talent pipeline we're investing in the **Qantas Group Pilot Academy**, split over two sites in regional Australia and due to open from 2019.

Our ability to keep investing in the future depends on delivering today. One challenge facing all airlines in FY19 is significantly **higher fuel prices**. We're confident that we will substantially recover these costs through a combination of capacity, revenue and efficiency measures, as well as our hedging program.

These cost pressures show the importance of our **ongoing transformation program**, which delivered $463 million in benefits in FY18 and is on track to deliver another $400 million in FY19.

As we look forward, I'd like to acknowledge the huge contribution made by Leigh Clifford who stands down as our Chairman in October 2018. Leigh's support and guidance through the turnaround of Qantas has helped put us in the position of strength we're in today. On behalf of the management team, we look forward to working with incoming Chairman Richard Goyder in the years ahead to build on this success.

Alan Joyce AC

Board of Directors

LEIGH CLIFFORD AO

BEng, MEngSci

Chairman and Independent Non-Executive Director

Leigh Clifford was appointed to the Qantas Board in August 2007 and as Chairman in November 2007.

He is Chairman of the Nominations Committee.

Mr Clifford is a Director of Bechtel Group Inc and Chairman of Bechtel Australia Pty Ltd and the National Gallery of Victoria Foundation. He is a Senior Advisor to Kohlberg Kravis Roberts & Co, a Member of the Council of Trustees of the National Gallery of Victoria, and Chairman of the University of Melbourne's philanthropic campaign.

Mr Clifford was Chief Executive of Rio Tinto from 2000 to 2007. He retired from the Board of Rio Tinto in 2007. His executive and board career with Rio Tinto spanned some 37 years in Australia and overseas.

Age: 71

ALAN JOYCE AC

BApplSc(Phy)(Math)(Hons), MSc(MgtSc), MA, FRAeS, FTSE

Chief Executive Officer

Alan Joyce was appointed Chief Executive Officer and Managing Director of Qantas in November 2008.

He is a Member of the Safety, Health, Environment and Security Committee.

Mr Joyce is a Director of the Business Council of Australia and a Member of the International Air Transport Association's Board of Governors, having served as Chairman from 2012 to 2013. He is also a Director of a number of controlled entities of the Qantas Group.

Mr Joyce was the Chief Executive Officer of Jetstar from 2003 to 2008. Before that, he spent over 15 years in leadership positions with Qantas, Ansett and Aer Lingus. At both Qantas and Ansett, he led the network planning, schedules planning and network strategy functions.

Prior to that, Mr Joyce spent eight years at Aer Lingus, where he held roles in sales, marketing, IT, network planning, operations research, revenue management and fleet planning.

Age: 52

MAXINE BRENNER

BA, LLB

Independent Non-Executive Director

Maxine Brenner was appointed to the Qantas Board in August 2013.

She is a Member of the Remuneration Committee and the Audit Committee.

Ms Brenner is a Director of Origin Energy Limited, Orica Limited and Growthpoint Properties Australia Limited. She is a Member of the Council of the University of New South Wales.

Ms Brenner was formerly a Managing Director of Investment Banking at Investec Bank (Australia) Limited. She has extensive experience in corporate advisory work, particularly in relation to mergers and acquisitions, corporate restructures and general corporate activity. She also practised as a lawyer with Freehill Hollingdale & Page (now Herbert Smith Freehills), where she specialised in corporate work, and spent several years as a lecturer in the Faculty of Law at both the University of NSW and the University of Sydney.

Ms Brenner was the Deputy Chairman of the Federal Airports Corporation and a Director of Neverfail Springwater Limited, Bulmer Australia Limited and Treasury Corporation of NSW. She also served as a Member of the Australian Government's Takeovers Panel.

Age: 56

Board of Directors continued

RICHARD GOODMANSON

BCom, BEc, MBA, MCE

Independent Non-Executive Director

Richard Goodmanson was appointed to the Qantas Board in June 2008.

He is Chairman of the Safety, Health, Environment and Security Committee and a Member of the Nominations Committee.

Mr Goodmanson was a Director of Rio Tinto plc and Rio Tinto Limited from 2004 to 2016.

From 1999 to 2009, he was Executive Vice President and Chief Operating Officer of E.I. du Pont de Nemours and Company. Previous to this role, he was President and Chief Executive Officer of America West Airlines. Mr Goodmanson was also Chief Operations Officer for Frito-Lay Inc, a subsidiary of PepsiCo, and a Principal at McKinsey & Company Inc. He spent 10 years in heavy civil engineering project management, principally in South East Asia. Additionally, Mr Goodmanson was an Economic Advisor to the Governor of Guangdong Province, China from 2003 until 2009.

Mr Goodmanson was born in Australia and is a citizen of both Australia and the United States.

Age: 71

RICHARD GOYDER AO

BCom, FAICD

Independent Non-Executive Director and Chairman Elect

Mr Goyder was appointed to the Qantas Board in November 2017.

He is a Member of the Audit Committee.

Mr Goyder is Chairman of Woodside Petroleum Limited, the Australian Football League Commission, JDRF Australia, the West Australian Symphony Orchestra, and of the Channel 7 Telethon Trust. He is an honorary member of the Business Council of Australia, and a Fellow of the AICD.

Mr Goyder was the Managing Director and CEO of Wesfarmers Limited from July 2005 to November 2017. He also previously held the roles of Finance Director between 2002 and 2004, and Deputy Managing Director and CFO between 2004 and 2005.

Mr Goyder was also formerly Chairman of the Australian B20 (the key business advisory body to the international economic forum which includes business leaders from all G20 economies).

Age: 58

JACQUELINE HEY

BCom, Grad Cert (Mgmt), GAICD

Independent Non-Executive Director

Jacqueline Hey was appointed to the Qantas Board in August 2013.

She is a Member of the Audit Committee.

Ms Hey is a Director of Bendigo and Adelaide Bank Limited and is Chairman of its Technology Committee. She is a Director of AGL Energy Limited and Chairman of its Safety, Sustainability & Corporate Responsibility Committee. She is also a Director of the Australian Foundation Investment Company Limited and Cricket Australia.

Ms Hey was formerly a Director of the Melbourne Business School from 2013 to 2018, the Special Broadcasting Service from 2011 to 2016 and a Member of the ASIC Directory Advisory Panel from 2013 to 2016.

Between 2004 and 2010, Ms Hey was Managing Director of various Ericsson entities in Australia and New Zealand, the United Kingdom and Ireland, and the Middle East. Her executive career with Ericsson spanned more than 20 years in which she held finance, marketing, sales and leadership roles.

Age: 52

Board of Directors continued

BELINDA HUTCHINSON AM

BEc, FCA, FAICD

Independent Non-Executive Director

Belinda Hutchinson was appointed to the Qantas Board in April 2018.

She is a Member of the Safety, Health, Environment and Security Committee and the Remuneration Committee.

Ms Hutchinson is currently Chancellor of the University of Sydney, Chairman of the Future Generation Global Investment Company, Chairman of Thales Australia and a Director of AGL Energy Limited.

She has over 30 years' experience in the financial services sector, working in senior roles at Citibank and Macquarie Group. Ms Hutchinson also has extensive board experience. She was formerly Chairman of QBE Insurance Limited, a Director of Telstra Corporation Limited, Coles Group Limited, Crane Group Limited, Energy Australia Limited, TAB Limited, Snowy Hydro Trading Limited and Sydney Water.

Age: 65

MICHAEL L'ESTRANGE AO

BA (Syd), MA (Oxon)

Independent Non-Executive Director

Michael L'Estrange was appointed to the Qantas Board in April 2016.

He is a Member of the Safety, Health, Environment and Security Committee.

Mr L'Estrange was Head of the National Security College at the Australian National University from 2009 to 2015. Prior to this, he was the Secretary of the Department of Foreign Affairs and Trade for almost five years and the Australian High Commissioner to the UK between 2000 and 2005. He served as Secretary to Cabinet and Head of the Cabinet Policy Unit from 1996 for more than four years and, prior to that, as Executive Director of the Menzies Research Centre.

He has been a Non-Executive Director of Rio Tinto plc and Rio Tinto Limited and a Director of the University of Notre Dame, Australia since 2014. He was appointed Deputy Chancellor of the University of Notre Dame, Australia in 2017.

Mr L'Estrange studied at the University of Sydney and later as a Rhodes Scholar at Oxford University, where he graduated as a Master of Arts with First Class Honours.

Age: 65

PAUL RAYNER

BEc, MAdmin, FAICD

Independent Non-Executive Director

Paul Rayner was appointed to the Qantas Board in July 2008.

He is Chairman of the Remuneration Committee and a Member of the Nominations Committee.

Mr Rayner is Chairman of Treasury Wine Estates Limited, a Director of Boral Limited and Chairman of its Audit Committee, and a Director of the Murdoch Children's Research Institute.

Mr Rayner was formerly a Director of Centrica plc from 2004 to 2014 and Chairman of its Audit Committee from 2004 to 2013. From 2002 to 2008, Mr Rayner was Finance Director of British American Tobacco plc based in London. Mr Rayner joined Rothmans Holdings Limited in 1991 as its Chief Financial Officer and held other senior executive positions within the Group, including Chief Operating Officer of British American Tobacco Australasia Limited from 1999 to 2001.

Previously, Mr Rayner worked for 17 years in various finance and project roles with General Electric, Rank Industries and the Elders IXL Group.

Age: 64

Board of Directors continued

TODD SAMPSON

MBA, BA(Hons)

Independent Non-Executive Director

Todd Sampson was appointed to the Qantas Board in February 2015.

He is a Member of the Remuneration Committee.

Mr Sampson was Executive Chairman of the Leo Burnett Group from September 2015 to January 2017, and National Chief Executive Officer from 2008 to 2015. He also sits on the Board of Fairfax Media Limited.

Mr Sampson has over 20 years' experience across marketing, communication, new media and digital transformation. He has held senior leadership and strategy roles for a number of leading communication companies in Australia and overseas, including as Managing Partner for D'Arcy, Strategy Director for The Campaign Palace and Head of Strategy for DDB Needham Worldwide.

Age: 48

BARBARA WARD AM

BEc, MPolEc

Independent Non-Executive Director

Barbara Ward was appointed to the Qantas Board in June 2008.

She is Chairman of the Audit Committee, a Member of the Safety, Health, Environment and Security Committee and a Member of the Nominations Committee.

Ms Ward is a Director of Caltex Australia Limited and a number of Brookfield Multiplex Group companies.

She was formerly a Director of the Commonwealth Bank of Australia, Lion Nathan Limited, Multiplex Limited, Data Advantage Limited, O'Connell Street Associates Pty Ltd, Allco Finance Group Limited, Rail Infrastructure Corporation, Delta Electricity, Ausgrid, Endeavour Energy and Essential Energy. She was also Chairman of Country Energy, NorthPower and HWW Limited, a Board Member of Allens Arthur Robinson, the Sydney Opera House Trust and the Sydney Children's Hospital Foundation, and on the Advisory Board of LEK Consulting.

Ms Ward was Chief Executive Officer of Ansett Worldwide Aviation Services from 1993 to 1998. Before that, Ms Ward held various positions at TNT Limited, including General Manager Finance, and also served as a Senior Ministerial Advisor to The Hon PJ Keating.

Age: 64

Review of Operations

For the year ended 30 June 2018

RESULT HIGHLIGHTS

Underlying Profit Before Tax

1,604 $M

FY18	**1,604**
FY17	1,401
FY16	1,532
FY15	975

Statutory Profit After Tax

980 $M

FY18	**980**
FY17	853
FY16	1,029
FY15	560

Return on Invested Capital

22.0 %

FY18	**22.0%**
FY17	20.1%
FY16	22.7%
FY15	16.2%

The Qantas Group reported a record Underlying Profit Before Tax[1] (Underlying PBT) of $1,604 million for the 12 months ended 30 June 2018, an increase of $203 million from 2016/17. The Group's Statutory Profit After Tax of $980 million was up $127 million from the prior year. The Statutory Profit Before Tax for this financial year included $213 million of costs which were not included in Underlying PBT. These costs included redundancies, restructuring and other costs associated with ongoing transformation.

The Group's three-year ambitious program to turnaround the business was successful. The building of this strong foundation and continuing to transform the business has allowed delivery of another record financial performance while effectively managing rising fuel costs.

Financial highlights for the 2017/18 financial year are:

- Record Statutory Earnings per share of 56 cents per share
- Continued strong Return on Invested Capital (ROIC)[2] of 22.0 per cent
- Delivery of $463 million in transformation benefits, well in excess of the $400 million annual target
- All operating segments delivering ROIC greater than their Weighted Average Cost of Capital (WACC)[3]
- Record operating cash flow of $3.4 billion

Disciplined capacity management and the dual brand strategy allowed the Group's domestic business (including both Qantas Domestic and Jetstar's domestic business) to report record Underlying Earnings before Interest and Taxation (EBIT). Jetstar Group's domestic and international businesses combined to deliver a record result for the Jetstar Group. Qantas International delivered improved earnings this financial year supported by improvement in Unit Revenue and higher seat factors that helped to offset rising fuel prices. Qantas Loyalty delivered another record performance providing a growing and diversified earnings stream, not directly exposed to fuel prices.

The Group's Financial Framework continues to guide our strategy. The balance sheet strengthened, with Net Debt[4] at $4.9 billion, below the bottom of the target range. Looking forward, this net debt position provides the Group with significant financial flexibility. The record operating cash flow of $3.4 billion allowed net capital expenditure[5] of $1.97 billion to be invested in the business and $1 billion of surplus capital to be returned to shareholders through a combination of dividends and on-market share buy-backs.

Giving consideration to the strength of the balance sheet and the near-term outlook for the business, the Board resolved to distribute a further $500 million of surplus capital to shareholders. This includes a 10 cent per share fully franked final dividend, totalling $168 million and an additional on-market share buy-back of up to $332 million.

1 Underlying Profit Before Tax (Underlying PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas Domestic, Qantas International, Jetstar Group and Qantas Loyalty operating segments is Underlying Earnings Before Net Finance Costs and Income Tax Expense (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying PBT to Statutory Profit Before Tax on Page 18.

2 Return on Invested Capital is calculated as ROIC EBIT for the 12 months ended 30 June 2018, divided by the 12 month average Invested Capital. ROIC EBIT is calculated by adjusting Underlying EBIT for the period to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they are owned aircraft.

3 Weighted Average Cost of Capital is calculated on a pre-tax basis.

4 Net debt under the Group's Financial Framework includes net on balance sheet debt and off-balance sheet aircraft operating lease liabilities.

5 Net capital expenditure of $1.97 billion is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) of $1.97 billion and the impact to Invested Capital of commencing/returning operating leases. There was no commencement/return of operating leases in 2017/18.

Review of Operations continued

For the year ended 30 June 2018

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

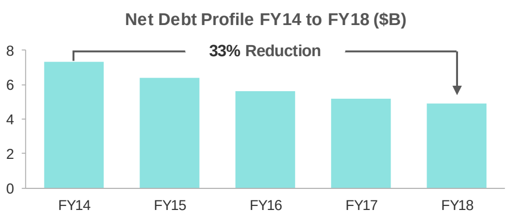
Qantas' Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings per Share (EPS) growth over the cycle, which in turn should generate Total Shareholder Return (TSR) in the top quartile of the ASX100 and a basket of global airlines,[6] the Financial Framework has three clear priorities and associated long-term targets:

1. Maintaining an Optimal Capital Structure	2. ROIC > WACC Through the Cycle	3. Disciplined Allocation of Capital
Minimise cost of capital by targeting a net debt range of $5.1 billion to $6.3 billion	Deliver ROIC > 10 per cent[7] through the cycle	Grow Invested Capital with disciplined investment, return surplus capital

MAINTAINABLE EPS GROWTH OVER THE CYCLE

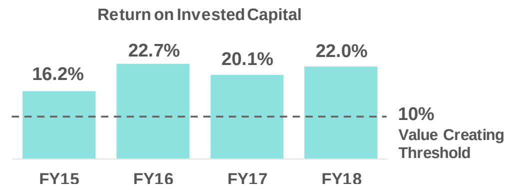
TOTAL SHAREHOLDER RETURN IN THE TOP QUARTILE

Maintaining an Optimal Capital Structure



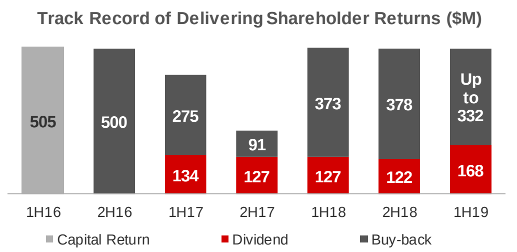
The Group's Financial Framework targets an optimal capital structure with a net debt range of between $5.1 billion and $6.3 billion, based on the current Average Invested Capital of approximately $8.8 billion, a minimum ROIC of 10 per cent and net debt/ROIC EBITDA range of 2.0-2.5 times. This capital structure optimises the Group's cost of capital, preserves financial strength and therefore enhances long-term shareholder value. At 30 June 2018, net debt was $4.9 billion. The Group's optimal capital structure is consistent with investment grade credit metrics. The Group is rated BBB- with Standard & Poor's and Baa2 with Moody's Investor Services.

ROIC > WACC Through the Cycle



Return on Invested Capital (ROIC) of 22.0 per cent was above the Group's value creating threshold ROIC of 10 per cent for the fourth consecutive year.

Disciplined Allocation of Capital

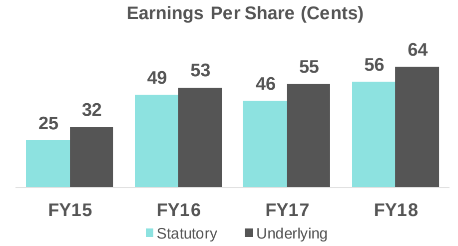


The Qantas Group takes a disciplined approach to allocating capital with the aim to grow Invested Capital and return surplus capital to shareholders.

— Net capital expenditure of $1.97 billion was invested during the financial year
— $1 billion was distributed to shareholders in 2017/18 through ordinary dividends and on-market share buy-backs

In August 2018, the Directors declared a fully franked final dividend of 10 cents per ordinary share totalling $168 million and announced an on-market share buy-back of up to $332 million.

Maintainable EPS Growth Over the Cycle



Statutory Earnings per Share was 56 cents. The increase from 2016/17 was driven by an increase in Statutory Profit After Tax and a 5.3 per cent reduction in weighted average shares on issue. The Group purchased 125 million shares for $751 million at an average price of $6.02.

6 Target Total Shareholder Return within the top quartile of the ASX100 and the global listed airline peer group as stated in the 2017 Annual Report, with reference to the 2017-2019 Long Term Incentive Plan.
7 Target of 10 per cent ROIC allows ROIC to be greater than pre-tax WACC through the cycle.

Review of Operations continued

For the year ended 30 June 2018

GROUP PERFORMANCE

Underlying PBT for 2017/18 was $1,604 million compared to an Underlying PBT of $1,401 million in 2016/17. The record result was due primarily to the increase in net passenger revenue and benefits from transformation that more than offset the increases in fuel and expenses associated with additional flying activity. Net passenger revenue increased by six per cent, through revenue uplift from additional flying activity and strong improvement in Group Unit Revenue.

Group Underlying Income Statement Summary	June 2018 $M	June 2017 $M	Change $M	Change %
Net passenger revenue	14,715	13,857	858	6
Net freight revenue	862	808	54	7
Other revenue	1,483	1,392	91	7
Revenue and other income	**17,060**	**16,057**	**1,003**	**6**
Operating expenses (excluding fuel) [8]	(10,268)	(9,683)	(585)	(6)
Fuel	(3,232)	(3,039)	(193)	(6)
Depreciation and amortisation[8]	(1,517)	(1,382)	(135)	(10)
Non-cancellable aircraft operating lease rentals	(272)	(356)	84	24
Share of net profit/(loss) of investments accounted for under the equity method	15	(7)	22	>100
Total underlying expenditure	**(15,274)**	**(14,467)**	**(807)**	**(6)**
Underlying EBIT	**1,786**	**1,590**	**196**	**12**
Net finance costs	(182)	(189)	7	4
Underlying PBT	**1,604**	**1,401**	**203**	**14**

Operating Statistics		June 2018	June 2017	Change	Change %
Available Seat Kilometres (ASK)[9]	M	152,428	150,323	2,105	1.4
Revenue Passenger Kilometres (RPK)[10]	M	126,814	121,178	5,636	4.7
Passengers carried	'000	55,273	53,659	1,614	3.0
Revenue Seat Factor[11]	%	83.2	80.6	2.6pts	3.2
Operating Margin[12]	%	10.5	9.9	0.6pts	6.1
Unit Revenue (RASK)[13]	c/ASK	8.31	8.00	0.31	3.9
Total unit cost[14]	c/ASK	(7.26)	(7.07)	(0.19)	(2.7)
Ex-fuel unit cost[15]	c/ASK	(5.15)	(5.03)	(0.12)	(2.4)

Group capacity (Available Seat Kilometres) increased by 1.4 per cent, while demand (Revenue Passenger Kilometres) increased by 4.7 per cent, resulting in a 2.6 percentage point increase in Revenue Seat Factor. Unit Revenue increased by 3.9 per cent in 2017/18 with an increase of 3.5 per cent in the first-half compared to the first half of 2016/17, improving to an increase of 4.4 per cent in the second-half compared to the second half of 2016/17, as capacity discipline in both the domestic and international markets prevailed. The Group's total unit cost increased by 2.7 per cent including the impact of higher fuel prices and costs associated with increased revenue. This includes commissions, down-gauging of aircraft and investment in improved customer experience including in-flight Wi-Fi.

TRANSFORMATION

The Group maintained its focus on ongoing transformation, delivering $463 million in benefits which exceeded the annual target of $400 million. This included net revenue benefits of $176 million from a range of initiatives including structural changes such as the introduction of the Dreamliner to Qantas International, the Singapore hub restructure and commencement of the Perth to London direct service. Non-fuel costs were reduced by $254 million through a combination of technology-based innovations, commercial sourcing benefits as well as optimising scheduled maintenance on the A380 fleet. With rising fuel costs and a continued focus on reducing carbon emissions, $33 million in fuel benefits was achieved through a range of fuel efficiency measures including increased utilisation of ground power units and single engine taxiing.

8 Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT such as those items identified by Management as not representing the underlying performance of the business. Refer to the reconciliation on page 18.
9 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
10 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
11 Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.
12 Operating Margin is Group Underlying EBIT divided by Group total revenue.
13 Unit Revenue is calculated as ticketed passenger revenue per ASK. The prior period has been restated to conform with current year presentation.
14 Total Unit Cost is Underlying PBT less ticketed passenger revenue per ASK. The comparative period has been restated to conform with current year presentation.
15 Ex-fuel unit cost is measured as Underlying PBT less ticketed passenger revenue, fuel and share of profit/(loss) of investments accounted for under the equity method, adjusted for the impact of changes in foreign exchange rates, discount rates and other actuarial assumptions per ASK. The comparative period has been restated to conform with current year presentation.

Review of Operations continued

For the year ended 30 June 2018

CASH GENERATION

Cash Flow Summary	June 2018 $M	June 2017 $M	Change $M	Change %
Operating cash flows	3,413	2,704	709	26
Investing cash flows (excluding aircraft operating lease refinancing)	(1,971)	(1,395)	(576)	(41)
Net free cash flow	**1,442**	**1,309**	**133**	**10**
Aircraft operating lease refinancing	(230)	(651)	421	65
Financing cash flows	(1,296)	(854)	(442)	(52)
Cash at beginning of year	1,775	1,980	(205)	(10)
Effect of foreign exchange on cash	3	(9)	12	>100
Cash at end of year	**1,694**	**1,775**	**(81)**	**(5)**

Debt Analysis		June 2018	June 2017	Change	Change %
Net on balance sheet debt[16]	$M	3,054	3,062	(8)	(0)
Capitalised operating lease liabilities[17]	$M	1,849	2,150	(301)	(14)
Net debt[18]		**4,903**	**5,212**	**(309)**	**(6)**
FFO/net debt[19]	%	67	58	9 pts	
Debt/EBITDA[20]	times	2.0	2.3	(0.3 times)	

Operating cash flows were a record $3.4 billion, as earnings improved.

Net capital expenditure of $1.97 billion included investment in replacement fleet such as the final payments and progress payments for the 787-9 Dreamliners for Qantas International, customer experience initiatives including lounge upgrades, the continuation of the Airbus A330 reconfiguration program and Wi-Fi installation on the Qantas Domestic fleet. Qantas generated $1.4 billion of net free cash flow in the period, an increase of $133 million from the prior year. This facilitated net debt reduction and returns to shareholders.

With reduced financial leverage and minimal near-term refinancing risk, the Group has continued to optimise the mix of liquidity with less requirement for short-term liquidity held in cash. The Group used $230 million cash in excess of its short-term requirements to purchase six aircraft out of maturing operating leases. Using the Group's existing cash balance in this way achieved the following benefits:

- Reduced gross debt and cost of carry with minimal impact to net debt
- Greater fleet and maintenance planning flexibility
- Reduced exposure to US$ lease rentals

The Group enhanced the quality of the unencumbered pool of aircraft by adding five new 787-9s, bringing the total unencumbered aircraft to 61 per cent of the fleet with an approximate value of US$4.0 billion.[21]

Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changes in market conditions and earnings scenarios. At 30 June 2018, the Group's leverage metrics were well within investment grade metrics (BBB/Baa) with FFO/net debt[19] of 67 per cent and Debt/EBITDA[20] of 2.0 times.

FLEET

The determination of the optimal fleet age for the Qantas Group balances a number of factors and varies by fleet type, including the availability of any new technology, the level of capacity growth required in the markets that it serves, the competitive landscape and whether the investment is earnings accretive.

At all times, the Group retains significant flexibility to respond to changes in market conditions and the competitive landscape by deploying number of strategies including fleet redeployment, refurbishment, renewal and retirement.

During the year, the Group continued to cross utilise the A330-200 and 737-800 aircraft between Qantas Domestic and Qantas International, optimising capacity to match demand. These aircraft were released from Qantas Domestic through capacity right sizing in the domestic market. At 30 June 2018, the Qantas Group fleet[22] totalled 313 aircraft. During 2017/18, the Group acquired five 787-9s (Qantas International), retired one 747-400 (Qantas International) and transferred two A320-200 aircraft from Jetstar to QantasLink.

16 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents.
17 Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at a long-term exchange rate.
18 Net debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.
19 Management's estimate based on Standard and Poor's methodology.
20 Management's estimate based on Moody's methodology.
21 Based on AVAC market values.
22 Includes Qantas Airways, Jetstar Australia and New Zealand, Jetstar Asia, Qantas Freight and Network Aviation, and excludes aircraft operated by Jetstar Japan and Jetstar Pacific.

Review of Operations continued

For the year ended 30 June 2018

Fleet Summary (Number of aircraft)	June 2018	June 2017
A380	12	12
747-400/400ER	10	11
A330-200/300	28	28
737-800	75	75
787-9	5	–
717-200	20	20
Q200/300/400	45	45
F100	17	17
A320-200	2	–
Total Qantas (including QantasLink and Network Aviation)	214	208
Q300	5	5
A320/A321-200	77	79
787-8	11	11
Total Jetstar Group	93	95
737-300/400F	5	5
767-300F	1	1
Total Freight	6	6
Total Group	**313**	**309**

SEGMENT PERFORMANCE

Segment Performance Summary	June 2018 $M	June 2017 $M	Change $M	Change %
Qantas Domestic	768	645	123	19
Qantas International	399	374	25	7
Jetstar Group	461	417	44	11
Qantas Loyalty	372	369	3	1
Corporate	(195)	(173)	(22)	(13)
Unallocated/Eliminations	(19)	(42)	23	55
Underlying EBIT	**1,786**	**1,590**	**196**	**12**
Net finance costs	(182)	(189)	7	4
Underlying PBT	**1,604**	**1,401**	**203**	**14**

QANTAS DOMESTIC

Revenue

5,973 $M

FY18	5,973
FY17	5,632
FY16	5,710
FY15	5,828

Underlying EBIT

768 $M

FY18	768
FY17	645
FY16	578
FY15	480

Operating Margin

12.9 %

FY18	12.9%
FY17	11.5%
FY16	10.1%
FY15	8.2%

Metrics		June 2018	June 2017	Change
ASKs	M	34,385	35,231	(2.4%)
Seat factor	%	77.8	76.4	1.4pts

Qantas Domestic reported a record Underlying EBIT of $768 million, up 19.1 per cent from 2016/17. Qantas Domestic was able to offset fuel price increases as Unit Revenue increased by eight per cent compared to 2016/17 through continued capacity management discipline. Qantas Domestic maintained its leadership position in the corporate market while growing its share of the Small to Medium Enterprise (SME) market. During the year Qantas Domestic also benefited from the recovery of the resources market.

The dual brand strategy together with the benefits of transformation and investment in our customers continued to deliver leading

Review of Operations continued

For the year ended 30 June 2018

margins in the Australian domestic market, with the operating margin for Qantas Domestic up 1.4 percentage points to 12.9 per cent.

Qantas Domestic continued to invest in customer experience delivering:

- >15 percentage points customer advocacy[23] premium to competitor[24]
- 84 per cent on-time performance[25]
- More than half of the 737 fleet Wi-Fi equipped (improved Net Promotor Score (NPS) for in-flight entertainment on Wi-Fi equipped 737s); A330 Wi-Fi roll-out underway
- Improved offerings for regional travel through expansion of resident fares program and turboprop refurbishment
- The new Melbourne Qantas Club and business lounge upgrades underway.

QANTAS INTERNATIONAL

Revenue

6,892 $M

FY18	6,892
FY17	6,413
FY16	6,496
FY15	6,295

Underlying EBIT

399 $M

FY18	399
FY17	374
FY16	576
FY15	381

Operating Margin

5.8 %

FY18	5.8%
FY17	5.8%
FY16	8.9%
FY15	6.1%

Metrics		June 2018	June 2017	Change
ASKs	M	69,280	66,389	4.4%
Seat factor	%	84.2	81.0	3.2pts

Qantas International reported an Underlying EBIT of $399 million for 2017/18, up 6.7 per cent compared to 2016/17. Unit Revenue increased by 2.5 per cent in competitive market conditions while Qantas International maintained its strong operating margin in a rising fuel price environment.

Structural transformation continues to build earnings resilience with the introduction of the 789 Dreamliner to the fleet, successful launch of the direct Perth – London service in March 2018 and the completion of the Singapore hub switch creating increased network connectivity. Qantas International has ordered six additional Dreamliners, accelerating 747 retirements and is strengthening its customer proposition through extended partnerships and alliances.

Qantas International continued to invest in customer experience delivering:

- Higher customer advocacy[23] on Dreamliner routes, including Perth – London
- New London and Perth transit hub lounges opened
- First five 787-9s delivered,[26] enabling new network opportunities, cost efficiencies and yield premium.

JETSTAR GROUP

Revenue

3,767 $M

FY18	3,767
FY17	3,600
FY16	3,636
FY15	3,464

Underlying EBIT

461 $M

FY18	461
FY17	417
FY16	452
FY15	230

Operating Margin

12.2 %

FY18	12.2%
FY17	11.6%
FY16	12.4%
FY15	6.6%

Metrics		June 2018	June 2017	Change
ASKs	M	48,763	48,703	0.1%
Seat factor	%	85.6	83.1	2.5pts

The Jetstar Group reported Underlying EBIT of $461 million, a record result in an increasing fuel price environment. Jetstar Domestic delivered record earnings of $311 million with Unit Revenue up five per cent driven by a three per cent seat factor improvement on a one per cent capacity reduction. Jetstar International[27] had strong earnings with ROIC>WACC whilst all Jetstar's branded airlines in Asia[28] were

23 Customer advocacy measured as Net Promoter Score (NPS). Based on Qantas internal reporting.
24 Competitor refers to Virgin Australia. Based on Qantas internal reporting.
25 On time performance (OTP) of Qantas Domestic operations. Measured as departures within 15 minutes of scheduled departure time for FY18. Source: BITRE
26 New 787-9 deliveries as at 30 June 2018.
27 Includes Jetstar International Australian operations and Jetstar New Zealand (including Jetstar regionals).
28 Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific (Vietnam).

Review of Operations continued

For the year ended 30 June 2018

profitable. Jetstar Japan maintained its domestic Low Cost Carrier (LCC) leadership position,[29] Jetstar Pacific improved its domestic position as capacity discipline returned to the market and Jetstar Asia contributed to benefits from the Singapore hub switch.

Jetstar continued its investment in digital transformation and customer experience delivering:

— Cabin Enhancement Program for A320/321 retrofit progressed with improved NPS for completed aircraft[30]
— Club Jetstar continued growth with more than 250,000 members[31]
— Investing in innovation and digital capability to personalise the customer experience and drive ancillary margin growth.

QANTAS LOYALTY

Revenue

1,546 $M

FY18	1,546
FY17	1,505
FY16	1,454
FY15	1,362

Underlying EBIT

372 $M

FY18	372
FY17	369
FY16	346
FY15	315

Operating Margin

24.1 %

FY18	24.1%
FY17	24.5%
FY16	23.8%
FY15	23.1%

Metrics		June 2018	June 2017	Change
QFF members	M	12.3	11.8	4.2%

Qantas Loyalty reported another record result with Underlying EBIT of $372 million, up one per cent compared to 2016/17. The strategy to mitigate interchange fee regulatory change was on track during this transition year.

Coalition Business fundamentals continue to strengthen with:

– Co-branded credit card growth outpacing the market[32]
– Strengthening the Woolworths' proposition, first full year of the new program
– Growth in everyday earn partners, successful launch of Red Energy
– Expanding member redemption options including enhanced access to air, hotel and point of sale
– Qantas Classic International redemptions up 10 per cent.[33]

Qantas Business Rewards membership and partner growth supported the airline SME share growth strategy. Qantas Travel Money[34] increased its customer value proposition and was awarded a 5 star Canstar rating. New businesses remain on track with Qantas Insurance[35] moving into scale up phase and the successful launch of the Qantas Premier Everyday Card.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax of $1,391 million for 2017/18 was $210 million higher than the previous year.

Underlying PBT

Underlying PBT is the primary reporting measure used by the Qantas Group's Chief Operating Decision-Making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group and Qantas Loyalty operating segments is Underlying EBIT. The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally.

	2018 $M	2017 $M
Reconciliation of Underlying PBT to Statutory Profit Before Tax		
Underlying PBT	**1,604**	**1,401**
Items not included in Underlying PBT		
– Transformation costs	(162)	(142)
– Turnaround, Wage Freeze bonus and Record Results employee bonus	(53)	(85)
– Net gains/(losses) on investments	12	20
– Other	(10)	(13)
Total items not included in Underlying PBT	**(213)**	**(220)**
Statutory Profit Before Tax	**1,391**	**1,181**

29 Measured as percentage of market share for FY18. Source: Diio Mi.
30 Compared to aircraft with equivalent seat pitch.
31 Members as at August 2018.
32 Based on the number of credit card accounts with interest-free periods. Market growth calculated excluding Qantas' contribution to market based on June 2018 compared to June 2017. Source: RBA credit and card charges statistics.
33 Compared to 2016/17.
34 Previously Qantas Cash.
35 Previously Qantas Assure.

Review of Operations continued

For the year ended 30 June 2018

Items which are identified by Management and reported to the CODM as not representing the underlying performance of the business are not included in Underlying PBT. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period.

Items not included in Underlying PBT primarily result from costs relating to major transformational/restructuring initiatives, gains/(losses) on transactions involving investments, impairments of assets and other transactions outside the ordinary course of business.

- Transformation costs of $162 million were incurred during the year. Transformation costs included redundancy and related costs of $43 million, fleet restructuring costs of $81 million (primarily relates to costs for the introduction of the 789 Dreamliners and the retirement of the 747 fleet) and other upfront costs of $38 million directly incurred to enable the delivery of transformation benefits.
- Turnaround employee bonus of $53 million payable to non-executive employees that agree to an 18 month pay freeze, in recognition of the successful completion of the Turnaround Program.
- Net gains/(losses) on investments of $12 million relates to the sale of a business within the Qantas Loyalty segment and the recycling of the foreign exchange translation reserve on disposal of an investment.

MATERIAL BUSINESS RISKS

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or an epidemic. Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects. The Group's focus is on continuously improving the controls to manage or mitigate these risks as the nature of these risks and the risk landscape for the Qantas Group has not materially changed compared with the previous year. The Qantas Group continues to operate in a domestic and international environment where elevated political risk for the business will be the norm. The increased level of unpredictability makes it imperative that the Group continues to plan for wide ranges of scenarios and risks to ensure its robustness.

Competitive intensity: Market capacity growth ahead of underlying demand impacts industry profitability.

- Australia's liberal aviation policy settings coupled with the strength of the Australian economy has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas remains focused on building key strategic airline partnerships with strong global partners and optimising its network. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas International continues to build a resilient and sustainable business through transformation.
- The Australian domestic aviation market is highly competitive. The Qantas Group's market-leading domestic position and dual brand strategy allow Qantas to effectively mitigate the impact of market changes. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic continues to focus on managing its cost base through sustainable transformation initiatives to ensure it remains competitive, while maintaining a revenue premium. Jetstar is working to maintain its lowest seat cost and yield advantage. These priorities result in Qantas Domestic and Jetstar Domestic delivering the highest Underlying EBITs in their respective markets, enabling the Group to retain Underlying EBIT share in excess of capacity share.

Fuel and foreign exchange volatility: The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2018/19, the Group's hedging profile is positioned such that 2018/19 fuel costs are expected to be $3.92[36] billion with an average 54 per cent participation rate[37] to lower fuel prices. Fuel price is 73 per cent hedged for the remainder of 2018/19. Complementing the hedging program, increased focus on forecasting and the operational agility of our aviation operations are supporting the Group to manage the residual uncertainty.

Cyber security and data governance: The cyber security and data environment is continuously evolving. Qantas remains focused on further strengthening its governance, processes and technology controls to continue to protect the integrity and privacy of data and maintain compliance with regulatory requirements. The Qantas Group's ongoing investment in cyber transformation initiatives, together with its extensive Control and Risk Framework,[38] operate to reduce the likelihood of cyber security and data privacy incidents, assisting with the early detection and mitigation of impact. Given the nature of this risk, the appropriateness of the controls is continuously reviewed by the Group Cyber and Privacy Committee and is subject to independent assurance on a periodic basis.

Key business partners and alliances: The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework.

Climate change: The Qantas Group is subject to short-term and long-term climate-related physical and transition risks. These risks are an inherent part of the operations of an airline and are managed by strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate policies) impact the proximity of climate-related risks. The Qantas Group is responding to increased demand for transparency on identification and management of climate-related risks by aligning its 2017/18 corporate disclosures with the Taskforce on Climate-Related Financial Disclosures (TCFD), a summary table for which can be found on the Qantas Group corporate site.

36 As at 20 August 2018. This assumes forward market rates of Jet Fuel US$85.80 per barrel and AUD/USD 0.7317. 2018/19 fuel cost could be impacted by a breakdown in correlation or by increases in refining margins.

37 As at 20 August 2018. Participation from current market Brent prices down US$10 per barrel for the remainder of 2018/19.

38 An overview of the Group Risk Management Framework is contained in the Qantas Group Business Practices Document available on www.qantas.com.au

Corporate Governance Statement

For the year ended 30 June 2018

OVERVIEW

Corporate governance is core to ensuring the creation, protection and enhancement of shareholder value. The Board maintains, and requires that Qantas Management (Management) maintains, the highest level of corporate ethics.

The Board comprises a majority of Independent Non-Executive Directors who, together with the Executive Director, have an appropriate balance of skills, knowledge, experience, independence and diversity to enable the Board as a collective to effectively discharge its responsibilities.

The Board endorses the ASX Corporate Governance Principles and Recommendations, 3rd Edition (ASX Principles).

Accordingly, Qantas Airways Limited has disclosed its 2018 Corporate Governance Statement in the Corporate Governance section on the Qantas website. As required, Qantas has also lodged the Corporate Governance Statement with the ASX.

Following is a summary of the key aspects of the Corporate Governance Statement.

THE BOARD LAYS SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a formal Charter which is available in the Corporate Governance section on the Qantas website.

The Board is responsible for setting and reviewing the strategic direction of Qantas and monitoring the implementation of that strategy by Management.

The CEO is responsible for the day-to-day management of the Qantas Group with all powers, discretions and delegations authorised, from time to time, by the Board.

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

THE BOARD IS STRUCTURED TO ADD VALUE

The Qantas Board currently has eleven Directors. Ten Directors are Independent Non-Executive Directors elected by shareholders. The Qantas CEO, who is an Executive Director, is not regarded as independent.

Details of the current Directors, their qualifications, skills, experience and tenure are set out on pages 8 to 11 of the Qantas Annual Report 2018.

The Board has four committees:

- Audit Committee
- Nominations Committee
- Remuneration Committee
- Safety, Health, Environment and Security Committee

Each of these committees assists the Board with specified responsibilities that are set out in the Committee Charters, as delegated and approved by the Board.

Membership of and attendance at 2017/18 Board and Committee meetings is detailed on page 23 of the Qantas Annual Report 2018.

THE BOARD PROMOTES ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board has established a corporate governance framework, comprising Non-Negotiable Business Principles (Principles) and Group Policies, which forms the foundation for the way in which the Qantas Group undertakes business. The Principles and Group Policies, including the Qantas Group Code of Conduct and Ethics, are detailed in the Qantas Group Business Practices document. This framework is supported by a rigorous Whistleblower Program, which provides a protected disclosure process for all reporting persons.

The Qantas Group Employee Share Trading Policy sets out guidelines designed to protect the Qantas Group Directors and its employees from intentionally or unintentionally breaching the law. The Qantas Group Employee Share Trading Policy prohibits employees from dealing in the securities of any Qantas Group listed entity while in possession of material non-public information.

In addition, certain nominated Qantas employees are also prohibited from entering into any hedging or margin lending arrangement or otherwise granting a charge over the securities of any Qantas Group listed or unlisted entity, where control of any sale process relating to those securities may be lost.

Corporate Governance Statement continued

For the year ended 30 June 2018

THE BOARD SAFEGUARDS THE INTEGRITY OF CORPORATE FINANCIAL REPORTING

The Board and the Audit Committee closely monitor the independence of the external auditor. Regular reviews occur of the independence safeguards put in place by the external auditor. Qantas rotates the lead external audit partner every five years and imposes restrictions on the employment of personnel previously employed by the external auditor. Qantas last rotated its lead external audit partner during the 2016/17 year.

Policies are in place to restrict the type of non-audit services which can be provided by the external auditor and a detailed review of non-audit fees paid to the external auditor is undertaken on a half-yearly basis.

At each meeting, the Audit Committee meets privately with Executive Management without the external auditor, and with the internal and external auditors without Executive Management.

THE BOARD MAKES TIMELY AND BALANCED DISCLOSURE

Qantas is committed to ensuring that trading in its shares takes place in an orderly and informed market, by having transparent and consistent communication with all shareholders. Qantas has an established process to ensure that it complies with its continuous disclosure obligations at all times, including a bi-annual confirmation by all Executive Management that the areas for which they are responsible have complied with the Group's Continuous Disclosure Policy.

Qantas proactively communicates with its shareholders via the ASX and its web-based Newsroom, with all materials released by the Group being made available to all shareholders at the same time. Additionally, Qantas actively conveys its publicly-disclosed information and seeks the views of its shareholders, large and small, in a number of forums, including at the Annual General Meeting (AGM), the Qantas Investor Day and, as is common practice among its major listed peers, through periodic meetings with current and potential institutional shareholders.

THE BOARD RESPECTS THE RIGHTS OF SHAREHOLDERS

Qantas has a Shareholder Communications Policy which promotes effective two-way communication with shareholders and the wider investment community, and encourages participation at general meetings.

Shareholders also have the option to receive communications from, and send communications to, Qantas and its Share Registry electronically, including email notification of significant market announcements.

The external auditor attends the AGM and is available to answer shareholder questions that are relevant to the audit.

THE BOARD RECOGNISES AND MANAGES RISK

Qantas is committed to embedding risk management practices to support the achievement of business objectives and fulfil corporate governance obligations. The Board is responsible for reviewing and overseeing the risk management strategy for the Qantas Group and for ensuring the Qantas Group has an appropriate corporate governance structure. Within that overall strategy, Management has designed and implemented a risk management and internal control system to manage Qantas' material business risks.

During 2017/18, the two Board committees responsible for oversight of risk-related matters, the Audit Committee and the Safety, Health, Environment and Security Committee, undertook their annual review of the effectiveness of Qantas' implementation of its risk management system and internal control framework.

The internal audit function is carried out by Group Audit and Risk and is independent of the external auditor. Group Audit and Risk provides independent, objective assurance and consulting services on Qantas' system of risk management, internal control and governance.

The Audit Committee approves the Group Audit and Risk Internal Audit Charter, which provides Group Audit and Risk with full access to Qantas Group functions, records, property and personnel, and establishes independence requirements. The Audit Committee also approves the appointment, replacement and remuneration of the internal auditor. The internal auditor has a direct reporting line to the Audit Committee and also provides reporting to the Safety, Health, Environment and Security Committee.

THE BOARD REMUNERATES FAIRLY AND RESPONSIBLY

The Qantas Executive remuneration objectives and approach are set out below.

Information about remuneration of Executive Management is disclosed to the extent required, together with the process for evaluating performance, in the Remuneration Report from page 27 to 48 of the Qantas Annual Report 2018.

Qantas Non-Executive Directors are entitled to statutory superannuation and certain travel entitlements (accrued during service) that are reasonable and standard practice in the aviation industry. Non-Executive Directors do not receive any performance-based remuneration (see pages 47 to 48 of the Qantas Annual Report 2018).

Directors' Report

For the year ended 30 June 2018

The Directors of Qantas Airways Limited (Qantas) present their Report, together with the Financial Statements of the consolidated entity comprising Qantas and its controlled entities (Qantas Group) and the Independent Audit Report, for the year ended 30 June 2018. In compliance with the provisions of the *Corporations Act 2001,* the Directors' Report is set out below.

DIRECTORS

The Directors of Qantas during the year were:

Leigh Clifford AO

Alan Joyce AC

Maxine Brenner

Richard Goodmanson

Richard Goyder AO (appointed 17 November 2017)

Jacqueline Hey

Belinda Hutchinson AM (appointed 12 April 2018)

Michael L'Estrange AO

Paul Rayner

Todd Sampson

Barbara Ward AM

William Meaney (retired 29 June 2018)

Details of the Directors' qualifications, experience and any special responsibilities, including Qantas Committee Memberships, are set out on pages 8 to 11.

PRINCIPAL ACTIVITIES

The principal activities of the Qantas Group during the year were the operation of international and domestic air transportation services, the provision of freight services and the operation of a frequent flyer loyalty program. There were no significant changes in the nature of the activities of the Qantas Group during the year.

DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

The Directors declared a final dividend of $168 million (10.0 cents per ordinary share) for the year ended 30 June 2018 (2017: 7.0 cents per share).

The final dividend will be franked and follows an unfranked interim dividend of $122 million (7.0 cents per ordinary share), which was paid during the year.

In addition, the Directors announced an on-market share buy-back of up to $332 million. During the year ended 30 June 2018, the Group completed the on-market share buy-back of $373 million, which was announced in August 2017, and the on-market share buy-back of $378 million announced in February 2018.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Qantas Group that occurred during the year under review.

Any matter or circumstance that has arisen since the end of the year that may affect the Qantas Group's state of affairs in future financial years has been included in page 85 to the Financial Statements.

REVIEW OF OPERATIONS

A review of, and information about, the Qantas Group's operations, including the results of those operations during the year, together with information about the Qantas Group's financial position appear on pages 12 to 19.

Details of the Qantas Group's strategies, prospects for future financial years and material business risks have been included in the Review of Operations to the extent that their inclusion is not likely to result in unreasonable prejudice to the Qantas Group. In the opinion of the Directors, detail that could be unreasonably prejudicial to the interests of the Qantas Group, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage, has not been included.

EVENTS SUBSEQUENT TO BALANCE DATE

Refer to page 85 for events which occurred subsequent to balance date. Other than the matters disclosed on page 85, since the end of the year and to the date of this Report no other matter or circumstance has arisen that has significantly affected or may significantly affect the Qantas Group's operations, results of those operations or state of affairs in future years.

Directors' Report continued

For the year ended 30 June 2018

DIRECTORS' MEETINGS

The number of Directors' meetings held (including meetings of Committees of Directors) and attendance of Directors during 2017/2018 is as follows:

	Qantas Board						Audit Committee[1]		Safety, Health, Environment and Security Committee[1]		Remuneration Committee[1]		Nominations Committee[1]	
	Scheduled Meetings		Unscheduled Meetings		Sub-Committee Meetings[2]									
Directors	Attended	Held[3]	Attended	Held[3]	Attended	Held	Attended	Held[3]	Attended	Held	Attended	Held[3]	Attended	Held
Leigh Clifford	6	7	3	3	3	3[4]	–	–	–	–	–	–	2	2
Alan Joyce	7	7	3	3	3	3[4]	–	–	4	4	–	–	–	–
Maxine Brenner	7	7	3	3	–	–	5	5	–	–	3	3	–	–
Richard Goodmanson	7	7	2	3	–	–	–	–	4	4	–	–	2	2
Richard Goyder[5]	4	4	2	2	–	–	2	2	–	–	–	–	–	–
Jacqueline Hey	7	7	3	3	–	–	5	5	–	–	–	–	–	–
Belinda Hutchinson[6]	2	2	1	1	–	–	–	–	–	–	–	–	–	–
Michael L'Estrange	7	7	2	3	–	–	–	–	4	4	–	–	–	–
William Meaney[7]	7	7	3	3	–	–	–	–	4	4	3	3	–	–
Paul Rayner	7	7	3	3	–	–	–	–	–	–	3	3	2	2
Todd Sampson	7	7	2	3	–	–	–	–	–	–	3	3	–	–
Barbara Ward	7	7	3	3	2	2[4]	5	5	4	4	–	–	2	2

1. All Directors are invited to, and regularly attend, committee meetings in an ex officio capacity. The above table reflects the attendance of a Director only where he or she is a member of the relevant committee.
2. Sub-Committee meetings convened for specific Board-related business.
3. Number of meetings held during the period that the Director held office.
4. Number of meetings held and requiring attendance.
5. Mr Goyder was appointed as a Director on 17 November 2017 and as a Member of the Audit Committee on 11 April 2018.
6. Ms Hutchinson was appointed as a Director on 12 April 2018.
7. Mr Meaney retired as a Director on 29 June 2018.

DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2018 – FOR THE PERIOD 1 JULY 2015 TO 30 JUNE 2018

Leigh Clifford	Qantas Airways Limited	Current, appointed 9 August 2007
Alan Joyce	Qantas Airways Limited	Current, appointed 28 July 2008
Maxine Brenner	Qantas Airways Limited Origin Energy Limited Orica Limited Growthpoint Properties Australia Limited	Current, appointed 29 August 2013 Current, appointed 15 November 2013 Current, appointed 8 April 2013 Current, appointed 19 March 2012
Richard Goodmanson	Qantas Airways Limited Rio Tinto Limited Rio Tinto plc	Current, appointed 19 June 2008 Ceased, appointed 1 December 2004 and ceased 5 May 2016 Ceased, appointed 1 December 2004 and ceased 5 May 2016
Richard Goyder	Qantas Airways Limited Woodside Petroleum Ltd	Current, appointed 17 November 2017 Current, appointed 1 August 2017
Jacqueline Hey	Qantas Airways Limited AGL Energy Limited Australian Foundation Investment Company Bendigo and Adelaide Bank Limited	Current, appointed 29 August 2013 Current, appointed 21 March 2016 Current, appointed 31 July 2013 Current, appointed 5 July 2011
Belinda Hutchinson	Qantas Airways Limited AGL Energy Limited	Current, appointed 12 April 2018 Current, appointed 22 December 2010
Michael L'Estrange	Qantas Airways Limited Rio Tinto Limited Rio Tinto plc	Current, appointed 7 April 2016 Current, appointed 1 September 2014 Current, appointed 1 September 2014

Directors' Report continued

For the year ended 30 June 2018

DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2018 – FOR THE PERIOD 1 JULY 2015 TO 30 JUNE 2018, (CONTINUED)

Paul Rayner	Qantas Airways Limited Treasury Wine Estates Limited Boral Limited Centrica plc	Current, appointed 16 July 2008 Current, appointed 9 May 2011 Current, appointed 5 September 2008 Ceased, appointed 22 September 2004 and ceased 31 December 2014
Todd Sampson	Qantas Airways Limited Fairfax Media Limited	Current, appointed 25 February 2015 Current, appointed 29 May 2014
Barbara Ward	Qantas Airways Limited Caltex Australia Limited Brookfield Capital Management Limited[1] Brookfield Funds Management Limited[2]	Current, appointed 19 June 2008 Current, appointed 1 April 2015 Current, appointed 1 January 2010 Current, appointed 22 October 2003

1. Responsible entity for the Brookfield Prime Property Fund and the Multiplex European Property Fund, both of which were listed Australian registered managed investment schemes until they delisted on 3 July 2017 and 17 September 2015 respectively.
2. Responsible entity for the Multiplex SITES Trust, which is a listed Australian registered managed investment scheme.

QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF QANTAS AS AT 30 JUNE 2018

Andrew John Finch – Company Secretary	BCom, LLB (UNSW), LLM (Hons I) (USyd), MBA (Exec) (AGSM) Appointed as Company Secretary on 31 March 2014 Joined Qantas on 1 November 2012 2002 to 2012 – Mergers and Acquisitions Partner at Allens, Sydney (previously Allens Arthur Robinson and Allen & Hemsley) 1999 to 2001 – Managing Associate at Linklaters, London 1993 to 1999 – Various roles at Allens, Sydney including Senior Associate (1997 to 1999) and Solicitor (1993 to 1997) Admitted as a solicitor of the Supreme Court of NSW in 1993
Anna Rachel Pritchard – Company Secretary	BA, LLB (Otago), LLM (UNSW) Appointed as a Company Secretary on 22 June 2016 Joined Qantas on 23 August 2010 2005 to 2010 – Solicitor at Allens Arthur Robinson, Sydney 2001 to 2005 – Solicitor at the Australian Government Solicitor Admitted as a solicitor of the Supreme Court of NSW, the High Court of Australia and the High Court of New Zealand in 2001
Debra Joan Smith – Company Secretary	BA, LLB (ANU) Appointed as a Company Secretary on 6 April 2017 Joined Qantas on 2 January 2001 1999 to 2000 – Solicitor at Minter Ellison 1994 to 1999 – Commonwealth Public Servant (various senior roles) Admitted as a solicitor of the High Court of Australia and the ACT Supreme Court in 1999 and the Supreme Court of NSW in 2001

Directors' Report continued

For the year ended 30 June 2018

DIRECTORS' INTERESTS AND BENEFITS

Particulars of Directors' interests in the issued capital of Qantas at the date of this Report are as follows:

	Number of Shares	
Directors	2018	2017[1]
Leigh Clifford	362,613	362,613
Alan Joyce	2,728,924	2,728,924
Maxine Brenner	30,065	30,065
Richard Goodmanson	18,780	18,780
Richard Goyder	100,000	–
Jacqueline Hey	38,170	38,170
Belinda Hutchinson	16,200	–
Michael L'Estrange	12,012	6,012
Paul Rayner	287,909	270,324
Todd Sampson	7,095	4,695
Barbara Ward	44,694	44,694

1. As at 15 September 2017.

In addition to the interests shown, indirect interests in Qantas shares held in trust on behalf of Mr Joyce are as follows:

	Number of Shares	
	2018	2017
Deferred shares held in trust under:		
2015/16 Short Term Incentive Plan	490,738	490,738
2016/17 Short Term Incentive Plan	347,012	347,012
2017/18 Short Term Incentive Plan	154,118[1]	–

1. The deferred shares under the 2017/18 Short Term Incentive Plan were awarded to Mr Joyce following the release of the 2017/2018 full-year financial results.

	Number of Rights	
	2018	2017
Rights granted under:		
2016–2018 Long Term Incentive Plan	–[1]	947,000
2017–2019 Long Term Incentive Plan	1,172,000[2]	1,172,000
2018–2020 Long Term Incentive Plan	687,000[3]	–
Total Rights	**1,859,000**	**2,119,000**

1. Following the testing of performance hurdles as at 30 June 2018 and the Board's approval of the 2016–2018 Long Term Incentive Plan (LTIP) vesting outcome on 22 August 2018, 100 per cent of the 2016–2018 LTIP Rights awarded to Mr Joyce on 23 October 2015 vested and converted to 947,000 shares after the release of the 2017/2018 full-year financial results.
2. Shareholders approved the award of these Rights on 21 October 2016. Performance hurdles will be tested as at 30 June 2019 to determine whether any Rights vest to Mr Joyce.
3. Shareholders approved the award of these Rights on 27 October 2017. Performance hurdles will be tested as at 30 June 2020 to determine whether any Rights vest to Mr Joyce.

RIGHTS

Performance Rights are awarded to select Qantas Group Executives under the Qantas Deferred Share Plan (DSP) and the Qantas Employee Share Plan (ESP). Refer to pages 34 to 37 for further details.

The following table outlines the movements in Rights during the year:

	Number of Rights	
Performance Rights Reconciliation	2018	2017
Rights outstanding as at 1 July	64,752,500	70,891,615
Rights granted	3,976,000	7,495,500
Rights forfeited	(3,954,047)	(3,495,500)
Rights exercised	(49,652,953)	(10,139,115)
Rights outstanding as at 30 June	**15,121,500[1]**	**64,752,500[1]**

1. The movement of Rights outstanding as at 30 June 2018 to the date of this Report is explained in the footnotes on page 26.

Rights will be converted to Qantas shares to the extent performance hurdles have been achieved. The Rights do not allow the holder to participate in any share issue of Qantas. No dividends are payable on Rights. The fair value of Rights granted is calculated at the date of grant using a Monte Carlo model and/or Black-Scholes model.

Directors' Report continued

For the year ended 30 June 2018

The following Rights were outstanding at 30 June 2018:

				Number of Rights					
Name	Testing Period	Grant Date	Value at Grant Date	2018 Net Vested	2018 Unvested	2018 Total	2017 Net Vested	2017 Unvested	2017 Total
2015–2017 Long Term Incentive Plan	30 Jun 17[1]	15 Sep 14	$0.97	–	–	–	–	45,284,000	**45,284,000**
2015–2017 Long Term Incentive Plan	30 Jun 17[1]	24 Oct 14	$0.97	–	–	–	–	4,349,500	**4,349,500**
2015–2017 Long Term Incentive Plan	30 Jun 17[1]	3 May 15	$3.05	–	–	–	–	1,962,500	**1,962,500**
2016–2018 Long Term Incentive Plan	30 Jun 18[2]	1 Sep 15	$2.09	–	3,890,000	**3,890,000**	–	4,665,000	**4,665,000**
2016–2018 Long Term Incentive Plan	30 Jun 18[2]	23 Oct 15	$2.46	–	974,500	**974,500**	–	996,000	**996,000**
2017–2019 Long Term Incentive Plan	30 Jun 19	5 Sep 16	$1.96	–	5,418,000	**5,418,000**	–	6,148,500	**6,148,500**
2017–2019 Long Term Incentive Plan	30 Jun 19	21 Oct 16	$1.95	–	1,172,000	**1,172,000**	–	1,347,000	**1,347,000**
2018–2020 Long Term Incentive Plan	30 Jun 20	5 Sep 17	$2.98	–	2,938,500	**2,938,500**	–	–	–
2018–2020 Long Term Incentive Plan	30 Jun 20	27 Oct 17	$3.30	–	728,500	**728,500**	–	–	–
Total				**–**	**15,121,500**	**15,121,500**	**–**	**64,752,500**	**64,752,500**

1. Following the testing of performance hurdles as at 30 June 2017 and the Board's approval of the 2015–2017 vesting outcome on 24 August 2017, 100 per cent of Rights vested and converted to shares after the release of the 2016/2017 full-year financial results.
2. Following the testing of performance hurdles as at 30 June 2018 and the Board's approval of the 2016–2018 vesting outcome on 22 August 2018, 100 per cent of Rights vested and converted to shares after the release of the 2017/2018 full-year financial results.

REMUNERATION REPORT

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED)

COVER LETTER TO THE REMUNERATION REPORT

Dear Shareholder,

The Remuneration Report sets out remuneration information for the Chief Executive Officer (CEO), direct reports to the CEO (Executive Management) and Non-Executive Directors, includes a summary of the Remuneration Framework and describes the pay outcomes for 2017/2018 in a simple and transparent way.

Remuneration Outcomes in 2017/2018

In 2017/2018, Qantas achieved a record Underlying PBT of $1,604 million and a ROIC[1] of 22% (which is well in excess of WACC[2]). This was due to the excellent work of Management and all employees in continuing to deliver the transformation program and in continuing to provide high levels of customer service. We've also invested for the future, most notably through the delivery of our first 787-9 Dreamliners.

These results are reflected in the remuneration outcomes for 2017/2018. Incentives were paid at an above target level under the Short Term Incentive Plan (STIP) and the Long Term Incentive Plan (LTIP) awards vested in full.

Nonetheless, pay outcomes for the CEO were lower in 2017/2018 than they were in 2016/2017 as:
- The Board set more stretching targets under the annual incentive, meaning that the STIP Scorecard Outcome for 2017/2018 was lower than in 2016/2017 (despite Qantas achieving a record financial result)
- From 1 July 2018, the CEO's annual incentive opportunity was decreased from 120% to 100% of base pay (offset by an increase to his LTIP opportunity)
- The CEO was awarded fewer Rights under the long term incentive tested in 2017/2018 (2016-2018 LTIP) than under the plan tested in 2016/2017 (2015-2017 LTIP)

The CEO's pay outcomes for 2017/2018 were lower than 2016/2017 as follows:
- Annual incentive is 20% lower
- Long term incentive is 69% lower
- Total pay outcome is 56% lower
- Statutory remuneration disclosure is 3% lower

Changes to the Remuneration Framework for 2017/2018

As detailed in the 2017 Remuneration Report, the Board made a number of changes to the Remuneration Framework that came into effect on 1 July 2017. The Board believes these changes will further align pay outcomes with performance and shareholder experience and enhance transparency. These changes are detailed on page 41 and are summarised below:
- Changing the Pay Mix for the CEO, decreasing the weighting towards annual incentives and increasing the weighting towards long term incentives
- Introducing a cap (maximum outcome) on STIP awards
- Moving to a 'face value' methodology for awarding LTIP Rights in such a way that neither advantages or disadvantages Executive Management compared to our prior methodology

The Qantas Board believes that the Remuneration Framework remains appropriate and that the 2017/2018 Remuneration Outcomes are fair and reflect performance.

Paul Rayner
Chairman, Remuneration Committee

1 Calculated as ROIC EBIT for the 12 months ended 30 June 2018, divided by the 12 months Average Invested Capital.
2 Weighted Average Cost of Capital (WACC) calculated on a pre-tax basis.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

1 REMUNERATION REPORT SUMMARY

The 2017/2018 remuneration outcomes under the Qantas Executive Remuneration Framework are summarised as follows:

BASE PAY OUTCOMES FOR 2017/2018

The CEO's Base Pay remained unchanged (and has not increased since July 2011).

Mr La Spina and Mr David received Base Pay increases, their first increase since being appointed to their respective roles in March 2015. On commencing in their roles, both Mr La Spina's and Mr David's Base Pay was set below the market median for comparable roles in peer group companies and lower than the Base Pay of their predecessors. Following more than 2 years of strong performance in their respective roles, their Base Pay was realigned closer to market median of comparable roles in ASX50 and revenue peer companies.

The same approach to setting Base Pay has been applied for Ms Webster, who was appointed to the role of CEO Qantas International on 1 November 2017. Ms Webster's Base Pay was set at a level below her predecessor and having regard to comparable roles in peer group companies.

A more detailed description is provided on page 34. Base Pay for each Executive Management is provided on page 43.

ANNUAL INCENTIVE PLAN OUTCOMES FOR 2017/2018

Highlights of the 2017/18 STIP:

- Record Underlying PBT result drives STIP outcomes
- STIP scorecard outcome of 128% aligned to financial, safety, customer and operational performance
- Deferral: one-third deferred into shares with 2-year restriction period

What is the STIP?

The STIP is an annual incentive where an Executive may receive an award that is a combination of a cash bonus and an award of restricted shares if the plan's performance conditions are achieved.

Individual STIP awards are calculated using the following formula:

Base Pay	x	'Target' Opportunity	x	STIP Scorecard Outcome	x	Individual Performance Factor

The STIP 'Target' Opportunity varies by individual and is expressed as a percentage of Base Pay of between 80% and 100%.

What were the performance measures that comprise the 2017/18 STIP Scorecard?

Underlying PBT is the key budgetary and financial performance measure for the Qantas Group. Accordingly, Underlying PBT is the key performance measure in the STIP Scorecard, with 50% of the scorecard outcome determined based on this measure.

The remainder of the scorecard is comprised of other key financial and non-financial measures.

The complete STIP Scorecard performance measures and outcomes are detailed on page 38.

What was the 2017/18 STIP Scorecard Outcome?

The 2017/18 STIP Scorecard Outcome was 128%.
This Scorecard Outcome was determined based on the Board's assessment of Executive Management's achievement against the Scorecard's performance measures.
The Board's approach to setting the Underlying PBT target is provided in the box to the right.

The Board's assessment of the CEO's and Executive Management's contribution to these performance measures is provided on page 39.

How are 2017/18 STIP outcomes disclosed?

In addition to the required statutory remuneration disclosures, Qantas chooses to disclose the full value of the 2017/18 STIP awards that were made in relation to the 2017/2018 year, disclosing both:

- The value of cash awards made
- The full value of restricted shares that were awarded (notwithstanding that these shares are still subject to a 2-year trading restriction)

Setting the Underlying PBT Target

Given the cyclicality of the aviation industry, it is not appropriate to set profit targets based on year-on-year linear growth. Instead, at the start of each year, the Board sets a financial budget and profit target, taking into account the operating environment at that time as well as considering investor requirements for a certain level of sustainable returns.

For 2017/2018, the target was set at a level higher than prior years' targets and was done so in an environment with increasing capacity from international competitors and higher fuel costs.

While setting the target is a challenging process, the Board has a strong track record of setting challenging profit targets that reflect both the operating environment and a requirement to deliver sustainable returns to shareholders. For example, profit targets and thresholds were not achieved for the 3 years from 2011/2012 through to 2013/2014, but the profit target was achieved in 2014/2015 through to 2017/2018 driven by Qantas' strong profit results in those years.

The Qantas Executive Remuneration Framework reflects the cyclicality of the industry and it continues to do a good job of managing remuneration outcomes in this complex environment.

International competition did increase during the year and fuel costs were higher than anticipated and higher than the prior year. Despite these challenges, Executive Management delivered a record Underlying PBT result and the Underlying PBT target for 2017/2018 was exceeded.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

LONG TERM INCENTIVE PLAN OUTCOMES FOR 2017/2018

Highlights of the LTIP for 2017/2018:

- 100% of Rights vested due to strong TSR performance of +107% over the past 3 years
- Qantas 3-year TSR was ranked in top quartile in the ASX 100 and the airline peer group
- Relative TSR performance hurdles are continuing to be achieved off higher starting share prices
- Share price growth drove value in LTIP

QANTAS SHARE PRICE GROWTH

What is the LTIP?

The LTIP involves an upfront award of a fixed number of Rights.
If performance conditions and service conditions are achieved over a 3-year period, Rights vest and convert to Qantas shares.

What methodology was used to determine Rights awarded under the 2016-2018 LTIP?

Since 1 July 2017, Qantas has used a face value allocation methodology to determine the number of Rights awarded under the LTIP.

For awards made prior to 1 July 2017, a fair value allocation methodology was used. The number of Rights allocated to each Executive under the 2016-2018 LTIP was determined applying the following formula:

Base Pay	x	'Target' Opportunity	÷	Fair Value of Right

The LTIP 'Target' opportunity under the 2016-2018 LTIP varied by individual and was expressed as a percentage of Base Pay of between 50% and 80% on a fair value basis.

What are the performance conditions under the LTIP?

Qantas' 3-year TSR performance compared to:

- ASX100 companies
- A global airline peer group

What was Qantas' TSR performance over the past 3 years?

Over the 3-year performance period of the 2016–2018 LTIP, the Qantas share price grew from $3.16 to $6.16, and together with dividends paid delivered a TSR performance of +107%.

Qantas' TSR performance over these 3 years ranked:

- 14th compared to ASX100 companies (86th percentile)
- 2nd compared to the airline peer group (94th percentile)

What was the level of vesting achieved under the 2016–2018 LTIP?

Based on Qantas' top quartile TSR performance against both the ASX100 and airline peer groups, 100% of Rights vested and converted to Qantas shares.

How are 2016–2018 LTIP outcomes disclosed?

In addition to the required statutory disclosures, Qantas also elects to disclose the full value of the 2016–2018 LTIP awards that vested during the year, disclosing both:

- The value of the LTIP awards driven by vesting (that is, based on the $3.16 share price at the start of the performance period)
- The value of the LTIP awards that is driven by the $3.00 of share price growth experienced over the 3-year performance period

How did Executive Management contribute to the share price performance that generated vesting under the 2016–2018 LTIP?

As part of the transformation, Executive Management made significant structural and sustainable changes to the business.

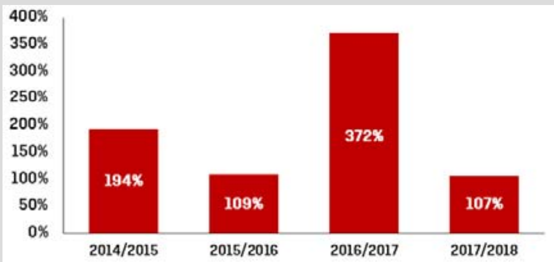
Executive Management has continued its commitment to transformation. The program has unlocked more than $2.5 billion of cost and revenue benefits since 2014, including $463 million of benefits during 2017/2018, further driving TSR performance.

Continued Share Price Growth

Continued share price growth has led to Qantas achieving top quartile relative TSR performance against both the ASX100 and the airline peer group over multiple rolling 3 year periods.

The relative TSR performance hurdles are continuing to be achieved off higher starting share prices.

Rolling 3 year absolute TSR performance:



Rolling 3 year Relative TSR performance history:

LTIP Period	ASX100 peer group	Airline peer group
2016-2018	Top quartile	Top quartile
2015-2017	Top quartile	Top quartile
2014-2016	Top quartile	Top quartile
2013-2015	Top quartile	Above median

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

REMUNERATION OUTCOMES FOR THE CEO IN 2017/2018

CEO's Remuneration Outcome – Key Points:

- Base Pay frozen since 2011 (and was decreased for 18 months to June 2015)
- CEO 'Pay Mix' changed from 1 July 2017, with a higher weighting to Long Term Incentives and no change to overall pay opportunity
- Annual Incentive award 20% lower than 2016/2017:
  - Record financial performance and strong non-financial performance. However, the STIP Scorecard outcome was lower than in 2016/2017
  - One-third deferred into shares with 2-year restriction
- Long Term Incentive Plan outcome 69% lower than 2016/2017:
  - 100% of Rights vested
  - Share price growth contributed $2.84 million of additional value in CEO's LTIP award
  - Significantly fewer Rights were awarded under the 2016-2018 LTIP compared to prior year

Qantas' sustained financial performance has driven pay outcomes under both the annual and long term incentives for 2017/2018. These outcomes as they apply to the CEO are detailed below.

Base Pay

The CEO's base pay has been frozen since 1 July 2011 and he did not receive an increase during 2017/2018. The CEO forwent 5% of his base pay from 1 January 2014 until 30 June 2015.

Base Pay (cash) is Base Pay of $2,125,000 less superannuation contributions of $20,049.

CEO REMUNERATION OUTCOMES - BASE PAY (CASH)

Annual Incentive – 2017/18 STIP Outcome

The CEO's 2017/18 STIP award was 20% lower than his 2016/17 STIP award, due to a 'Pay Mix' change and the lower STIP Scorecard Outcome in 2017/2018.

From 1 July 2017, the CEO's annual incentive opportunity was decreased from 120% to 100% of Base Pay. This was offset by an increase to the CEO's LTIP opportunity from 80% to 100% of Base Pay on a fair value basis.

Based on the Board's assessment of performance against the STIP Scorecard measures and the CEO's individual performance, the CEO's STIP award was calculated as follows:

Total	=	Base Pay	x	'Target' Opportunity	x	STIP Scorecard Outcome	x	Individual Performance Factor
$2,992,000	=	$2,125,000	x	100%	x	128%	x	1.1

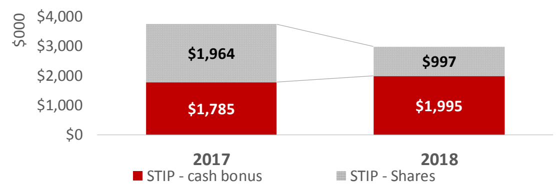
The STIP Scorecard Outcome is detailed on page 38. The Board's assessment of how the CEO contributed to the performance outcome is provided on page 39.

The Individual Performance Factor (IPF) for the CEO was determined by the Board based on its assessment of the CEO's contribution to achieving the scorecard measures, as well as the CEO's individual performance against KPIs in the areas of strategy, customer, government relations, people, leadership and industrial relations.

The 2017/18 STIP award was delivered in the following combination of cash and shares:

- Cash: $1,995,000 (2/3rds of the total award)
- Shares, with 2-year restriction: $997,000, (1/3rd of the total award

CEO REMUNERATION OUTCOMES - ANNUAL INCENTIVES



Long Term Incentive – 2016–2018 LTIP Outcome

The CEO was awarded fewer Rights under the 2016-2018 LTIP (947,000 Rights), than under the 2015-2017 LTIP (3,248,000 Rights) due to:

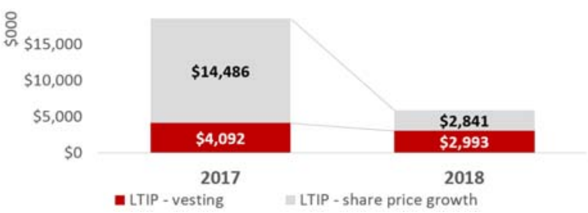
- The CEO's 2015-2017 LTIP award being made as part of a pay mix change in 2014/15 where the CEO's LTIP opportunity was increased (and STIP opportunity decreased) for one year only. The CEO's 2016-2018 LTIP (and STIP) award reverted to the original opportunity level
- A higher share price at the start of the performance period being used to calculate the CEO's 2016-2018 LTIP award

Based on Qantas' top quartile TSR performance over the 3-year performance period of the 2016-2018 LTIP, 100% of Rights vested and the CEO was awarded 947,000 shares.

The value of these shares at the start of the performance period was $2,992,520. The value of these shares increased by $2,841,000 over the 3-year performance period.

To ensure complete transparency on the full value of the 2016–2018 LTIP awards that vested during the year, Qantas chooses to disclose both the value of the awards driven by vesting and the value driven by the share price growth experienced over the 3-year performance period.

CEO REMUNERATION OUTCOMES – LONG TERM INCENTIVES



Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration Outcomes for the CEO for 2017/2018

The remuneration outcomes for the CEO in 2017/2018 are detailed in the following table. These outcomes are aligned with the CEO's and Qantas' performance during 2017/2018, as well as being aligned with Qantas' longer-term performance.

CEO Remuneration Outcomes[1]	2017 $'000	2018 $'000	2018 vs 2017 % change
Base Pay (cash)[2]	2,105	2,105	0%
STIP – cash bonus	1,785	1,995	12%
STIP – share-based	1,964	997	(49%)
LTIP – vesting[3]	4,092	2,993	(27%)
Other	152	(62)	n/a
Total	**10,098**	**8,028**	**(20%)**
LTIP – share price growth[4]	14,486	2,841	**(80%)**
Total – including share price growth	**24,584**	**10,869**	**(56%)**

1. Detail of non-statutory remuneration methodology is explained on page 32.
2. Base Pay (cash) for Mr Joyce is Base Pay of $2,125,000 (2017: $2,125,000) less superannuation contributions of $20,049 (2017: $19,616) which are reported in 'Other'.
3. LTIP vesting at 100% valued at the start of the performance period (30 June 2015 when the share price was $3.16).
4. Increase in the value of the shares over the performance period (from $3.16 on 30 June 2015 to $6.16 at 30 June 2018).

Statutory Remuneration Disclosures

The statutory remuneration disclosures for the CEO are prepared in accordance with Australian Accounting Standards.

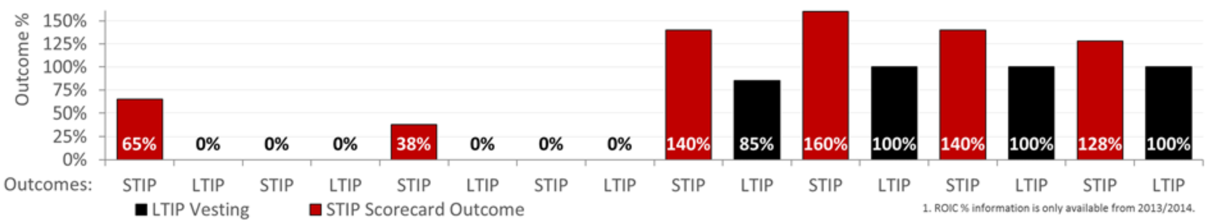
The statutory disclosures differ from the remuneration outcomes for the CEO due to the accounting treatment of share-based payments for the STIP and LTIP. A reconciliation of remuneration outcomes to statutory remuneration disclosures is provided on page 34.

CEO Statutory Remuneration Table	2017 $'000	2018 $'000
Base Pay (cash)	2,105	2,105
STIP – cash bonus	1,785	1,995
STIP – share-based	1,437	1,501
LTIP	2,470	2,160
Other	152	(62)
Total	**7,949**	**7,699**

CEO Remuneration Outcomes History (2010/2011 to 2017/2018)

Qantas' incentive awards are designed to align Executive remuneration with business performance. This alignment is demonstrated each year in the variability in the history of the incentive plan outcomes for the CEO, which reflect business performance.

	2011	2012	2013	2014	2015	2016	2017	2018
Underlying PBT ($m)	$552	$95	$186	($646)	$975	$1,532	$1,401	$1,604
ROIC %[1]				(1.5%)	16.2%	22.7%	20.1%	22.0%



CHANGES TO THE REMUNERATION FRAMEWORK FOR 2017/2018

As outlined in the 2017 Remuneration Report, the Board made a number of changes to the Remuneration Framework that applied from 1 July 2017.

Pay Mix for the CEO and Cap on STIP Outcomes

The Board has changed the relative weighting of incentive plan opportunities for the CEO from 2017/2018. This involved a decrease in the weighting towards annual incentives and an increase in the weighting towards long term incentives. The change further aligned the CEO to Qantas' longer-term objectives. This was a pay mix change only and there was no increase in the CEO's total pay opportunity. The change was as follows:

Incentive Plan Opportunity[1]	2016/2017 Fair value	Face Value	2017/2018 Fair Value	Face Value
Annual Incentive	120%	120%	100%	100%
Long Term Incentive	80%	156%	100%	185%

1. Expressed as a percentage of Base Pay.

Additionally, the STIP now has a formal cap, set at 200% of Fixed Annual Remuneration (FAR) for the CEO and 160% of FAR for other Executive Management.

Methodology Used for Allocating Awards of Rights Under the LTIP – 'Fair vs Face'

Previously, Qantas used a fair value methodology to determine the number of Rights awarded to Executive Management under the LTIP. Qantas had chosen to also disclose 'Target' LTIP opportunities for Executive Management on a face value basis.

Some shareholders and advisors had expressed a preference for LTIP awards to be calculated using the face value of the underlying share, rather than the fair value of the Right. Consistent with a shift in market practice among other ASX listed companies, Qantas moved to a face value allocation methodology commencing from 2017/2018.

The move from a fair value methodology to a face value methodology required a one-off conversion of the stated 'Target' LTIP opportunity. The 'Target' opportunity on a face value basis was set at a level that awarded a similar number of Rights as would have been awarded under the previous fair value approach so as not to advantage or disadvantage plan participants.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

REMUNERATION REPORT FOR 2017/2018

The Remuneration Report sets out remuneration information for the CEO, Executive Management and Non-Executive Directors. Section 300A of the *Corporations Act 2001* requires disclosure of remuneration information for Key Management Personnel (KMP), with KMP defined in Australian Accounting Standard AASB 124 Related Party Disclosures as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

2 REMUNERATION OUTCOMES FOR 2017/2018

The following table summarises the remuneration decisions and outcomes for the CEO and Executive KMP for the year ended 30 June 2018. The remuneration detailed in this table is aligned to the current year performance and is therefore particularly useful in understanding current year pay and its alignment with performance.

Remuneration Outcomes Table – CEO and Executive KMP[1]

$'000s		Base Pay (Cash)[2]	STIP Cash Bonus[3]	STIP Deferred Award[3]	LTIP Vesting[4,5]	Other Benefits[6]	Total	LTIP Share Price Growth[7]	Total Including Share Price Growth
Current Executives									
Alan Joyce	**2018**	2,105	1,995	997	2,993	(62)	8,028	2,841	10,869
Chief Executive Officer	2017	2,105	1,785	1,964	4,092	152	10,098	14,486	24,584
Tino La Spina	**2018**	930	681	340	749	76	2,776	711	3,487
Chief Financial Officer	2017	835	476	524	378	115	2,328	1,337	3,665
Andrew David	**2018**	930	648	324	749	112	2,763	711	3,474
CEO Qantas Domestic	2017	830	476	524	437	76	2,343	1,547	3,890
Gareth Evans[8]	**2018**	1,040	760	380	880	83	3,143	836	3,979
CEO Jetstar Group	2017	1,010	577	634	1,284	132	3,637	4,545	8,182
Lesley Grant[9]	**2018**	855	597	299	749	21	2,521	711	3,232
CEO Qantas Loyalty to 31 October 2017	2017	830	453	499	707	64	2,553	2,502	5,055
Alison Webster[9]	2018	644	376	188	155	33	1,396	147	1,543
CEO Qantas International from 1 November 2017	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Olivia Wirth[9]	**2018**	797	557	279	330	236	2,199	314	2,513
CEO Qantas Loyalty from 12 February 2018	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	**2018**	**7,301**	**5,614**	**2,807**	**6,605**	**499**	**22,826**	**6,271**	**29,097**
	2017	**5,610**	**3,767**	**4,145**	**6,898**	**539**	**20,959**	**24,417**	**45,376**
Former Executive									
Jayne Hrdlicka	**2018**	641	-	-	-	(60)	581	-	581
Former CEO Qantas Loyalty to 11 February 2018	2017	1,010	549	604	1,284	138	3,585	4,545	8,130

1. Detail of non-statutory remuneration methodology is explained on pages 35 and 37.
2. Base Pay (cash) is Base Pay less superannuation contributions. (Superannuation is reported in 'Other Benefits'.)
3. The full value of STIP awards made to each Executive during each of the 2017/2018 and 2016/2017 financial years is calculated by adding the STIP Cash Bonus and the STIP Deferred Award.
4. LTIP awards vested in 2017/2018 at 100%. LTIP awards vested in 2016/2017 at 100%.
5. The number of Rights vested multiplied by the Qantas share price at 30 June 2015, as at the start of the performance period (2017: 30 June 2014).
6. Other Benefits are detailed on page 33.
7. The 'LTIP share price growth' amount is equal to the number of Rights vested multiplied by the increase in the Qantas share price over the 3-year performance period ended 30 June 2018 (2017: 1 July 2014 to 30 June 2017).
8. Mr Evans ceased in the role of CEO International on 31 October 2017 and was appointed to the role of CEO Jetstar Group on 1 November 2017.
9. 2017/2018 remuneration reflects the full year remuneration for Ms Grant, Ms Webster and Ms Wirth. This differs to the Statutory Remuneration disclosure which includes only the remuneration for the period of time in a key management role for Ms Grant (1 July 2017 to 31 October 2017), Ms Webster (1 November 2017 to 30 June 2018) and Ms Wirth (12 February 2018 to 30 June 2018).

Ms Hrdlicka resigned during 2017/2018 and ceased as a KMP on 11 February 2018. Treatment on termination under the STIP and LTIP (consistent with the terms and conditions of those plans) was as follows:

- No award made under the 2017/18 STIP award;
- 247,919 restricted STIP shares (awarded under the 2015/16 STIP and 2016/17 STIP) were forfeited; and
- 809,500 Rights (awarded under the 2016-2018 LTIP, 2017-2019 LTIP and 2018-2020 LTIP) lapsed.

Pages 34 to 42 of the Remuneration Report describe the Executive Remuneration Structure and provide an analysis of the 2017/2018 outcomes for the STIP and LTIP.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

3 STATUTORY REMUNERATION DISCLOSURES FOR 2017/2018

The statutory remuneration disclosures for the year ended 30 June 2018 are detailed below. These are prepared in accordance with Australian Accounting Standards and differ from the 2017/2018 remuneration outcomes on page 32. These differences arise due to the accounting treatment of share-based payments for the STIP and LTIP.

Statutory Remuneration Table – CEO and Executive KMP

			Incentive Plan – Accounting Accrual					Other Benefits			
				Equity-settled Share-based Payments							
$'000s		Base Pay (Cash)[1,2]	STIP Cash Bonus[1]	Deferred Shares	Rights	Sub-total	Non-cash Benefits[1,3]	Post-employment Benefits[4]	Other Long-term Benefits[5]	Sub-total	Total
Current Executives											
Alan Joyce Chief Executive Officer	**2018**	**2,105**	**1,995**	**1,501**	**2,160**	**7,761**	**46**	**55**	**(163)**	**(62)**	**7,699**
	2017	2,105	1,785	1,437	2,470	7,797	42	53	57	152	7,949
Tino La Spina Chief Financial Officer	**2018**	**930**	**681**	**413**	**493**	**2,517**	**47**	**47**	**(18)**	**76**	**2,593**
	2017	835	476	345	455	2,111	49	44	22	115	2,226
Andrew David CEO Qantas Domestic	**2018**	**930**	**648**	**402**	**493**	**2,473**	**33**	**47**	**32**	**112**	**2,585**
	2017	830	476	507	473	2,286	41	44	(9)	76	2,362
Gareth Evans[6] CEO Jetstar Group	**2018**	**1,040**	**760**	**496**	**568**	**2,864**	**47**	**47**	**(11)**	**83**	**2,947**
	2017	1,010	577	446	715	2,748	71	44	17	132	2,880
Lesley Grant[7] CEO Qantas Loyalty to 31 October 2017	**2018**	**285**	**201**	**139**	**158**	**783**	**12**	**33**	**(21)**	**24**	**807**
	2017	830	453	355	509	2,147	15	44	5	64	2,211
Alison Webster[7] CEO Qantas International from 1 November 2017	**2018**	**487**	**306**	**112**	**126**	**1,031**	**13**	**40**	**43**	**96**	**1,127**
	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Olivia Wirth[7] CEO Qantas Loyalty from 12 February 2018	**2018**	**319**	**221**	**131**	**82**	**753**	**3**	**34**	**53**	**90**	**843**
	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	**2018**	**6,096**	**4,812**	**3,194**	**4,080**	**18,182**	**201**	**303**	**(85)**	**419**	**18,601**
	2017	**5,610**	**3,767**	**3,090**	**4,622**	**17,089**	**218**	**229**	**92**	**539**	**17,628**
Former Executive											
Jayne Hrdlicka[8] Former CEO Qantas Loyalty to 11 February 2018	**2018**	**641**	**-**	**(487)**	**(585)**	**(431)**	**87**	**39**	**(186)**	**(60)**	**(491)**
	2017	1,010	549	420	715	2,694	73	44	21	138	2,832

1. Short-term employee benefits include Base Pay (cash), STIP cash bonus and non-cash benefits.
2. Base Pay (cash) is Base Pay less superannuation contributions. (Superannuation is reported in 'Post-employment Benefits')
3. Non-cash Benefits include the value of travel benefits whilst employed and other minor benefits.
4. Post-employment Benefits include superannuation and an accrual for post-employment travel of $35,000 for Mr Joyce and $26,000 for each other Executive (2017: $34,000 for Mr Joyce and $24,000 for each other Executive).
5. Other Long-term Benefits include movement in annual leave and long service leave balances. The accounting value of other Long-term Benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days annual leave they accrue during the current year.
6. Mr Evans ceased in the role of CEO International on 31 October 2017 and was appointed to the role of CEO Jetstar Group on 1 November 2017.
7. 2017/2018 remuneration reflects the period of time in a key management role for Ms Grant (1 July 2017 to 31 October 2017), Ms Webster (1 November 2017 to 30 June 2018) and Ms Wirth (12 February 2018 to 30 June 2018).
8. Ms Hrdlicka resigned during 2017/2018 and ceased as a KMP on 11 February 2018. Treatment on termination under the STIP and LTIP (consistent with the terms and conditions of those plans) was as follows:
   - No award made under the 2017/18 STIP award;
   - Restricted STIP shares (awarded under the 2015/16 STIP and 2016/17 STIP) were forfeited; and
   - Rights (awarded under the 2016-2018 LTIP, 2017-2019 LTIP and 2018-2020 LTIP) lapsed.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

A reconciliation of the CEO's remuneration outcome to the statutory disclosures is detailed below as an example.

CEO's Statutory Remuneration Disclosure to Remuneration Outcome for 2017/2018

Reconciliation	($'000s)	Description
Statutory Remuneration Disclosure	7,699	
Accounting value of share-based payments Less: Accounting value for STIP share awards Less: Accounting value for LTIP share awards	 1,501 2,160	The Statutory Remuneration Disclosure includes the accounting value of share-based payments. Accounting standards require share-based payments to be amortised over the relevant performance and service periods. The accounting value for LTIP awards do not have regard to whether performance conditions were achieved.
Current year STIP share awards and vesting of LTIP awards Add: 2017/18 STIP share awards Add: 2016–2018 LTIP vesting[1,2]	 997 2,993	The Remuneration Outcomes disclosure includes: — The full value of shares awarded under the 2017/18 STIP (even though these awards are still subject to a 2-year restriction period) — The value of the shares that vested under the 2016–2018 LTIP, based on the value of the shares at the start of the performance period
Remuneration Outcome – Total	8,028	
LTIP awards – share price growth Add: 2016–2018 LTIP share price growth[1,3]	 2,841	The Remuneration Outcomes including share price growth includes the increase in the value of the shares that vested under the 2016–2018 LTIP over the 3-year performance period.
Remuneration Outcome – Total including share price growth	**10,869**	

1. The 2016–2018 LTIP was tested as at 30 June 2018. 100% of Rights vested.
2. The number of Rights vested multiplied by the Qantas share price at the start of the performance period ($3.16 on 30 June 2015).
3. The number of Rights vested multiplied by the increase in the Qantas share price over the 3-year performance period (an increase of $3.00 from $3.16 on 30 June 2015 to the $6.16 on 30 June 2018).

4 EXECUTIVE REMUNERATION STRUCTURE

The objectives of the Executive Remuneration Framework are to attract, motivate, retain and appropriately reward a capable Executive team. This is achieved by setting pay opportunity at an appropriate level and by linking remuneration outcomes to Qantas performance.

The Qantas Executive Remuneration Framework as it applies to the CEO and Executive Management contains three elements summarised below:

Base Pay (also referred to as Fixed Annual Remuneration)	Base Pay is a guaranteed salary level, inclusive of superannuation. Each year, the Remuneration Committee reviews the Base Pay for the CEO and Executive Management. An individual's Base Pay, being a guaranteed salary level, is not related to Qantas' performance in a specific year. Base Pay (cash), as disclosed in the remuneration tables, excludes superannuation (which is disclosed as Post-employment Benefits) and includes salary sacrifice components such as motor vehicles. In performing a Base Pay review, the Board makes reference to external market data including comparable roles in other listed Australian companies and international airlines. Remuneration is benchmarked against ASX50 companies and a revenue-based peer group of other listed Australian companies. The Board believes these are the appropriate benchmarks, as these are the comparator groups whose roles best mirror the size, complexity and challenges in managing Qantas' businesses and are also the peer groups with whom Qantas competes for executive talent. There have been no increases to the Base Pay for Mr Joyce (since July 2011) or Ms Grant during 2017/2018. Mr La Spina and Mr David received Base Pay increases from $850,000 to $1,000,000 on 1 November 2017, their first increase since being appointed to their respective roles in March 2015. On commencing in their roles, both Mr La Spina's and Mr David's Base Pay was set below the market median for comparable roles in peer group companies and lower than the Base Pay of their predecessors. Following more than 2 years of strong performance in their respective roles, their Base Pay was realigned closer to market median. Ms Webster and Ms Wirth commenced in their KMP roles on 1 November 2017 and 12 February 2018 respectively and their Base Pay was set at a level below their predecessors and having regard to comparable roles in peer group companies. The Base Pay for Mr Evans increased by 3% to $1,060,000. The Base Pay for each Executive KMP is outlined on page 43.
Annual Incentive (STIP)	The STIP is the annual incentive plan for members of Qantas Executive Management. Each year these Executives may receive an award that is a combination of cash and restricted shares to the extent that the plan's performance conditions are achieved.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Performance Conditions	The Board sets a scorecard of performance conditions for the 2017/18 STIP (the STIP Scorecard). The STIP Scorecard contains a mix of Group financial measures as well as operational measures and measures based on achieving priorities that align to the Qantas Group strategy. Underlying PBT is the key budgetary and financial performance measure for the Qantas Group and is therefore the key performance measure in the STIP Scorecard with a weighting of 50%. Other financial and non-financial measures comprise the remaining 50% of the STIP Scorecard. The Board sets targets for each STIP Scorecard measure, and at the end of the financial year the Board assesses performance against each measure and determines the overall STIP Scorecard outcome. A detailed description of the STIP Scorecard is provided on pages 38 and 40. An individual's performance is recognised via an IPF. The assessment of performance considers both what an individual has achieved and how they went about it (their behaviours). IPFs are generally in the range of 0.8 to 1.2. However, in case of under-performance the IPF may be zero and in exceptional circumstances the IPF may be as high as 1.5.
Board Discretion	The Board retains discretion over any awards made under the STIP. While the Board sees the STIP Scorecard approach as an important design element of the STIP, it also recognises that remuneration outcomes must be considered in the context of the Group's financial performance, overall business performance and the operating environment. Circumstances may occur where scorecard measures have been achieved or exceeded, but in the view of the Board it is more appropriate to make no award under the STIP or to deliver a higher proportion of an award in Qantas shares. Therefore, each year the Board considers whether to apply its discretion. The Board may determine that: – no award be made (as it did in 2011/2012 and 2013/2014) – only a partial award be made (as it did in 2010/2011 and 2012/2013) – any award will be entirely deferred and/or delivered in Qantas shares (as it did in 2010/2011) – a higher proportion of the award be made in Qantas shares (as it did in 2016/2017) On the other hand, there may be circumstances where performance is below an agreed target where the Board may determine that it is appropriate to pay some STIP award. This circumstance has not occurred.
Calculation of STIP Awards	STIP awards are calculated as follows: STIP Award = Base Pay X 'Target' Opportunity X STIP Scorecard Outcome X Individual Performance Factor
Delivery of STIP Awards	Awards under the 2017/18 STIP were made per the default approach of the plan. That is, 2/3^{rds} of the STIP award was paid as a cash bonus, with the remaining 1/3rd deferred into Qantas shares with a 2-year restriction period.
Maximum STIP Outcome	The maximum outcome under the STIP is capped at 200% of FAR for the CEO and 160% of FAR for other Executive Management. The minimum outcome is nil, which would occur if the threshold level of performance is missed on each STIP measure, if an individual performance does not warrant an award, or when the Board determines that no award be made.
Cessation of Employment	In general, when an Executive ceases employment during the year, they forfeit any right to participate in that year's STIP and forfeit any shares awarded under prior year STIPs that are subject to a trading restriction. In limited circumstances (for example, retirement, employer–initiated cessation of employment with no record of poor performance, death or total and permanent disablement), the Board may: – For the current year STIP, make a pro-rated award that has regard to actual performance against the performance measures (as determined by the Board following the end of the performance period), and the portion of the performance period that the Executive served prior to cessation of employment – For restricted shares awarded under prior year STIPs, remove the trading restriction
Disclosure	The full value of the STIP awarded for the corresponding year is disclosed in the Remuneration Outcomes Table on page 32. Disclosure of STIP awards in the Statutory Remuneration Table on page 33 is based on the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. The STIP awards are disclosed as either: – A cash incentive for any cash bonus paid or – A share-based payment for any component awarded in deferred shares Where share-based STIP awards involve deferral over multiple reporting periods, they are reported against each period in accordance with accounting standards.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Long Term Incentive Plan (LTIP)

The LTIP involves the granting of Rights over Qantas shares. If the 3-year performance and service conditions are satisfied, the Rights vest and convert to Qantas shares on a one-for-one basis. If the 3-year performance conditions are not met, the Rights lapse.

Performance Conditions

The performance measures for each of the 2016–2018 LTIP (tested at 30 June 2018), 2017–2019 LTIP (to be tested as at 30 June 2019) and 2018–2020 LTIP (to be tested as at 30 June 2020) are Qantas' TSR compared to:
- Companies with ordinary shares in the ASX100
- Global Listed Airlines

These Rights will only vest in full if Qantas' TSR performance ranks at or above the 75th percentile compared to both the ASX100 and the Global Listed Airlines peer groups. At the end of the performance period, the TSR performance of Qantas and each comparator company is determined based on their average closing share price over the final 6 months of the performance period.

Qantas' Financial Framework also targets top quartile TSR performance relative to ASX100 companies and global airline peers. Therefore, relative TSR performance against these peer groups has been chosen as the performance measure for the LTIP.

The peer groups selected provide a comparison of relative shareholder returns relevant to most Qantas investors:
- The ASX100 peer group was chosen for relevance to investors with a primary interest in the equity market for major Australian listed companies (of which Qantas is one)
- The Global Listed Airlines peer group was chosen for relevance to investors, including investors based outside Australia, with a primary interest in the aviation industry sector

Up to 50% of the total number of Rights granted may vest based on Qantas' TSR performance in comparison to the constituents of the ASX100 and up to 50% of the total number of Rights granted may vest based on Qantas' TSR performance in comparison to the constituents of the Global Listed Airlines peer group.

The vesting scale for both the ASX100 and the Global Listed Airlines peer groups is as follows:

Qantas TSR Performance Relative to Each Peer Group	Vesting Scale
Below 50th percentile	Nil vesting
50th and 75th percentile	Linear scale: 50% to 100% vesting
Above 75th percentile	100% vesting

The ASX100 peer group comprises those companies that make up the S&P/ASX100 Index at the commencement of the performance period.

The Global Listed Airlines peer group has been selected with regard to its representation of Qantas' key markets, full-service and value-based airlines and the level of government involvement. For the 2016–2018 LTIP, the Global Listed Airlines peer group comprised: Air Asia, Air France/KLM, Air New Zealand, All Nippon Airways, American Airlines, Cathay Pacific, Delta Airlines, Deutsche Lufthansa, easyJet, International Consolidated Airlines Group, Japan Airlines, LATAM Airlines Group, Ryanair, Singapore Airlines, Southwest Airlines, Tiger Airways, United Continental and Virgin Australia. The peer group for the 2017–2019 LTIP and 2018-2020 LTIP were consistent, other than Tiger Airways which was excluded.

Review of Performance Conditions

As part of its 2015/2016 Remuneration Framework review, the Remuneration Committee considered a number of other LTIP performance measures including Return on Invested Capital. The Committee concluded that the current measures remained the most appropriate. The current measures are aligned with returns achieved for shareholders and are consistent with the Group Financial Framework. The Remuneration Committee continues to review the appropriateness of the performance measures.

Cessation of Employment

In general, any Rights which have not vested are forfeited if the Executive ceases employment with the Qantas Group.

In limited circumstances approved by the Board (for example, retirement, employer-initiated terminations (with no record of poor performance), death or total and permanent disablement), a deferred cash payment may be made at the end of the performance period. This payment is determined with regard to the value of the LTIP Rights which would have vested had they not lapsed, and the portion of the performance period that the Executive served prior to cessation of employment.

The Board retains discretion to determine otherwise in appropriate circumstances, which may include retaining some or all of the LTIP Rights.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Allocation Methodology	The number of Rights granted to the CEO and Executive Management under the LTIP is calculated on a face value basis. The 'Target' LTIP opportunity for the CEO and other Executive KMP is provided on a face value basis in the Summary of Key Contract Terms on page 43. Prior to 1 July 2017, a fair value methodology was used to determine the number of Rights awarded to the CEO and Executive Management.
Allocation Methodology Used in 2017/2018 Award to the CEO	At each year's AGM, Qantas seeks shareholder approval for any award of Rights to the CEO. At the 2017 AGM, Shareholders approved an award of 687,000 Rights to the CEO (under the 2018–2020 LTIP). The Notice of Meeting for the 2017 AGM set out the proposed number of LTIP Rights to be granted to the CEO on a face value basis as follows: Number of Rights awarded = Base Pay x 'Target' LTIP Opportunity / Face Value (Share Price) as at 30 June 2017 **687,000 Rights awarded[1]** = \$2,125,000 x 185% / \$5.72 1. Being the maximum number of Rights that may vest and convert to shares.
Change of Control	In the event of a change of control, the Board determines whether the LTIP Rights vest or otherwise.
Disclosure	The LTIP vesting amount shown in the Remuneration Outcomes Tables on page 32 is equal to the number of Rights vested, multiplied by the Qantas share price at the start of the performance period. The LTIP share price growth amount shown in the Remuneration Outcome Table on page 32 is equal to the number of Rights vested, multiplied by the increase in the Qantas share price over the 3-year performance period. The statutory remuneration disclosure amortises the accounting value of LTIP awards over the relevant performance and service period as per the accounting standards. The accounting value for the LTIP awards do not have regard to whether performance conditions were achieved.
Other Benefits	
Non-cash Benefits	Non-cash benefits, as disclosed in the remuneration tables, include travel entitlements while employed and other minor benefits.
Travel	Travel concessions are provided to permanent Qantas employees, consistent with practice in the airline industry. Travel at concessionary prices is on a sub-load basis; that is, subject to considerable restrictions and limits on availability. The policy includes specified direct family members or a nominated travel companion. In addition to this and consistent with practice in the airline industry, the CEO and Executive Management and their eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual. Post-employment travel concessions are also available to all permanent Qantas employees who qualify by achieving a service condition. The CEO and Executive Management and their eligible beneficiaries are also entitled to a number of free trips for personal purposes after ceasing employment. An estimated present value of these entitlements accrues over the service period of the individual and is disclosed as a post-employment benefit.
Superannuation	Superannuation includes statutory and salary sacrifice superannuation contributions and is disclosed as a post-employment benefit.
Other Long-term Benefits	The movement in accrual of annual leave and long service leave is included in other long-term benefits. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days annual leave they accrued during the year.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

5 ANNUAL INCENTIVE OUTCOME 2017/2018 STIP

For 2017/2018, the Board considered the following key measures of financial, safety, customer and operational performance and the associated targets to be key indicators of performance and drivers of shareholder value. The performance outcomes for these measures are reflected in the CEO and Executive Management's remuneration outcomes. The table below summarises performance versus target against each scorecard category under the 2017/18 STIP.

Scorecard Category/ Strategic Objective	Measures	Scorecard Weighting 'Target' (Range of Outcomes)	Actual Outcome	Comment
Group Profitability	Underlying Profit Before Tax (PBT)	50% (0-100%)		The Underlying PBT result of $1,604 million for 2017/2018 exceeded the target, but was less than the maximum 'overdrive' target set by the Board. Therefore, this measure contributed an above target (but less than maximum) outcome to the STIP Scorecard.
Profit Margin in the Australian Domestic Market	Combined Qantas Domestic and Jetstar Domestic Profit Margin: EBIT per ASK	10% (0-15%)		Combined Qantas Domestic and Jetstar Domestic Profit Margin target was exceeded and resulted in a maximum contribution to the STIP Scorecard. Executive Management's focus on maximising our leading Domestic position through the dual brand strategy has enabled growing margins and maintaining our advantage to competitors.
People and Operational Safety	People Safety measures Board's assessment of Operational Safety	15% (0-22.5%)		Targeted improvements in People Safety metrics were partially achieved. Operational Safety performance for the year was good. Therefore, there was a full contribution under the Operational Safety measure.
Customer	Net Promoter Score (NPS) Punctuality Domestic network advantage	15% (0-22.5%)		Target or threshold NPS performance was achieved by Qantas International, Qantas Domestic, QantasLink and Jetstar Australia Domestic. However, threshold or stretch targets were not achieved by Jetstar Australia Long-haul and Qantas Frequent Flyer. QantasLink on-time performance threshold was achieved. Qantas Domestic on-time performance target was not achieved and therefore there was no contribution to the scorecard under this measure. Qantas Domestic and Jetstar maintained the Group's network advantage in the Australian domestic market with a full contribution to the scorecard under this measure.
Growth, Transformation and Projects	Transformation benefits Jetstar Japan Underlying PBT Qantas 787 Project Milestones	10% (0-15%)		Executive Management's continued focus on transformation delivered $463 million of benefits during 2017/2018, exceeding the $400 million target. Jetstar Japan exceeded its Underlying PBT target. The introduction of the Boeing 787-9 into Qantas International was extremely successful across aircraft delivery, infrastructure readiness, operational performance and customer, marketing and financial outcomes, with the target being exceeded.
2017/18 STIP Scorecard Outcome		**100% (0-175%)**	**128%**	

KEY: Above target achievement · Full achievement against targets · Partial achievement against targets · No achievement against targets

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Annual Incentive – Board's Assessment of Executive Management's Contribution to the 2017/18 STIP Outcome:

In determining outcomes under the 2017/18 STIP, the Board assessed performance against financial, safety and other key business measures as part of a balanced scorecard, as outlined on page 38, as well as determining individual contribution (via the IPF).

The Board also considered how the CEO and Executive Management contributed to these results, in particular:

Maximising our leading domestic position through the dual brand strategy:

- Growing margins and maintaining advantage to competitors
- Sophisticated, disciplined approach to managing capacity to optimise earnings
- Enhancing distribution via the Qantas Distribution Platform
- Jetstar driving direct sales (via Jetstar.com) and ancillary revenue growth, while maintaining commitment to low fares
- Cost control and driving of operational efficiency

Building a more resilient Qantas International:

- Fleet renewal commenced with the introduction of the 789 Dreamliners, delivering higher customer advocacy (NPS) on Dreamliner routes and facilitating the retirement of the Boeing 747 aircraft
- Network and Hub evolution, with London flight hubs through Singapore and Perth (with the introduction of the direct Perth-London route), increased wide-body services on the Tasman and shifting capacity to high growth markets in Asia
- Continued expansion of international network through partnerships, including expanded and new codeshares with Alaskan, Air France-KLM and Cathay Pacific
- Renewing the Emirates alliance for a further five years

Diversification and Growth at Qantas Loyalty:

- In a transition year, achieved another record profit, offsetting the impact of changes to bank interchange fees
- Through on boarding new Retail Partners, providing members with enhanced options to earn in everyday spend categories
- Diversification of earnings through growth in new businesses: market leading growth of Qantas Insurance
- Launching new products in financial services
- Leveraging data and marketing capabilities to drive Group outcomes, including the development and launch of personalisation capabilities
- Qantas Business Rewards member and partner growth supporting airline SME share growth

Investing in Customer, Brand and Digital, driving improved NPS:

- Continued roll-out of free Wi-Fi on Qantas Domestic fleet
- Investment in digital customer experience
- New London and Perth lounges
- Jetstar cabin enhancement roll-out on A320/A321 fleet

Meeting objectives of the Financial Framework:

- ROIC of 22%, with all operating segments delivering ROIC>WACC
- Net debt reduced to $4.9 billion, providing significant financial flexibility
- Record operating cash flow of $3.4 billion
- $1 billion returned to shareholders through dividends and on market buy backs
- Approach to fuel hedging contained 2017/2018 fuel cost increase to $193m or 6%, while USD Jet prices increased on average ~25% compared to prior year
- Increased the duration of our debt book and reduced refinancing risk via a unique platform using mid-life aircraft as security. The first tranche was successfully executed in December 2017
- Delivery of $463 million of transformation benefits in 2017/2018, exceeding the $400m target

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Additional Descriptions of 2017/18 STIP Scorecard Measures

Group Profitability	Underlying PBT is the primary financial performance measure for the Qantas Group and is therefore the primary performance measure under the STIP. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of the Group. The Underlying PBT target is based on the annual financial budget. For reasons of commercial sensitivity, the annual Underlying PBT target is not disclosed. Underlying PBT is derived by adjusting Statutory PBT for the impacts of derivative mark-to-market movements that relate to other reporting periods and items which are identified by Executive Management and reported to the chief operating decision-making bodies, as not representing the underlying performance of the business. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period. Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments, impairment of assets and other transactions outside the ordinary course of business.
Profit Margin in the Australian Domestic Market	Maintaining a market-leading Australian Domestic profit margin is core to Qantas' success. Therefore, a combined Qantas Domestic and Jetstar Domestic Profit Margin measured as EBIT per ASK was selected as a STIP Scorecard measure. This focuses on profitability irrespective of capacity levels.
People and Operational Safety	As safety is always our first priority, the STIP Scorecard includes an assessment of both operational and people safety. In addition, the Board retains an overriding discretion to scale down the STIP (or reduce it to zero) in the event of a material aviation safety incident. This is in addition to the Board's overall discretion over STIP awards. Any such decision would be made in light of the specific circumstances and following the recommendation of the Safety, Health, Environment and Security Committee. The Safety, Health, Environment and Security Committee performs a combined assessment of People Safety performance and Operational Safety performance. The objective of the People Safety targets is to reduce employee injuries and targets were therefore set across: – Total Recordable Injury Frequency Rate – Lost Work Case Frequency Rate – Duration Rate Operational Safety performance is assessed against outcome-based measures (including operational occurrences that pose a significant threat to the safety of employees and customers) and risk-based lead indicators commonly associated with aviation industry accidents.
Customer	Customer service is measured against NPS targets. This is a survey-based measure of how strongly our customers promote the services of our businesses. Individual NPS targets are set for Qantas International, Qantas Domestic, QantasLink, Qantas Frequent Flyer, Jetstar Australia Domestic and Jetstar Australia long-haul. On-time departures for Qantas Domestic and QantasLink continue to be a particular area of focus. Therefore, a target measuring Qantas Domestic and QantasLink on-time departures is included as a STIP measure. As agreed with and reported to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), punctuality is measured as the number of flights operating on-time (on an on-time departure basis) as a percentage of the total number of flights operated. Maintaining our Australian domestic network advantage balances the long-term domestic network advantage with short-term profitability. This measure aligns maintaining the leading premium domestic network, the leading price-sensitive domestic network and the overall leading peak-hour frequency share positions in key ports.
Growth, Transformation and Projects	Continuing to transform the business remains a strategic priority. Therefore, a transformation benefits target is included as a performance measure. Growing Asia and profitably growing Jetstar Japan are key areas of focus. A target measuring Jetstar Japan's Underlying PBT through this growth period is included as a STIP measure. To support the successful introduction of the Boeing 787-9 into Qantas, targets were set around project delivery.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

6 LONG TERM INCENTIVE OUTCOME 2016-2018 LTIP

Qantas TSR Performance	Qantas TSR Rank vs ASX100	Qantas TSR Rank vs Airlines	Vesting of 2016-2018 LTIP
+107%	**Top Quartile**	**Top Quartile**	**100%**

Executive Management continues to deliver on commitments made to shareholders. The structural changes to the Company and ongoing focus on transformation have delivered strong earnings across the portfolio of businesses. The Financial Framework continues to provide balance sheet strength and sustainable returns to shareholders. The business is responding to emerging global forces and strategic priorities are clear.

These achievements have been recognised via continued share price appreciation. For the 2016-2018 LTIP, the Qantas share price grew from $3.16 at 30 June 2015 to $6.16 at 30 June 2018, and together with dividends paid to shareholders delivered a TSR performance of +107%.

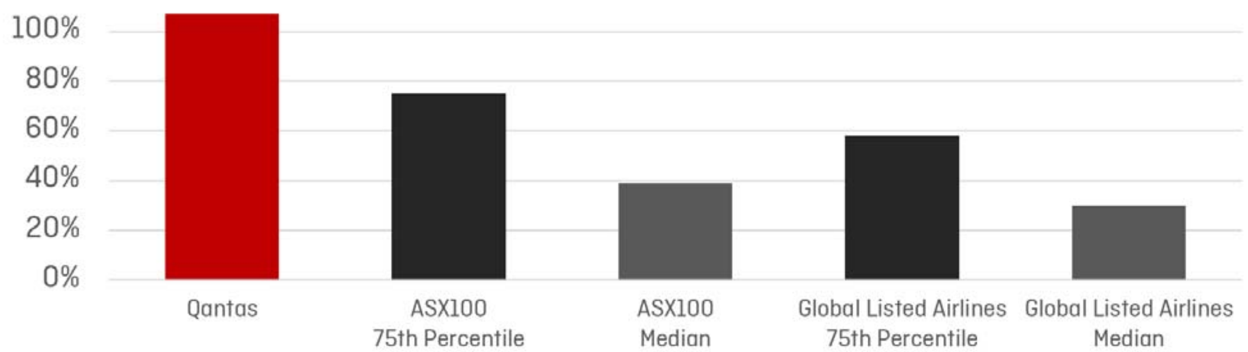
The 3-year performance measures under the 2016–2018 LTIP are Qantas' TSR compared to:

- Companies with ordinary shares included in the ASX100
- Global Listed Airlines

Qantas' TSR performance over the past 3 years ranked in the top quartile of companies in the ASX100, and top quartile of companies in the Global Listed Airlines peer group. Based on this performance, 100% of Rights vested and converted to Qantas shares.

Qantas has now achieved top quartile TSR performance over multiple consecutive rolling 3-year periods, with the top quartile TSR performance being achieved off higher starting share prices.

Qantas 3-Year TSR Performance vs Peer Groups (%)



7 CHANGES TO THE REMUNERATION FRAMEWORK FOR 2017/2018

During 2016/2017, the Remuneration Committee reviewed the Executive Remuneration Framework and as a result approved the following changes that:

- Ensure continued alignment of pay with business objectives, performance and shareholder experience
- Are informed by and consistent with market practice
- Consider shareholder feedback and preferences

These changes applied from 1 July 2017 and are detailed below.

Cap on Annual Incentive Outcomes under the STIP

The Board has set a formal cap on annual incentive outcomes under the STIP, as follows:

- For the CEO, STIP outcomes will be capped at a maximum of 200% of FAR
- For other Executive Management, STIP outcomes will be capped at a maximum of 160% of FAR

Pay Mix Change and LTIP Allocation Methodology Change

The Board changed the relative weighting of incentive plan opportunities for the CEO. This involved a decrease in the weighting towards annual incentives and an increase in the weighting towards long term incentives. The change further aligns the CEO to Qantas' longer-term objectives. This was a pay mix change only and there was no increase in the CEO's total pay opportunity.

The Board also changed the LTIP allocation methodology. Consistent with a shift in market practice among other ASX listed companies, awards of Rights under the LTIP are now made by applying a face value allocation methodology.

The move from a fair value methodology to a face value methodology required a one-off conversion of the stated 'Target' LTIP opportunity. This conversion applied an average of the fair value discount applicable to prior years' LTIP awards. The new face value LTIP opportunity resulted in Executive Management being awarded a similar number of Rights as they would have received under the previous fair value approach. This methodology change neither advantaged nor disadvantaged Executive Management.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

The Pay Mix for the CEO for 2016/2017 and 2017/2018 was as follows:

CEO 'Target' Pay opportunity (as a percentage of FAR)	2016/2017 (Fair Value)	2016/2017 (Face Value)	2017/2018 (Fair Value)	2017/2018 (Face Value)
Annual Incentive Opportunity	120%	120%	100%	100%
Long Term Incentive Opportunity	80%	156%	100%	185%

The Pay Mix for other Executive KMP for 2016/2017 and 2017/2018 was as follows:

Executive KMP 'Target' Pay opportunity (as a percentage of FAR)	2016/2017 (Fair Value)	2016/2017 (Face Value)	2017/2018 (Fair Value)	2017/2018 (Face Value)
Annual Incentive Opportunity	80%	80%	80%	80%
Long Term Incentive Opportunity	50%	97%	50%	95%

8 REMUNERATION GOVERNANCE

Executive Remuneration Objectives and Approach

In determining Executive remuneration, the Board aims to do the following:
- Attract, retain and appropriately reward a capable Executive team
- Motivate the Executive team to meet the unique challenges the company faces as a major international airline based in Australia
- Link remuneration outcomes to the performance of the business and the performance of the Executives

To achieve this, Executive remuneration is set with regard to the size and nature of the role with reference to external benchmark data including comparable roles in other listed Australian companies and the performance of the individual in the role. Remuneration includes 'at risk' or performance-related elements for which the objectives are to:

- Link Executive reward with Qantas' business objectives, financial performance and the individual performance of the Executive
- Align the interests of Executive Management with shareholders
- Support a culture of Executive share ownership
- Support the retention of Executive Management

Role of the Remuneration Committee

The Remuneration Committee (a Committee of the Board, whose members are detailed on pages 8 to 11) has the role of reviewing and making recommendations to the Board on specific Executive remuneration matters at Qantas (with appropriate input from the Board and other Committees). This includes ensuring remuneration decisions are appropriate from the perspectives of business performance, Executive Management performance, governance, disclosure, reward levels and market conditions.

In fulfilling its role, the Remuneration Committee is specifically concerned with ensuring that Qantas' Remuneration Framework will:
- Motivate the CEO, Executive Management and the broader Executive team to pursue the long-term growth and success of Qantas
- Demonstrate a clear relationship between pay and performance
- Ensure an appropriate balance between fixed and variable remuneration, reflecting both the short-term and long-term performance objectives of Qantas
- Differentiate between higher and lower performers through the use of a performance management framework

During 2017/2018, the Remuneration Committee re-appointed Ernst & Young (EY) as its remuneration consultant. The Remuneration Committee has established protocols in relation to the appointment and use of remuneration consultants to support compliance with the *Corporations Act 2001*, which are incorporated into the terms of engagement with EY.

The Remuneration Committee did not seek a formal remuneration recommendation (as defined in the *Corporations Act 2001*) from its remuneration consultant during 2017/2018.

Risk Management and Clawback Policy

The STIP and the LTIP have design elements that protect against the risk of unintended and unjustified pay outcomes, that is:
- Diversity in their performance measures, which as a suite of measures cannot be directly and imprudently influenced by one individual employee
- Clear maximum values specified for scorecard outcomes under the STIP and a challenging vesting scale under the LTIP
- Diversity of the timeframes within which performance is measured, with performance under the STIP being measured over one year and performance under the LTIP being measured over 3 years
- Deferral of a portion of awards under the STIP with a restriction period of 2 years providing an alignment with shareholder interests
- While formal Management shareholding requirements are not imposed, the CEO has a material holding in Qantas shares, which at 30 June 2018 was valued at 10 times Base Pay. The potential equity awards under the STIP and the LTIP assists Executive Management in maintaining shareholdings in Qantas.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

The following Clawback Policy applies in the event of serious misconduct or a material misstatement in Qantas' Financial Statements. The Board may:

- Determine that an Executive forgoes some or all awards otherwise due under the STIP
- Deem some or all STIP shares which are subject to the restriction period be forfeited
- Cause some or all LTIP Rights which have not yet vested to lapse, and/or
- In the case of serious misconduct, cancel any post-employment benefits for the relevant employee(s) where possible

Employee Share Trading Policy

The Qantas Code of Conduct and Ethics contains Qantas' Employee Share Trading Policy (Policy). The Policy prohibits employees from dealing in Qantas securities (or securities of other listed entities) while in possession of material non-public information relevant to the entity.

In addition, nominated employees (including KMP) are:

- Prohibited from dealing in Qantas securities (or the securities of any Qantas Group listed entity) during defined closed periods
- Required to comply with 'request to deal' procedures prior to dealing in Qantas securities (or the securities of any Qantas Group listed entity) outside of defined closed periods
- Prohibited from hedging or entering into any margin lending arrangement, or entering into any other encumbrances over the securities of Qantas (or the securities of any Qantas Group listed entity) at any time

Summary of Key Contract Terms as at 30 June 2018

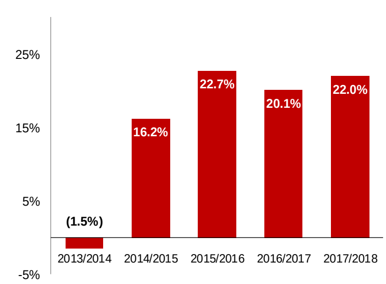
Contract Details	Alan Joyce[2,4]	Tino La Spina[5]	Andrew David[5]	Gareth Evans[5]	Alison Webster[5]	Olivia Wirth[5]
Base Pay	$2,125,000	$1,000,000	$1,000,000	$1,060,000	$750,000	$850,000
STIP 'Target'[1]	100%	80%	80%	80%	80%	80%
LTIP 'Target'[1,3]	185%	95%	95%	95%	95%	95%
Travel Entitlements	An annual benefit of trips for these Executives and eligible beneficiaries during employment[6], at no cost to the individual, is as follows:					
	4 long-haul 12 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul
	The same benefit is provided for use post–employment, based on the period of service in an Executive Management role within the Qantas Group.					
Notice	Employment may be terminated by either the Executive or Qantas by providing 6 months' written notice[7]. Each Executive's contract includes a provision that limits any termination payment to the statutory limit prescribed under the *Corporations Act 2001*.					
Severance	A severance payment of 6 months' Base Pay applies where termination is initiated by Qantas[7].					

1. Opportunity expressed as a percentage of Base Pay.
2. The CEO's pay mix changed effective 1 July 2017. More detail on this change is provided on pages 41 to 42.
3. Rights awarded on a face value basis.
4. Target Remuneration Mix for the CEO for 2017/2018 was Base Pay 26%, Annual Incentive 26% and Long Term Incentive (on a face value basis) 48%. With Long Term Incentive on a fair value basis, the pay mix was Base Pay 33%, Annual Incentive 33%, Long Term Incentive 33%.
5. Target Remuneration Mix for Other Executives for 2017/2018 was Base Pay 36%, Annual Incentive 29% and Long Term Incentive (on a face value basis) 35%. With Long Term Incentive on a fair value basis, the pay mix was Base Pay 43%, Annual Incentive 35%, Long Term Incentive 22%.
6. These flights are not cumulative and lapse if they are not used during the calendar year in which the entitlement arises.
7. Other than for misconduct or unsatisfactory performance.

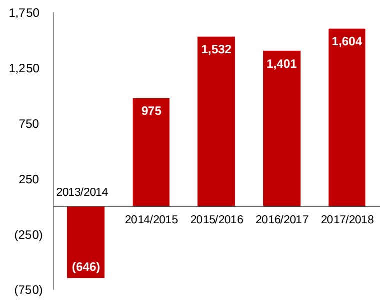
Qantas Financial Performance History

To provide further context on Qantas' performance, the following graphs outline a 5-year history of key financial metrics.

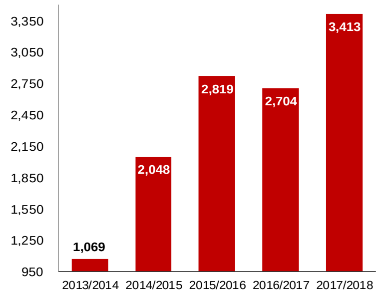
Return on Invested Capital (ROIC%)



Underlying Profit before Tax[1] ($M)



Operating Cash Flow ($M)



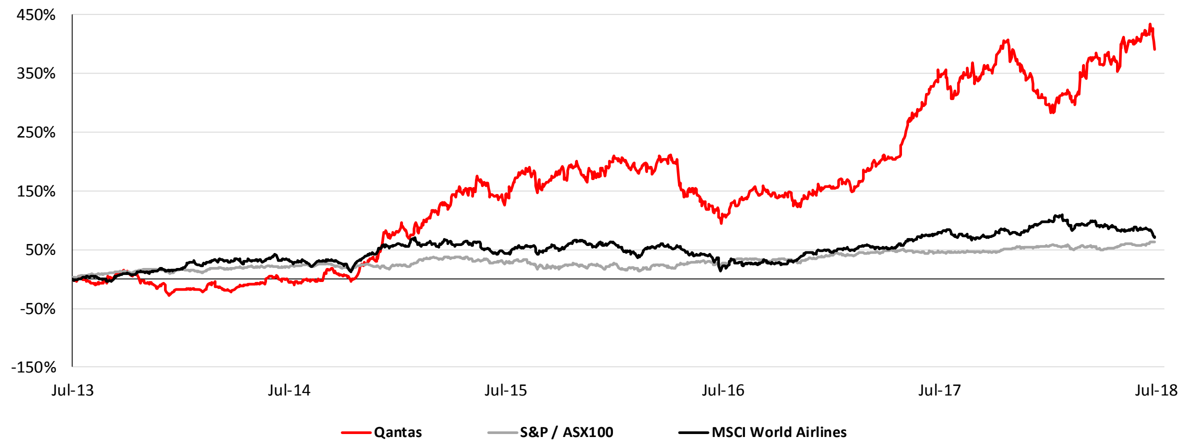
1. Underlying Profit Before Tax (PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. Statutory Profit After Tax for 2017/2018 was $980 million (2017: $853 million, 2016: $1,029 million, 2015: $560 million and 2014: ($2,843) million).

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Qantas 5-Year TSR Performance



9 EQUITY INSTRUMENTS

Set out in the following tables are the holdings of equity instruments granted as remuneration to the Executive KMP by Qantas.

Shares awarded under the Short Term Incentive Plan

The following table details shares awarded under the Short Term Incentive Plan that are subject to a restriction period.

		Number of shares					
Short Term Incentive Plan[1]		1 July	Commenced as KMP	Granted[2,3]	Vested and Transferred	Forfeited	30 June
Alan Joyce	**2018**	**748,800**		**347,012**	**(258,062)**	**–**	**837,750**
	2017	258,062		490,738	–	–	748,800
Tino La Spina	**2018**	**160,721**		**92,536**	**(35,310)**	**–**	**217,947**
	2017	35,310		125,411	–	–	160,721
Andrew David	**2018**	**157,568**		**92,536**	**(37,611)**	**–**	**212,493**
	2017	37,611		119,957	–	–	157,568
Gareth Evans	**2018**	**226,689**		**112,132**	**(72,732)**	**–**	**266,089**
	2017	72,732		153,957	–	–	226,689
Lesley Grant[4]	**2018**	**181,065**		**88,130**	**(55,654)**	**–**	**213,541**
ceased as KMP 31 October 2017	2017	55,654		125,411	–	–	181,065
Olivia Wirth[5]	**2018**	**n/a**	**187,494**	**–**	**–**	**–**	**187,494**
commenced as KMP 12 February 2018	2017	n/a		n/a	n/a	n/a	n/a
Jayne Hrdlicka[6]	**2018**	**210,694**		**106,793**	**(69,568)**	**(247,919)**	**–**
ceased as KMP 11 February 2018	2017	69,568		141,126	–	–	210,694

1. Ms Webster had no holding in STIP as at 30 June 2018.
2. 1/3rd of the 2015/16 STIP awards (granted on 2 September 2016) was delivered to participants in deferred shares that are subject to a 2-year restriction period. The restriction period on these shares applied throughout 2017/2018.
3. 1/3rd of the 2016/17 STIP awards (granted 1 September 2017 for Other Executives and 11 September for the CEO) was delivered to participants in deferred shares that are subject to a 2-year restriction period. The restriction period on these shares applied throughout 2017/2018.
4. Ms Grant ceased as a KMP on 31 October 2017.
5. Ms Wirth commenced as a KMP on 12 February 2018.
6. Ms Hrdlicka ceased as a KMP on 11 February 2018 and ceased employment with Qantas on 31 March 2018. All restricted shares (247,919) were forfeited on termination.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Rights awarded under the Long Term Incentive Plan

The following table details Rights awarded under the Long Term Incentive Plan that are subject to performance hurdles that are yet to be tested and vested Rights that have not yet converted into shares.

		Number of Rights					
Long Term Incentive Plan		1 July	Commenced as KMP	Granted[1,2]	Vested and Transferred[3]	Lapsed/ Forfeited	30 June[4]
Alan Joyce	**2018**	**5,367,000**	**–**	**687,000**	**(3,248,000)**	**–**	**2,806,000**
	2017	6,346,000	–	1,172,000	(2,151,000)	–	5,367,000
Tino La Spina	**2018**	**915,500**	**–**	**166,000**	**(385,500)**	**–**	**696,000**
	2017	775,500	–	293,000	(153,000)	–	915,500
Andrew David	**2018**	**976,000**	**–**	**166,000**	**(446,000)**	**–**	**696,000**
	2017	860,000	–	293,000	(177,000)	–	976,000
Gareth Evans	**2018**	**1,652,500**	**–**	**176,000**	**(1,019,000)**	**–**	**809,500**
	2017	1,948,580	–	355,000	(651,080)	–	1,652,500
Lesley Grant	**2018**	**1,091,000**	**–**	**145,500**	**(561,000)**	**–**	**675,500**
ceased as KMP 31 October 2017	2017	1,051,000	–	293,000	(253,000)	–	1,091,000
Jayne Hrdlicka[5]	**2018**	**1,652,500**	**–**	**176,000**	**(1,019,000)**	**(809,500)**	**–**
ceased as KMP 11 February 2018	2017	1,930,500	–	355,000	(633,000)	–	1,652,500
Alison Webster	**2018**	**n/a**	**237,500**	**n/a**	**–**	**–**	**237,500**
commenced as KMP 1 November 2017	2017	n/a	n/a	n/a	n/a	n/a	n/a
Olivia Wirth	**2018**	**n/a**	**308,500**	**n/a**	**–**	**–**	**308,500**
commenced as KMP 12 February 2018	2017	n/a	n/a	n/a	n/a	n/a	n/a

1. Rights under the 2018–2020 LTIP were granted on 27 October 2017 to Mr Joyce (following approval by shareholders at the 2017 AGM) and 5 September 2017 for Other Executives, will be tested against the performance hurdles as at 30 June 2020. The number of Rights granted was determined using the face value of a Right on 30 June 2017 of $5.72, being the start of the performance period. The fair value of a Right on the grant date was $3.30 for Mr Joyce and $2.98 per Right for Other Executives.
2. Rights under the 2017–2019 LTIP were granted on 21 October 2016 to Mr Joyce (following approval by shareholders at the 2016 AGM) and 5 September 2016 for Other Executives and will be tested against the performance hurdles as at 30 June 2019. The number of Rights granted was determined using the fair value of a Right on 30 June 2016 of $1.45, being the start of the performance period. The fair value of a Right on the grant date was $1.95 per Right for Mr Joyce and $1.96 for Other Executives.
3. 100% of Rights under the 2015–2017 LTIP (granted on 24 October 2014 to Mr Joyce and 15 September 2014 for Other Executives) vested following the testing of performance hurdles as at 30 June 2017 and the Board's approval of the 2015-2017 LTIP vesting outcome on 24 August 2017.
4. Rights under the 2016–2018 LTIP (granted on 23 October 2015 to Mr Joyce and 1 September 2015 for Other Executives) are included in the 30 June 2018 balance. 100% of these Rights vested following the testing of performance hurdles as at 30 June 2018 and the Board's approval of the 2016–2018 LTIP vesting outcome on 22 August 2018.
5. Ms Hrdlicka ceased as a KMP on 11 February 2018 and ceased employment with Qantas on 31 March 2018. All unvested Rights (809,500) lapsed on termination.

		Number of Shares						
Performance Share Plan		1 July	Commenced as KMP	Granted	Forfeited	Transferred	Other Changes	30 June
Gareth Evans	**2018**	**34,388**		**–**	**–**	**(4,429)**	**–**	**29,959**
	2017	34,388		–	–	–	–	34,388

The above shares were awarded under legacy incentive plans and are vested and available to call.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Equity Holdings and Transactions

KMPs or their related parties directly, indirectly or beneficially held shares in the Qantas Group as detailed in the table below:

Key Management Personnel – Executives	Interest in Shares 1 July 2017	Commenced as KMP	Awarded as Remuneration[1]	Rights Converted to Shares	Other Changes[2]	Interest in Shares 30 June 2018
Alan Joyce	**3,477,724**	–	347,012	3,248,000	(3,506,062)	**3,566,674**
Tino La Spina	**555,835**	–	92,536	385,500	(738,035)	**295,836**
Andrew David	**157,568**	–	92,536	446,000	(325,756)	**370,348**
Gareth Evans	**436,803**	–	112,132	1,019,000	(1,019,000)	**548,935**
Lesley Grant ceased as KMP 31 October 2017	**181,065**	–	88,130	561,000	(616,654)	**213,541**
Alison Webster commenced as KMP 1 November 2017	**n/a**	57,852	–	–		**57,852**
Olivia Wirth commenced as KMP 12 February 2018	**n/a**	187,494	–	–		**187,494**
Jayne Hrdlicka[3] ceased as KMP 11 February 2018	**241,681**	–	106,793	1,019,000	(1,367,474)	**n/a**

1. Shares awarded under the 2015/16 STIP are subject to a restriction period until after the release of the 2017/2018 full-year financial results. Shares awarded under the 2016/17 STIP are subject to a restriction period until after the release of the 2018/2019 full-year financial results.
2. Other changes include shares purchased, sold, and forfeited; and on cessation as KMP.
3. Ms Hrdlicka ceased as a KMP on 11 February 2018 and ceased employment with Qantas on 31 March 2018.

Other than share-based payment compensation, all equity instrument transactions between the KMP, including their related parties, and Qantas during the year have been on an arm's length basis.

Loans and Other Transactions with Key Management Personnel

No KMP or their related parties held any loans from the Qantas Group during or at the end of the year ended 30 June 2018 or prior year.

A number of KMPs and their related parties have transactions with the Qantas Group. All transactions are conducted on normal commercial arm's length terms.

Performance Remuneration Affecting Future Periods

The fair value of share-based payments granted is amortised over the service period and therefore remuneration in respect of these awards may be reported in future years. The following table summarises the maximum value of these awards that will be reported in the statutory remuneration tables in future years, assuming all performance conditions are met. The minimum value of these awards is nil, should performance conditions not be satisfied.

	Future Expense by Plan							Future Expense by Financial Year			
	STIP Awards			LTIP Awards							
Executives	2015/16 $'000	2016/17 $'000	2017/18 $'000	2016–2018 $'000	2017–2019 $'000	2018–2020 $'000	Total $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Alan Joyce	86	724	682	137	939	1,734	**4,302**	2,763	1,353	186	**4,302**
Tino La Spina	22	193	233	26	210	338	**1,022**	657	321	44	**1,022**
Andrew David	21	193	222	26	210	338	**1,010**	651	316	43	**1,010**
Gareth Evans	27	234	260	31	254	359	**1,165**	762	355	48	**1,165**
Alison Webster	-	-	158	5	46	254	**463**	235	196	32	**463**
Olivia Wirth	19	170	199	11	93	152	**644**	418	199	27	**644**

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

10 NON-EXECUTIVE DIRECTOR FEES

Non-Executive Director fees are determined within an aggregate Non-Executive Directors' fee pool limit. An annual total fee pool of $3 million (excluding industry standard travel entitlements received) was approved by shareholders at the 2016 AGM. Total Non-Executive Directors' remuneration (excluding industry standard travel entitlements received and other non-cash benefits) for the year ended 30 June 2018 was $2.55 million (2017: $2.33 million), which is within the approved annual fee pool. Non-Executive Directors' remuneration reflects the responsibilities of Non-Executive Directors. Fees are benchmarked against Non-Executive Director fees of ASX50 companies and revenue-based peer groups. During 2017/2018, Non-Executive Director fees increased by 3%.

	Board		Committees[1]	
	Chairman[2]	Member	Chairman	Member
Board Fees	$595,000	$154,000	$62,000	$31,000

1. Committees are the Audit Committee, Remuneration Committee, Nominations Committee and Safety, Health, Environment and Security Committee.
2. The Chairman does not receive any additional fees for serving on or chairing any Board Committee.

Non-Executive Directors do not receive any performance-related remuneration. Overseas-based Non-Executive Directors are paid a travel allowance when travelling on international journeys of greater than 6 hours to attend Board and Committee meetings or Board-related activities requiring participation of all Directors.

All Non-Executive Directors and eligible beneficiaries receive travel entitlements. The Chairman is entitled to 4 long-haul trips and 12 short-haul trips each calendar year and all other Non-Executive Directors are entitled to 3 long-haul trips and 9 short-haul trips each calendar year. These flights are not cumulative and lapse if they are not used during the calendar year in which the entitlement arises.

Post-employment, the Chairman is entitled to 2 long-haul trips and 6 short-haul trips for each year of service and all other Non-Executive Directors are entitled to 1 long-haul trip and 3 short-haul trips for each year of service. The accounting value of the travel benefit is captured in the remuneration table (as a non-cash benefit for travel during the year and as a post-employment benefit).

Remuneration for 2017/2018 – Non-Executive Directors

		Short-term Employee Benefits			Post-employment Benefits			
$'000		Base Pay (Cash)	Non-cash Benefits	Sub-total	Superannuation	Travel	Sub-total	Total
Leigh Clifford Chairman	2018	575	33	608	20	26	46	654
	2017	547	69	616	30	24	54	670
Maxine Brenner Non-Executive Director	2018	197	84	281	19	13	32	313
	2017	191	74	265	18	12	30	295
Richard Goodmanson[1] Non-Executive Director	2018	277	28	305	–	13	13	318
	2017	264	7	271	–	12	12	283
Richard Goyder[2] Non-Executive Director	2018	94	39	133	9	13	22	155
	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Jacqueline Hey Non-Executive Director	2018	169	36	205	16	13	29	234
	2017	163	23	186	16	12	28	214
Belinda Hutchinson[3] Non-Executive Director	2018	37	–	37	4	13	17	54
	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Michael L'Estrange Non-Executive Director	2018	169	8	177	16	13	29	206
	2017	164	4	168	16	12	28	196
William Meaney[1,4] Non-Executive Director	2018	241	36	277	–	13	13	290
	2017	234	–	234	–	12	12	246
Paul Rayner Non-Executive Director	2018	227	58	285	20	13	33	318
	2017	219	43	262	20	12	32	294
Todd Sampson Non-Executive Director	2018	169	76	245	16	13	29	274
	2017	163	75	238	16	12	28	266
Barbara Ward Non-Executive Director	2018	258	21	279	20	13	33	312
	2017	249	13	262	20	12	32	294
Total	**2018**	**2,413**	**419**	**2,832**	**140**	**156**	**296**	**3,128**
	2017	**2,194**	**308**	**2,502**	**136**	**120**	**256**	**2,758**

1. Mr Goodmanson and Mr Meaney each received a travel allowance of $30,000 and $25,000 respectively during 2017/18 (2017: $25,000 for Mr Goodmanson and for Mr Meaney). These amounts were included in their Base Pay (Cash).
2. 2017/2018 remuneration reflects the period served by Mr Goyder as a Non-Executive Director from 17 November 2017 to 30 June 2018.
3. 2017/2018 remuneration reflects the period served by Ms Hutchinson as a Non-Executive Director from 12 April 2018 to 30 June 2018.
4. Mr Meaney retired as a Director on 29 June 2018.

Directors' Report continued

For the year ended 30 June 2018

REMUNERATION REPORT (AUDITED) (CONTINUED)

Equity Holdings and Transactions

Non-Executive Director KMP or their related parties directly, indirectly or beneficially held shares in the Qantas Group as detailed in the table below:

Key Management Personnel – Non-Executive Directors	Interest in Shares as at 1 July 2017	Other Changes[1]	Interest in Shares as at 30 June 2018
Leigh Clifford	**362,613**	–	**362,613**
Maxine Brenner	**30,065**	–	**30,065**
Richard Goodmanson	**18,780**	–	**18,780**
Richard Goyder	–	36,500	**36,500**
Jacqueline Hey	**38,170**	–	**38,170**
Belinda Hutchinson	–	16,200	**16,200**
Michael L'Estrange	**6,012**	6,003	**12,015**
William Meaney[2]	–	–	–
Paul Rayner	**270,324**	17,585	**287,909**
Todd Sampson	**4,695**	2,400	**7,095**
Barbara Ward	**44,694**	–	**44,694**

1. Other changes include shares purchased and sold.
2. Mr Meaney retired as a Director on 29 June 2018.

All equity instrument transactions between the Non-Executive Director KMP, including their related parties, and Qantas during the year have been on an arm's length basis.

Directors' Report continued

For the year ended 30 June 2018

ENVIRONMENTAL OBLIGATIONS

The Qantas Group's operations are subject to a range of Commonwealth, State, Territory and international environmental legislation. The Qantas Group is committed to environmental sustainability with high standards for environmental performance. The Board places particular focus on the environmental aspects of its operations through the Safety, Health, Environment and Security Committee, which is responsible for monitoring compliance with these regulations and reporting to the Board.

The Directors are satisfied that adequate systems are in place for the management of the Qantas Group's environmental exposures and environmental performance. The Directors are also satisfied that relevant licences and permits are held and that appropriate monitoring procedures are in place to ensure compliance with those licences and permits. Any significant environmental incidents are reported to the Board.

Following a spill of firefighting foam in Queensland as reported last year, Qantas has entered into an enforceable undertaking (EU) with the Queensland Government. Under the EU, Qantas will provide support to a program of water testing in Queensland to help better understand water quality.

INDEMNITIES AND INSURANCE

Under the Qantas Constitution, Qantas indemnifies, to the extent permitted by law, each Director and Company Secretary of Qantas against any liability incurred by that person as an officer of Qantas.

The Directors and the Company Secretaries listed on pages 23 to 24 and individuals who formerly held any of these positions have the benefit of the indemnity in the Qantas Constitution. Members of Qantas' Executive Management team and certain former members of the Executive Management team have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board. In respect of non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on any information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2017/2018 or to the date of this Report.

Qantas has insured against amounts which it may be liable to pay on behalf of Directors and officers or which it otherwise agrees to pay by way of indemnity.

During the year, Qantas paid a premium for Directors' and Officers' liability insurance policies, which cover all Directors and officers of the Qantas Group. Details of the nature of the liabilities covered, and the amount of the premium paid in respect of the Directors' and Officers' insurance policies, are not disclosed, as disclosure is prohibited under the terms of the contracts.

NON-AUDIT SERVICES

During the year, Qantas' auditor, KPMG, has performed certain other services in addition to its statutory duties. The Directors are satisfied that:

a. The non-audit services provided during 2017/2018 by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*

b. Any non-audit services provided during 2017/2018 by KPMG as the external auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:
   - KPMG services have not involved partners or staff acting in a managerial or decision-making capacity within the Qantas Group or being involved in the processing or originating of transactions
   - KPMG non-audit services have only been provided where Qantas is satisfied that the related function or process will not have a material bearing on the audit procedures
   - KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes
   - A description of all non-audit services undertaken by KPMG and the related fees has been reported to the Board to ensure complete transparency in relation to the services provided
   - The declaration required by section 307C of the *Corporations Act 2001* confirming independence has been received from KPMG

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 50.

Details of the amounts paid to KPMG for audit and non-audit services provided during the year are set out in Note 7 to the Financial Statements.

Directors' Report continued

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: The Directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2018, there have been:

i. No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG
Sydney

31 August 2018

Andrew Yates
Partner

Rounding

Qantas is a company of a kind referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in this Directors' Report and the Financial Report have been rounded to the nearest million dollars unless otherwise stated.

Signed pursuant to a Resolution of the Directors:

Leigh Clifford
Chairman

31 August 2018

Alan Joyce
Chief Executive Officer

31 August 2018

Financial Report

For the year ended 30 June 2018

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Consolidated Income Statement

For the year ended 30 June 2018

	Notes	2018 $M	2017 $M
REVENUE AND OTHER INCOME			
Net passenger revenue		14,715	13,857
Net freight revenue		862	808
Other	2[B]	1,483	1,392
Revenue and other income		**17,060**	**16,057**
EXPENDITURE			
Manpower and staff related		4,300	4,033
Fuel		3,232	3,039
Aircraft operating variable		3,596	3,436
Depreciation and amortisation		1,528	1,382
Non-cancellable aircraft operating lease rentals		272	356
Share of net (profit)/loss of investments accounted for under the equity method		(15)	7
Other	3	2,574	2,434
Expenditure		**15,487**	**14,687**
Statutory profit before income tax expense and net finance costs		**1,573**	**1,370**
Finance income	4	48	46
Finance costs	4	(230)	(235)
Net finance costs	**4**	**(182)**	**(189)**
Statutory profit before income tax expense		**1,391**	**1,181**
Income tax expense	5	(411)	(328)
Statutory profit for the year		**980**	**853**
Attributable to:			
Members of Qantas		980	852
Non-controlling interests		-	1
Statutory profit for the year		**980**	**853**
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic/diluted earnings per share (cents)	**6(D)**	**56**	**46**

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	2018 $M	2017 $M
Statutory profit for the year	**980**	**853**
Items that are or may be subsequently reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	559	46
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1]	(230)	(6)
Recognition of effective cash flow hedges on capitalised assets, net of tax	16	(2)
Net changes in hedge reserve for time value of options, net of tax	51	(22)
Foreign currency translation of controlled entities	3	(4)
Foreign currency translation of investments accounted for under the equity method	(3)	(9)
Share of other comprehensive income of investments accounted for under the equity method	4	2
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial gains, net of tax	84	175
Fair value gains on investments, net of tax	1	–
Other comprehensive income for the year	**485**	**180**
Total comprehensive income for the year	**1,465**	**1,033**
Attributable to:		
Members of Qantas	1,465	1,032
Non-controlling interests	–	1
Total comprehensive income for the year	**1,465**	**1,033**

1 These amounts were allocated to revenue of $nil million (2017: $1 million), fuel expenditure of $(329) million (2017: $(10) million), and income tax expense of $99 million (2017: $3 million) in the Consolidated Income Statement.

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2018

	Notes	2018 $M	2017 $M
CURRENT ASSETS			
Cash and cash equivalents	15(A)	1,694	1,775
Receivables	8	908	784
Other financial assets	20(C)	474	100
Inventories		351	351
Assets classified as held for sale	9	118	12
Other	13	167	97
Total current assets		**3,712**	**3,119**
NON-CURRENT ASSETS			
Receivables	8	100	123
Other financial assets	20(C)	112	43
Investments accounted for under the equity method		226	214
Property, plant and equipment	10	12,851	12,253
Intangible assets	11	1,113	1,025
Other	13	533	444
Total non-current assets		**14,935**	**14,102**
Total assets		**18,647**	**17,221**
CURRENT LIABILITIES			
Payables		2,295	2,008
Revenue received in advance	14	3,939	3,744
Interest-bearing liabilities	15(B)	404	433
Other financial liabilities	20(C)	34	69
Provisions	16	860	841
Liabilities classified as held for sale	9	64	–
Total current liabilities		**7,596**	**7,095**
NON-CURRENT LIABILITIES			
Revenue received in advance	14	1,446	1,424
Interest-bearing liabilities	15(B)	4,344	4,405
Other financial liabilities	20(C)	25	56
Provisions	16	367	348
Deferred tax liabilities	12	910	353
Total non-current liabilities		**7,092**	**6,586**
Total liabilities		**14,688**	**13,681**
Net assets		**3,959**	**3,540**
EQUITY			
Issued capital	17(A)	2,508	3,259
Treasury shares		(115)	(206)
Reserves		479	12
Retained earnings		1,084	472
Equity attributable to the members of Qantas		**3,956**	**3,537**
Non-controlling interests		3	3
Total equity		**3,959**	**3,540**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

30 June 2018 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other[1] Reserves	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2017	**3,259**	**(206)**	**124**	**(100)**	**(16)**	**4**	**472**	**3**	**3,540**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR									
Statutory profit for the year	–	–	–	–	–	–	980	–	980
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	559	–	–	–	–	559
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(230)	–	–	–	–	(230)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	16	–	–	–	–	16
Net changes in hedge reserve for time value of options, net of tax	–	–	–	51	–	–	–	–	51
Defined benefit actuarial gains, net of tax	–	–	–	–	–	84	–	–	84
Foreign currency translation of controlled entities	–	–	–	–	3	–	–	–	3
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	(3)	–	–	–	(3)
Fair value gains on investments, net of tax	–	–	–	–	–	1	–	–	1
Share of other comprehensive income of investments accounted for under the equity method	–	–	–	4	–	–	–	–	4
Total other comprehensive income	**–**	**–**	**–**	**400**	**–**	**85**	**–**	**–**	**485**
Total comprehensive income for the year	–	–	–	**400**	–	**85**	**980**	–	**1,465**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(751)	–	–	–	–	–	–	–	(751)
Dividend paid	–	–	–	–	–	–	(249)	–	(249)
Treasury shares acquired	–	(162)	–	–	–	–	–	–	(162)
Share-based payments	–	–	64	–	–	–	–	–	64
Shares vested and transferred to employees	–	253	(82)	–	–	–	(119)	–	52
Total contributions by and distributions to owners	**(751)**	**91**	**(18)**	**–**	**–**	**–**	**(368)**	**–**	**(1,046)**
Total transactions with owners	**(751)**	**91**	**(18)**	**–**	**–**	**–**	**(368)**	**–**	**(1,046)**
Balance as at 30 June 2018	**2,508**	**(115)**	**106**	**300**	**(16)**	**89**	**1,084**	**3**	**3,959**

1 Other Reserves includes the Defined Benefit Reserve and the Fair Value Reserve.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity continued

For the year ended 30 June 2018

30 June 2017 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other[1] Reserves	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2016	**3,625**	**(50)**	**72**	**(118)**	**(3)**	**(171)**	**(100)**	**5**	**3,260**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR									
Statutory profit for the year	–	–	–	–	–	–	852	1	853
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	46	–	–	–	–	46
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(6)	–	–	–	–	(6)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	(2)	–	–	–	–	(2)
Net changes in hedge reserve for time value of options, net of tax	–	–	–	(22)	–	–	–	–	(22)
Defined benefit actuarial gains, net of tax	–	–	–	–	–	175	–	–	175
Foreign currency translation of controlled entities	–	–	–	–	(4)	–	–	–	(4)
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	(9)	–	–	–	(9)
Fair value gains on investments, net of tax	–	–	–	–	–	–	–	–	–
Share of other comprehensive income of investments accounted for under the equity method	–	–	–	2	–	–	–	–	2
Total other comprehensive income/(loss)	**–**	**–**	**–**	**18**	**(13)**	**175**	**–**	**–**	**180**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**18**	**(13)**	**175**	**852**	**1**	**1,033**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(366)	–	–	–	–	–	–	–	(366)
Dividend paid	–	–	–	–	–	–	(261)	(3)	(264)
Treasury shares acquired	–	(198)	–	–	–	–	–	–	(198)
Share-based payments	–	–	67	–	–	–	–	–	67
Shares vested and transferred to employees	–	42	(15)	–	–	–	(19)	–	8
Total contributions by and distributions to owners	**(366)**	**(156)**	**52**	**–**	**–**	**–**	**(280)**	**(3)**	**(753)**
Total transactions with owners	**(366)**	**(156)**	**52**	**–**	**–**	**–**	**(280)**	**(3)**	**(753)**
Balance as at 30 June 2017	**3,259**	**(206)**	**124**	**(100)**	**(16)**	**4**	**472**	**3**	**3,540**

1 Other Reserves includes the Defined Benefit Reserve.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

For the year ended 30 June 2018

	Notes	2018 $M	2017 $M
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		18,039	16,947
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs, Turnaround, Wage Freeze and Record Results bonuses)		(14,393)	(13,982)
Cash generated from operations		**3,646**	**2,965**
Cash payments to employees for redundancies and related costs		(42)	(50)
Cash payments to employees for Turnaround, Wage Freeze and Record Results bonuses		(74)	(87)
Interest received		41	37
Interest paid		(161)	(164)
Dividends received from investments accounted for under the equity method		6	7
Income taxes paid (foreign)		(3)	(4)
Net cash from operating activities	**21(A)**	**3,413**	**2,704**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		(1,959)	(1,368)
Interest paid and capitalised on qualifying assets	4	(44)	(45)
Payments for investments accounted for under the equity method		(2)	(16)
Proceeds from disposal of property, plant and equipment		17	34
Proceeds from disposal of a controlled entity		17	–
Net cash used in investing activities (excluding aircraft operating lease refinancing)		(1,971)	(1,395)
Aircraft operating lease refinancing		(230)	(651)
Net cash used in investing activities		**(2,201)**	**(2,046)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for share buy-back		(751)	(366)
Payments for treasury shares		(162)	(198)
Proceeds from borrowings		668	419
Repayments of borrowings		(802)	(453)
Net receipts for aircraft security deposits and hedges-related to debt		–	8
Dividends paid to shareholders		(249)	(261)
Dividends paid to non-controlling interests		–	(3)
Net cash used in financing activities		**(1,296)**	**(854)**
Net decrease in cash and cash equivalents held		**(84)**	**(196)**
Cash and cash equivalents at the beginning of the year		1,775	1,980
Effects of exchange rate changes on cash and cash equivalents		3	(9)
Cash and cash equivalents at the end of the year	**15**	**1,694**	**1,775**

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2018

1 UNDERLYING PROFIT BEFORE TAX, OPERATING SEGMENTS AND RETURN ON INVESTED CAPITAL

(A) UNDERLYING PROFIT BEFORE TAX (UNDERLYING PBT) AND RECONCILIATION TO STATUTORY PROFIT BEFORE TAX

Underlying PBT is a non-statutory measure and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of each operating segment and the Qantas Group.

	2018 $M	2017 $M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX		
Underlying PBT	**1,604**	**1,401**
Items not included in Underlying PBT		
– Transformation costs	(162)	(142)
– Turnaround, Wage Freeze bonus and Record Results employee bonus	(53)	(85)
– Net gains/(losses) on investments	12	20
– Other	(10)	(13)
Total items not included in Underlying PBT	**(213)**	**(220)**
Statutory Profit Before Tax	**1,391**	**1,181**

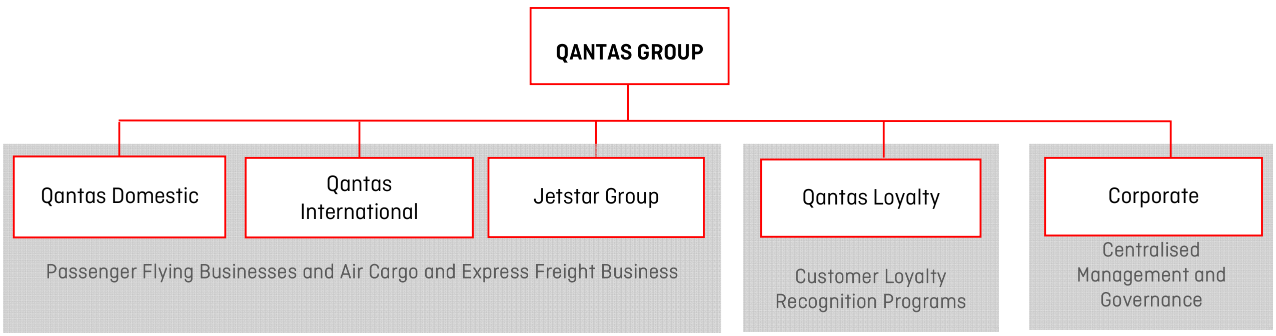
Underlying PBT is derived by adjusting Statutory Profit Before Tax for the impacts of:

i. Items not included in Underlying PBT

Items which are identified by Management and reported to the CODM as not representing the underlying performance of the business are not included in Underlying PBT. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period.

Items not included in Underlying PBT primarily result from costs relating to major transformational/restructuring initiatives, gains/(losses) on transactions involving investments, impairments of assets and other transactions outside the ordinary course of business.

- Transformation costs of $162 million were incurred during the year. Transformation costs included redundancy and related costs of $43 million, fleet restructuring costs of $81 million (primarily relates to costs for the introduction of the 789 Dreamliners and the retirement of the 747 fleet) and other upfront costs of $38 million directly incurred to enable the delivery of transformation benefits.
- Turnaround employee bonus of $53 million payable to non-executive employees that agree to an 18 month pay freeze, in recognition of the successful completion of the Turnaround Program.
- Net gains/(losses) on investments of $12 million relates to the sale of a business within the Qantas Loyalty segment and the recycling of the foreign exchange translation reserve on disposal of an investment.



The Qantas Freight segment, which was previously reported as a separate operating segment, has been included in the Qantas International segment as the performance of the freight activities are now monitored and managed by the CODM within the Qantas flying businesses. The Qantas International segment is considered to be the appropriate operating segment as the majority of freight revenue is earned in international markets. The Qantas Freight segment therefore no longer meets the definition of an operating segment in accordance with the accounting standards. Comparative information has been restated to conform with the current year presentation.

Notes to the Financial Statements continued

For the year ended 30 June 2018

1 UNDERLYING PROFIT BEFORE TAX, OPERATING SEGMENTS AND RETURN ON INVESTED CAPITAL (CONTINUED)

i. Underlying EBIT

The primary reporting measure of the Qantas Domestic, Qantas International, Jetstar Group, and Qantas Loyalty operating segments is Underlying EBIT. The primary reporting measure of the Corporate segment is Underlying PBT, as net finance costs are managed centrally and are not allocated to the Qantas Domestic, Qantas International, Jetstar Group or Qantas Loyalty operating segments.

Underlying EBIT is calculated using a consistent methodology as outlined above for Underlying PBT (refer to section A) but excluding the impact of Underlying net finance costs.

ii. Analysis by Operating Segment

2018 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[2]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	5,535	6,515	3,646	1,386	18	(40)	17,060
Inter-segment revenue and other income	438	377	121	160	-	(1,096)	-
Total segment revenue and other income	**5,973**	**6,892**	**3,767**	**1,546**	**18**	**(1,136)**	**17,060**
Share of net profit/(loss) of investments accounted for under the equity method	4	4	7	–	–	–	15
Underlying EBITDAR[1]	**1,473**	**1,005**	**890**	**402**	**(182)**	**(13)**	**3,575**
Non-cancellable aircraft operating lease rentals	(76)	(64)	(132)	–	–	–	(272)
Depreciation and amortisation[3]	(629)	(542)	(297)	(30)	(13)	(6)	(1,517)
Underlying EBIT	**768**	**399**	**461**	**372**	**(195)**	**(19)**	**1,786**
Underlying net finance costs					(182)		(182)
Underlying PBT					**(377)**		**1,604**
ROIC %[4]							**22.0%**

2017 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[2]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	5,186	6,027	3,467	1,369	16	(8)	16,057
Inter-segment revenue and other income	446	386	133	136	–	(1,101)	–
Total segment revenue and other income	**5,632**	**6,413**	**3,600**	**1,505**	**16**	**(1,109)**	**16,057**
Share of net profit/(loss) of investments accounted for under the equity method	5	5	(17)	–	–	–	(7)
Underlying EBITDAR[1]	**1,364**	**933**	**835**	**391**	**(161)**	**(34)**	**3,328**
Non-cancellable aircraft operating lease rentals	(132)	(67)	(156)	–	–	(1)	(356)
Depreciation and amortisation	(587)	(492)	(262)	(22)	(12)	(7)	(1,382)
Underlying EBIT	**645**	**374**	**417**	**369**	**(173)**	**(42)**	**1,590**
Underlying net finance costs					(189)		(189)
Underlying PBT					**(362)**		**1,401**
ROIC %[4]							**20.1%**

1 Underlying EBITDAR represents Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.
2 Unallocated/Eliminations represents unallocated and other businesses of the Qantas Group which are not considered to be reportable segments including consolidation elimination entries.
3 Depreciation and amortisation differs from the depreciation and amortisation recognised in the Consolidated Income Statement due to items not included in Underlying PBT.
4 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital (Refer to Note 1(C)).

(B) RETURN ON INVESTED CAPITAL

Return on Invested Capital (ROIC %) is a non-statutory measure and is the primary financial return measure of the Group. ROIC % is calculated as Return on Invested Capital EBIT (ROIC EBIT) divided by Average Invested Capital.

Notes to the Financial Statements continued

For the year ended 30 June 2018

1 UNDERLYING PROFIT BEFORE TAX, OPERATING SEGMENTS AND RETURN ON INVESTED CAPITAL (CONTINUED)

i. ROIC EBIT

ROIC EBIT is derived by adjusting Underlying EBIT to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they were owned aircraft.

The objective of this adjustment is to show an EBIT result which is indifferent to the financing or ownership structure of aircraft assets. ROIC EBIT therefore excludes the finance costs implicitly embedded in operating lease rental payments.

	2018 $M	2017 $M
ROIC EBIT		
Underlying EBIT	**1,786**	**1,590**
Add back: Non-cancellable aircraft lease rentals	272	356
Less: Notional depreciation[1]	(124)	(158)
ROIC EBIT	**1,934**	**1,788**

1. For calculating ROIC, capitalised operating leased aircraft are included in the Group's Invested Capital at the AUD market value (referencing AVAC) of the aircraft at the date of commencing operations at the prevailing AUD/USD rate. This value is notionally depreciated in accordance with the Group's accounting policies, with the calculated depreciation reported above known as notional depreciation.

ii. Average Invested Capital

Invested Capital includes the net assets of the business other than cash, debt, other financial assets/(liabilities) and tax balances. Invested Capital is also adjusted to include an amount representing the capitalised value of operating leased aircraft assets as if they were owned aircraft. The objective of this adjustment is to show Invested Capital which is indifferent to financing or ownership structures of aircraft assets. Invested Capital therefore includes the capital held in operating leased aircraft, which is a non-statutory adjustment. In accordance with Australian Accounting Standards, these assets are not recognised on balance sheet.

Average Invested Capital is equal to the average of the monthly Invested Capital for the period.

	2018 $M	2017 $M
INVESTED CAPITAL		
Receivables (current and non-current)	1,008	907
Inventories	351	351
Other assets (current and non-current)	700	541
Investments accounted for under the equity method	226	214
Property, plant and equipment	12,851	12,253
Intangible assets	1,113	1,025
Assets classified as held for sale	118	12
Payables	(2,295)	(2,008)
Provisions (current and non-current)	(1,227)	(1,189)
Revenue received in advance (current and non-current)	(5,385)	(5,168)
Liabilities classified as held for sale	(64)	–
Capitalised operating leased assets[1]	1,510	1,794
Invested Capital as at 30 June	**8,906**	**8,732**
Average Invested Capital for the year ended 30 June	**8,810**	**8,891**

1 For calculating ROIC, capitalised operating leased aircraft assets are included in the Group's Invested Capital at the AUD market value (referencing AVAC) of the aircraft at the date of commencing operations at the prevailing AUD/USD rate. This value is notionally depreciated in accordance with the Group's accounting policies, with the calculated depreciation reported above known as notional depreciation. The carrying value (AUD market value less accumulated notional depreciation) is reported within Invested Capital as capitalised operating leased aircraft assets.

iii. ROIC %

	2018 %	2017 %
ROIC %[1]	**22.0**	**20.1**

1 ROIC % is calculated as Return on Invested Capital EBIT (ROIC EBIT) divided by Average Invested Capital for the year.

iv. Underlying Earnings per share

	2018 cents	2017 cents
Underlying Earnings per share[1]	**64**	**55**

1 Underlying Earnings per share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 29.5% (2017: 27.8%) divided by the weighted average number of shares during outstanding during the period.

Notes to the Financial Statements continued

For the year ended 30 June 2018

2 REVENUE AND OTHER INCOME

(A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREAS

	2018 $M	2017 $M
Net passenger and freight revenue		
Australia	11,192	10,520
Overseas	4,385	4,145
Total net passenger and freight revenue	**15,577**	**14,665**
Other income	1,483	1,392
Total revenue and other income	**17,060**	**16,057**

Net passenger and freight revenue is attributed to a geographic region based on the point of sale and where not directly available, on a pro-rata basis. Other revenue/income is not allocated to a geographic region as it is impractical to do so.

(B) OTHER INCOME

	2018 $M	2017 $M
Frequent Flyer marketing revenue, membership fees and other revenue	456	431
Frequent Flyer store and other redemption revenue[1]	268	257
Retail, advertising and other property revenue	150	141
Contract work revenue	177	142
Other	432	421
Total other income	**1,483**	**1,392**

1 Frequent Flyer redemption revenue excludes redemptions on Qantas Group flights which are reported as net passenger revenue in the Consolidated Income Statement.

3 OTHER EXPENDITURE

	2018 $M	2017 $M
Commissions and other selling costs	616	528
Computer and communication	477	439
Capacity hire	280	283
Property	257	250
Non-aircraft operating lease rentals	228	226
Marketing and advertising	108	123
Turnaround, Wage Freeze and Record Results employee bonuses	53	85
Redundancies and related costs	43	48
Contract work materials	37	16
Inventory write-off	9	14
Discount rate and other actuarial assumption changes on employee-related provisions	2	(21)
Net gain on disposal of property, plant and equipment	(5)	(11)
Net (gains)/losses on investments	(12)	(18)
Other	481	472
Total other expenditure	**2,574**	**2,434**

Notes to the Financial Statements continued

For the year ended 30 June 2018

4 NET FINANCE COSTS

	2018 $M	2017 $M
FINANCE INCOME		
Interest income on financial assets measured at amortised cost	42	39
Unwind of discount on receivables	6	7
Total finance income	**48**	**46**
FINANCE COSTS		
Interest expense on financial liabilities measured at amortised cost	(236)	(243)
Interest paid and capitalised on qualifying assets[1]	44	45
Total finance costs on financial liabilities	**(192)**	**(198)**
Unwind of discount on provisions and other liabilities		
Employee benefits	(22)	(19)
Other liabilities and provisions	(16)	(18)
Total unwind of discount on other liabilities and provisions	**(38)**	**(37)**
Total finance costs	**(230)**	**(235)**
Net finance costs	**(182)**	**(189)**

1 The borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities, being 6.0 per cent (2017: 6.7 per cent).

5 INCOME TAX EXPENSE

	2018 $M	2017 $M
INCOME TAX RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT		
Current income tax expense		
Current income tax – Australia	(4)	–
Current income tax – foreign	(3)	(4)
Total current income tax expense	**(7)**	**(4)**
Deferred income tax expense		
Origination and reversal of temporary differences	(118)	(161)
Utilisation of tax losses	(282)	(157)
Current year deferred income tax expense	**(400)**	**(318)**
Adjustments for prior year	(4)	(6)
Total deferred income tax expense	**(404)**	**(324)**
Total income tax expense in the Consolidated Income Statement	**(411)**	**(328)**

	2018 $M	2017 $M
RECONCILIATION BETWEEN INCOME TAX EXPENSE AND STATUTORY PROFIT BEFORE INCOME TAX		
Statutory profit before income tax expense	**1,391**	**1,181**
Income tax expense using the domestic corporate tax rate of 30 per cent	(417)	(354)
Adjusted for:		
Non-assessable dividends from controlled entities	1	2
Non-assessable /(non-deductible) share of net gain/(loss) for investments accounted for under the equity method	5	(4)
(Non-deductible) losses for foreign branches and controlled entities	(6)	(1)
Utilisation of previously unrecognised foreign branch and controlled entity losses	3	4
Other net (non-deductible)/non-assessable items	6	18
(Under)/over provision from prior periods	(3)	7
Income tax expense	**(411)**	**(328)**

Notes to the Financial Statements continued

For the year ended 30 June 2018

5 INCOME TAX EXPENSE (CONTINUED)

	2018 $M	2017 $M
INCOME TAX RECOGNISED DIRECTLY IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Income tax on:		
Cash flow hedges	(170)	(7)
Defined benefit actuarial gains	(36)	(75)
Fair value gains on investments	(1)	–
Income tax expense recognised directly in the Consolidated Statement of Comprehensive Income	**(207)**	**(82)**

	2018 $M	2017 $M
RECONCILIATION OF INCOME TAX EXPENSE TO INCOME TAX PAYABLE		
Income tax expense	**(411)**	**(328)**
Adjusted for temporary differences		
Inventories	(10)	15
Property, plant and equipment and intangible assets	97	92
Payables	(43)	19
Revenue received in advance	3	16
Interest-bearing liabilities	(10)	1
Other financial assets/(liabilities)	91	(6)
Provisions	(13)	(11)
Other items	3	35
Temporary differences	**118**	**161**
Prior period differences	4	6
Tax on taxable income	**(289)**	**(161)**
Tax losses utilised (Australian)	282	157
Income tax payable	**(7)**	**(4)**

Income tax payable was less than 30 per cent of the Qantas Group's Statutory Profit Before Tax due to:

- Utilisation of carry forward tax losses that reduced taxable income of $282 million (2017: $157 million).
- Temporary differences of $118 million (2017: $161 million) that result in differences between taxable income, and Statutory Profit Before Tax which will reverse in future periods, such as accelerated tax depreciation on aircraft (timing difference due to the Qantas Group making a significant investment in renewing its fleet in recent years, which will reverse in future tax periods).

6 DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

	Amount per Ordinary Share cents	Franked Amount per Ordinary Share cents	Dividend Declared $M	Payment Date
2018 final dividend	10.0	10.0	168	October 2018
2018 interim dividend	7.0	–	122	April 2018
2017 final dividend	7.0	–	127	October 2017

(A) DIVIDENDS DECLARED AND PAID

In August 2018, the Directors declared a fully franked final dividend of ten cents per ordinary share totalling $168 million. The record date for determining entitlements to the final dividend is 6 September 2018. The dividend will be paid on 10 October 2018.

During the year ended 30 June 2018, the Group paid two unfranked dividends of seven cents per ordinary share totalling $249 million ($127 million on 13 October 2017 and $122 million on 12 April 2018). Dividends of $0.3 million were paid to non-controlling interest shareholders by non-wholly owned controlled entities.

Notes to the Financial Statements continued

For the year ended 30 June 2018

6 DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS (CONTINUED)

(B) OTHER SHAREHOLDER DISTRIBUTIONS

In August 2018, the Directors announced an on-market share buy-back of up to $332 million.

During the year ended 30 June 2018, the Group completed the on-market share buy-back of $373 million, which was announced in August 2017 and the on-market share buy-back of $378 million announced in February 2018. The Group purchased a total of 125 million ordinary shares for $751 million at a weighted average share price of $6.02.

(C) FRANKING ACCOUNT

	2018 $M	2017 $M
Total franking account balance at 30 per cent	**5**	**-**

The above amount represents the balance of the franking account as at 30 June, after taking into account adjustments for:

- Franking credits that will arise from the payment of income tax payable for the current year
- Franking credits that will arise from the receipt of dividends recognised as receivables at the year end
- Franking credits that may be prevented from being distributed in subsequent years

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

(D) EARNINGS PER SHARE

	2018 cents	2017 cents
Basic/diluted earnings per share	**56**	**46**
	$M	**$M**
Statutory profit attributable to members of Qantas	**980**	**852**
	Number M	**Number M**
NUMBER OF SHARES		
Issued shares as at 1 July	1,808	1,919
Shares bought back and cancelled	(125)	(111)
Issued shares as at 30 June	**1,683**	**1,808**
Weighted average number of shares as at 30 June	**1,756**	**1,853**

7 AUDITOR'S REMUNERATION

	2018 $'000	2017 $'000
AUDIT AND AUDIT-RELATED SERVICES (Auditors of Qantas – KPMG)		
— Audit and review of Financial Report	3,306	3,051
— Other assurance and regulatory audit services	417	667
Total audit and audit-related services	**3,723**	**3,718**
OTHER SERVICES (Auditors of Qantas – KPMG)		
— Taxation and due diligence services	440	371
— Other non-audit services[1]	2,062	402
Total other services	**2,502**	**773**
Total auditor's remuneration	**6,225**	**4,491**

1 Other non-audit services includes fees related to KPMG's acquisition of a service provider to the Group in 2017 with services continuing into 2018.

Notes to the Financial Statements continued

For the year ended 30 June 2018

8 RECEIVABLES

	2018 $M			2017 $M		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	783	–	783	666	–	666
Less provision for impairment losses	(2)	–	(2)	(2)	–	(2)
Total trade receivables	**781**	**–**	**781**	**664**	**–**	**664**
Sundry receivables	127	100	227	120	123	243
Total receivables	**908**	**100**	**1,008**	**784**	**123**	**907**

	2018 $M	2017 $M
The ageing of trade receivables, net of provision for impairment losses, at 30 June was:		
Not past due	723	578
Past due 1–30 days	42	60
Past due 31–120 days	8	13
Past due 121 days or more	8	13
Total trade receivables	**781**	**664**

9 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

	2018 $M	2017 $M
Property, plant and equipment	1	12
Assets of the Catering Business disposal group	117	–
Total assets classified as held for sale	**118**	**12**

	2018 $M	2017 $M
Liabilities of the Catering Business disposal group	(64)	–
Total liabilities classified as held for sale	**(64)**	**–**

Assets of the Catering Business disposal group include property, plant and equipment of $76 million, intangible assets of $9 million, inventories of $18 million and other current asset balances of $14 million. Liabilities of the Catering Business disposal group include provisions of $28 million and payables of $36 million.

The fair value measurement for property, plant and equipment classified as held for sale has been categorised under the fair value hierarchy as Level 2. Refer to Note 29(E) for a definition of the fair value hierarchy.

10 PROPERTY, PLANT AND EQUIPMENT

	2018 $M			2017 $M		
$M	At Cost	Accumulated Depreciation and Impairment	Net Book Value	At Cost	Accumulated Depreciation and Impairment	Net Book Value
Freehold land	49	–	49	50	–	50
Buildings	295	(216)	79	335	(226)	109
Leasehold improvements	1,392	(990)	402	1,413	(966)	447
Plant and equipment	1,511	(1,099)	412	1,563	(1,130)	433
Aircraft and engines	22,713	(11,964)	10,749	20,992	(10,960)	10,032
Aircraft spare parts	909	(414)	495	835	(405)	430
Aircraft deposits	665	–	665	752	–	752
Total property, plant and equipment	**27,534**	**(14,683)**	**12,851**	**25,940**	**(13,687)**	**12,253**

Notes to the Financial Statements continued

For the year ended 30 June 2018

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2018 $M	Opening Net Book Value	Additions[1]	Aircraft Operating Lease Refinancing	Disposals	Transfers[2]	Transferred (to)/from Assets Classified as Held for Sale	Depreciation	Other[3]	Closing Net Book Value
Freehold land	50	–	–	–	–	(1)	–	–	49
Buildings	109	–	–	–	3	(28)	(3)	(2)	79
Leasehold improvements	447	39	–	–	(18)	(13)	(50)	(3)	402
Plant and equipment	433	82	–	(7)	14	(34)	(76)	–	412
Aircraft and engines[4]	10,032	1,311	230	–	397	5	(1,228)	2	10,749
Aircraft spare parts	430	108	–	–	–	–	(44)	1	495
Aircraft deposits	752	310	–	–	(397)	–	–	–	665
Total property, plant and equipment	**12,253**	**1,850**	**230**	**(7)**	**(1)**	**(71)**	**(1,401)**	**(2)**	**12,851**

2017 $M	Opening Net Book Value	Additions[1]	Aircraft Operating Lease Refinancing	Disposals	Transfers[2]	Transferred (to)/from Assets Classified as Held for Sale	Depreciation	Other[3]	Closing Net Book Value
Freehold land	50	–	–	–	–	–	–	–	50
Buildings	115	–	–	–	–	–	(6)	–	109
Leasehold improvements	452	44	–	–	2	–	(52)	1	447
Plant and equipment	430	105	–	(6)	(20)	–	(76)	–	433
Aircraft and engines[4]	9,919	556	651	–	30	(10)	(1,101)	(13)	10,032
Aircraft spare parts	423	48	–	(2)	16	–	(41)	(14)	430
Aircraft deposits	281	491	–	–	(21)	–	–	1	752
Total property, plant and equipment	**11,670**	**1,244**	**651**	**(8)**	**7**	**(10)**	**(1,276)**	**(25)**	**12,253**

1 Additions include capitalised interest of $39 million (2017: $42 million).
2 Transfers include transfers between categories of property, plant and equipment and transfers from/(to) other balance sheet accounts.
3 Other includes foreign exchange movements, non-cash additions including those relating to finance leases and impairments of property, plant and equipment.
4 Aircraft and engines include finance-leased assets with a net book value of $1,053 million (2017: $1,355 million).

(A) AIRCRAFT BY GEOGRAPHIC AREA

Aircraft supporting the Group's global operations are primarily located in Australia.

(B) SECURED ASSETS

Certain aircraft and engines act as security against related financing facilities. Under the terms of certain financing facilities entered into by the Qantas Group, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters. The total carrying amount of assets under pledge is $3,966 million (2017: $3,867 million).

(C) CAPITAL EXPENDITURE COMMITMENTS

The Group's capital expenditure commitments as at 30 June 2018 are $12,478 million (2017: $11,385 million). The Group has certain rights within its aircraft purchase contracts which can defer the above capital commitments. The Group's capital expenditure commitments are predominantly denominated in US Dollars. Commitments reported above are translated to the Group's Australian dollar presentational currency at the 30 June 2018 closing exchange rate of $0.74 (30 June 2017: $0.76).

11 INTANGIBLE ASSETS

	2018 $M			2017 $M		
	At Cost	Accumulated Amortisation and Impairment	Net Book Value	At Cost	Accumulated Amortisation and Impairment	Net Book Value
Goodwill	207	–	207	207	–	207
Airport landing slots	35	–	35	35	–	35
Software	1,681	(924)	757	1,523	(824)	699
Brand names and trademarks	26	–	26	25	–	25
Customer contracts/relationships	4	(3)	1	5	(4)	1
Contract intangible assets	87	–	87	58	–	58
Total intangible assets	**2,040**	**(927)**	**1,113**	**1,853**	**(828)**	**1,025**

Notes to the Financial Statements continued

For the year ended 30 June 2018

11 INTANGIBLE ASSETS (CONTINUED)

2018 $M	Opening Net Book Value	Additions[1]	Disposals of Controlled Entity	Transfers[2]	Transferred (to)/from Assets Classified as Held for Sale	Amortisation	Other[3]	Closing Net Book Value
Goodwill	207	–	(1)	–	–	–	1	207
Airport landing slots	35	–	–	–	–	–	–	35
Software	699	200	(7)	1	(9)	(127)	–	757
Brand names and trademarks	25	–	–	–	–	–	1	26
Customer contracts/relationships	1	–	–	–	–	–	–	1
Contract intangible assets	58	29	–	–	–	–	–	87
Total intangible assets	**1,025**	**229**	**(8)**	**1**	**(9)**	**(127)**	**2**	**1,113**

2017 $M	Opening Net Book Value	Additions[1]	Disposals of Controlled Entity	Transfers[2]	Transferred (to)/from Assets Classified as Held for Sale	Amortisation	Other[3]	Closing Net Book Value
Goodwill	208	–	–	–	–	–	(1)	207
Airport landing slots	35	–	–	–	–	–	–	35
Software	602	197	–	2	–	(105)	3	699
Brand names and trademarks	26	–	–	–	–	–	(1)	25
Customer contracts/relationships	2	–	–	–	–	(1)	–	1
Contract intangible assets	36	22	–	–	–	–	–	58
Total intangible assets	**909**	**219**	**–**	**2**	**–**	**(106)**	**1**	**1,025**

1 Additions include capitalised interest of $5 million (2017: $3 million).
2 Transfers include transfers between categories of intangible assets and transfers from/(to) other balance sheet accounts.
3 Other includes foreign exchange movements, non-cash additions, impairments of intangible assets.

12 DEFERRED TAX LIABILITIES

	2018 $M	2017 $M
Deferred tax liabilities	**(910)**	**(353)**

(A) RECONCILIATION OF DEFERRED TAX ASSETS/(LIABILITIES)

2018 $M	Opening Balance	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Recognised in Retained Earnings	Transfer to Assets/ Liabilities Classified as Held for Sale	Closing Balance
Inventories	(30)	10	–	–	–	(20)
Property, plant and equipment and intangible assets	(1,505)	(97)	–	–	5	(1,597)
Payables	32	43	–	–	–	75
Revenue received in advance	747	(3)	–	–	–	744
Interest-bearing liabilities	(56)	10	–	–	–	(46)
Other financial assets/(liabilities)	(18)	(91)	(170)	–	–	(279)
Provisions	345	13	–	–	(7)	351
Other items	(153)	(3)	(37)	52	–	(141)
Tax value of recognised tax losses	285	(282)	–	–	–	3
Total deferred tax (liabilities)/assets	**(353)**	**(400)**	**(207)**	**52**	**(2)**	**(910)**

Notes to the Financial Statements continued

For the year ended 30 June 2018

12 DEFERRED TAX LIABILITIES (CONTINUED)

2017 $M	Opening Balance	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Recognised in Retained Earnings	Transfer to Assets/ Liabilities Classified as Held for Sale	Closing Balance
Inventories	(15)	(15)	–	–	–	(30)
Property, plant and equipment and intangible assets	(1,413)	(92)	–	–	–	(1,505)
Payables	51	(19)	–	–	–	32
Revenue received in advance	763	(16)	–	–	–	747
Interest-bearing liabilities	(55)	(1)	–	–	–	(56)
Other financial assets/(liabilities)	(17)	6	(7)	–	–	(18)
Provisions	334	11	–	–	–	345
Other items	(51)	(35)	(75)	8	–	(153)
Tax value of recognised tax losses	442	(157)	–	–	–	285
Total deferred tax assets/(liabilities)	**39**	**(318)**	**(82)**	**8**	**–**	**(353)**

(B) QANTAS GROUP CARRIED FORWARD TAX LOSSES

	2018 $M	2017 $M
Tax losses available to be utilised in current year	(941)	(1,464)
Tax losses available to be utilised in future years	(10)	(10)
Total tax losses brought forward	**(951)**	**(1,474)**
Tax losses utilised against current taxable income	941	523
Tax losses carried forward to be utilised in future years	**(10)**	**(951)**

(C) UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised with respect to the following items:

	2018 $M	2017 $M
Tax losses – New Zealand	17	12
Tax losses – Singapore	15	15
Tax losses – Hong Kong	12	12
Total unrecognised deferred tax assets	**44**	**39**

13 OTHER ASSETS

	2018 $M			2017 $M		
	Current	Non-current	Total	Current	Non-current	Total
Prepayments	121	209	330	88	224	312
Net defined benefit asset	–	292	292	–	193	193
Other assets	46	32	78	9	27	36
Total other assets	**167**	**533**	**700**	**97**	**444**	**541**

14 REVENUE RECEIVED IN ADVANCE

	2018 $M			2017 $M		
	Current	Non-current	Total	Current	Non-current	Total
Unavailed passenger revenue	2,860	–	2,860	2,693	–	2,693
Unredeemed Frequent Flyer revenue	892	1,416	2,308	912	1,329	2,241
Other revenue received in advance	187	30	217	139	95	234
Total revenue received in advance	**3,939**	**1,446**	**5,385**	**3,744**	**1,424**	**5,168**

Notes to the Financial Statements continued

For the year ended 30 June 2018

15 NET ON BALANCE SHEET DEBT

(A) CASH AND CASH EQUIVALENTS

	2018 $M	2017 $M
Cash balances	264	312
Cash at call	100	277
Short-term money market securities and term deposits	1,330	1,186
Total cash and cash equivalents	**1,694**	**1,775**

Cash and cash equivalents comprise cash at bank and on hand, cash at call and short-term money market securities and term deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Short-term money market securities of $158 million (2017: $87 million) held by the Qantas Group are pledged as collateral under the terms of certain operational financing facilities when underlying unsecured limits are exceeded. The collateral cannot be sold or repledged in the absence of default by the Qantas Group.

(B) INTEREST-BEARING LIABILITIES

		2018 $M			2017 $M		
	Notes	Current	Non-current	Total	Current	Non-current	Total
Bank loans – secured		287	1,471	1,758	308	1,484	1,792
Bank loans – unsecured		–	321	321	–	276	276
Other loans – unsecured		8	1,373	1,381	22	1,384	1,406
Lease and hire purchase liabilities – secured	22	109	1,179	1,288	103	1,261	1,364
Total interest–bearing liabilities		**404**	**4,344**	**4,748**	**433**	**4,405**	**4,838**

Certain current and non-current interest-bearing liabilities relate to specific financings of aircraft and engines and are secured by the aircraft to which they relate (refer to Note 10). During the year, there were non-cash financing activities relating to additions of property, plant and equipment under finance leases of $1 million (2017: $5 million).

(C) ANALYSIS OF CHANGES IN NET ON BALANCE SHEET DEBT

2018 $M	Opening Balance	Debt Repayment	Aircraft Operating Lease Refinancing	Debt Drawdown	Foreign Exchange	Mark to Market & Non-cash Movement	Shareholder Distributions	Treasury Shares	Other Net Cash Movement	Closing Balance
Interest-bearing liabilities	4,838	(802)	–	668	18	25	–	–	1	4,748
Fair value of hedges related to debt	(1)	–	–	–	–	–	–	–	1	–
Cash	(1,775)	802	230	(668)	(3)	–	1,000	162	(1,442)	(1,694)
Net on balance sheet debt	**3,062**	**–**	**230**	**–**	**15**	**25**	**1,000**	**162**	**(1,440)**	**3,054**

2017 $M	Opening Balance	Debt Repayment	Aircraft Operating Lease Refinancing	Debt Drawdown	Foreign Exchange	Mark to Market & Non-cash Movement	Shareholder Distributions	Treasury Shares	Other Net Cash Movement	Closing Balance
Interest-bearing liabilities	4,862	(453)	–	419	(11)	21	–	–	–	4,838
Fair value of hedges related to debt	(2)	–	–	–	1	–	–	–	–	(1)
Cash	(1,980)	453	651	(419)	9	–	627	198	(1,314)	(1,775)
Net on balance sheet	**2,880**	**–**	**651**	**–**	**(1)**	**21**	**627**	**198**	**(1,314)**	**3,062**

Notes to the Financial Statements continued

For the year ended 30 June 2018

16 PROVISIONS

	2018 $M			2017 $M		
	Current	Non-current	Total	Current	Non-current	Total
Annual leave	298	–	298	283	–	283
Long service leave	355	43	398	330	54	384
Redundancies and other employee benefits	183	–	183	173	–	173
Total employee benefits	**836**	**43**	**879**	**786**	**54**	**840**
Onerous contracts	–	2	2	1	2	3
Make good on leased assets	2	165	167	6	137	143
Insurance, legal and other	22	157	179	48	155	203
Total other provisions	**24**	**324**	**348**	**55**	**294**	**349**
Total provisions	**860**	**367**	**1,227**	**841**	**348**	**1,189**

Reconciliations of the carrying amounts of each class of provision, other than employee benefits, are set out below:

2018 $M	Opening Balance	Provisions Made	Provisions Utilised	Unwind of Discount	Provisions Other	Closing Balance
Onerous contracts	3	–	(1)	–	–	2
Make good on leased assets	143	34	(14)	4	–	167
Insurance, legal and other	203	35	(60)	4	(3)	179
Total other provisions	**349**	**69**	**(75)**	**8**	**(3)**	**348**

17 CAPITAL

(A) ISSUED CAPITAL

	2018 $M	2017 $M
Opening balance: 1,808,226,377 (2017: 1,918,801,014) ordinary shares, fully paid	3,259	3,625
Shares bought back during the period: 124,658,497 (2017: 110,574,637) ordinary shares	(751)	(366)
Closing balance: 1,683,567,880 (2017: 1,808,226,377) ordinary shares	**2,508**	**3,259**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of wind-up, Qantas ordinary shareholders rank after all creditors and are fully entitled to any residual proceeds on liquidation.

(B) TREASURY SHARES

Treasury shares consist of shares held in trust for Qantas employees in relation to equity compensation plans. As at 30 June 2018, 23,393,257 (2017: 54,683,322) shares were held in trust and classified as treasury shares.

(C) CAPITAL MANAGEMENT

The Qantas Group's Financial Framework is designed to achieve top quartile Total Shareholder Return relative to the ASX100 and global airline peers. The Framework's key elements are to:

- Maintain an optimal capital structure that minimises the cost of capital, by holding an appropriate level of net debt (including off balance sheet aircraft operating leases). The appropriate level of net debt reflects the Qantas Group's size, measured by Invested Capital. This is consistent with investment grade credit metrics
- Deliver ROIC that exceeds the weighted average cost of capital through the cycle
- Make disciplined capital allocation decisions between reinvestment, debt reduction and distribution of surplus capital to shareholders while maintaining an optimal capital structure

Surplus capital is identified on a forward basis, being the difference between the projected net debt position and the target net debt position whilst ROIC remains above 10 per cent.

Notes to the Financial Statements continued

For the year ended 30 June 2018

17 CAPITAL (CONTINUED)

The Qantas Group maintains access to a broad range of debt markets, both secured and unsecured. The Qantas Group maintains a prudent liquidity policy that ensures adequate coverage of liquidity requirements while considering a range of adverse scenarios.

	Metric	2018	2017
Net debt[1]	$5.1 to $6.3B[5]	$4.9B	$5.2B
FFO/net debt[2]	>45 per cent	67 per cent	58 per cent
Debt/EBITDA[3]	<3.5 times	2.0 times	2.3 times
Return on Invested Capital (%)	ROIC > WACC	22.0 per cent	20.1 per cent
Net capital expenditure[4]		$1.97B	$1.5B
Shareholder distributions		$1.0B	$0.6B

1 Net debt is a non-statutory measure which includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework. Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. The residual value of the capitalised aircraft lease liability denominated in a foreign currency is translated at the long-term exchange rate.
2 FFO/net debt is a non-statutory measure which is Management's estimate based on Standard and Poor's methodology.
3 Debt/EBITDA is a non-statutory measure which is Management's estimate based on Moody's methodology.
4 Net capital expenditure is a non-statutory measure which is equal to net investing cash flows included in the Consolidated Cash Flow Statement of $1.97 billion (2017: $1.4 billion) (which excludes aircraft operating lease refinancing) plus implied capital expenditure for new leases of $nil (2017: commencement of leases $0.1 billion).
5 Target net debt range of $5.1 to $6.3 billion is based on the current Invested Capital of $8.8 billion (2017: target debt range of $4.8 to $6.0 billion).

In August 2018, the Board declared a fully franked ten cents per share final ordinary dividend of $168 million and announced an on-market share buy-back of up to $332 million.

18 IMPAIRMENT TESTING OF CASH GENERATING UNITS

Identification of an asset's Cash Generating Unit (CGU) involves judgement based on how Management monitors the Qantas Group's operations and how decisions to acquire and dispose of the Qantas Group's assets and operations are made. Management has identified the lowest identifiable group of assets that generates largely independent cash inflows as being Qantas International, Qantas Domestic, Qantas Freight, Qantas Loyalty and the Jetstar Group CGUs.

The value in use was determined by discounting the future cash flows forecast to be generated from the continuing use of the units and was based on the following assumptions:

Assumption	How Determined
Cash flows	Cash flows were projected based on the approved Financial Plan. Cash flows to determine a terminal value were extrapolated using a constant growth rate of 2.5 per cent per annum, which does not exceed the long-term average growth rate for the industry. Cash outflows include capital expenditure for the purchase of aircraft and other property, plant and equipment. These cash outflows do not include capital expenditure that enhances the current performance of assets and related cash flows have been treated consistently.
Discount rate	A pre-tax discount rate of 10 per cent per annum has been used in discounting the projected cash flows of the CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2017: 10 per cent per annum). The discount rate is based on the risk-free rate for 10-year Australian Government Bonds adjusted for a risk premium to reflect both the increased risk of investing in equities and the risk of the specific CGU.

The following CGUs have goodwill and other intangible assets with indefinite useful lives as follows:

	2018 $M	2017 $M
Goodwill		
Qantas Domestic	10	10
Qantas Loyalty	12	13
Qantas Freight	49	49
Jetstar Group	136	135
Total goodwill	**207**	**207**
Other intangible assets with indefinite useful lives		
Qantas International	35	35
Jetstar Group	26	25
Total other intangible assets with indefinite useful lives	**61**	**60**

No impairment was recognised for the identified CGUs during the year ended 30 June 2018 (2017: nil).

Notes to the Financial Statements continued

For the year ended 30 June 2018

19 SHARE-BASED PAYMENTS

The Group provides benefits to Executives of the Group in the form of share-based payments, whereby Executives render services in exchange for Rights over shares. The total equity-settled share-based payment expense for the year was $64 million (2017: $67 million). The total cash-settled share-based payment expense for the year was $8 million (2017: $14 million). Further details regarding the operation of equity plans for Executives are outlined in the Remuneration Report from pages 27 to 48.

(A) LONG TERM INCENTIVE PLAN (LTIP)

Generally, participation in the LTIP is limited to Senior Executives of the Qantas Group in key roles or other participants who have been identified as high potential Executives. All Rights are redeemable on a one-for-one basis for Qantas shares, subject to the achievement of performance hurdles. Dividends are not payable on the Rights. For more information on the operation of the LTIP, see pages 36 to 37.

	2018	2017
Performance Rights Reconciliation	**Number of Rights**	**Number of Rights**
Rights outstanding as at 1 July	64,752,500	70,891,615
Rights granted during the year	3,976,000	7,495,500
Rights forfeited during the year	(3,954,047)	(3,495,500)
Rights exercised during the year	(49,652,953)	(10,139,115)[1]
Rights outstanding as at 30 June	**15,121,500**	**64,752,500**
Rights exercisable as at 30 June	–	–

1 This includes 111,115 Rights under the 2006 Performance Rights Plan which were converted into shares during the year ended 30 June 2017.

The Rights outstanding as at 30 June 2018 included 4,864,500 Rights under the 2016–2018 LTIP. 4,746,237 Rights vested and converted to shares and 118,263 Rights forfeited following the testing of performance hurdles as at 30 June 2018 and the Board's approval of the 2016–2018 LTIP vesting outcome on 22 August 2018.

The Rights outstanding as at 30 June 2017 included 51,596,000 Rights under the 2015–2017 LTIP. 49,652,953 Rights vested and converted to shares and 1,943,047 Rights forfeited following the testing of performance hurdles as at 30 June 2017 and the Board's approval of the 2015–2017 LTIP vesting outcome on 24 August 2017.

Fair Value Calculation

The estimated value of Rights granted was determined at grant date using a Monte Carlo model. The weighted average fair value of Rights granted during the year was $3.02 (2017: $1.95).

	2018		2017	
Inputs into the Models	**27 October 2017**	**5 September 2017**	**21 October 2016**	**5 September 2016**
Rights granted	763,500	3,212,500	1,172,000	6,323,500
Weighted average share value	$5.96	$5.63	$3.25	$3.28
Expected volatility	25.0%	25.0%	32.5%	32.5%
Dividend yield	2.8%	3.0%	6.6%	6.6%
Risk-free interest rate	2.6%	2.6%	1.7%	1.7%

The expected volatility was determined having regard to the historical volatility of Qantas shares and the implied volatility on exchange traded options. The risk-free rate was the yield on an Australian Government Bond at the grant date matching the remaining useful lives of the plans. The yield is converted into a continuously compounded rate in the model. The expected life assumes immediate exercise after vesting.

(B) SHORT TERM INCENTIVE PLAN (STIP)

For details on the operation of the STIP see pages 34 to 35. There were 1,221,466 awards of Qantas shares made under the 2016/17 STIP during the year ended 30 June 2018 (2017: 1,775,312 awards under the 2015/16 STIP).

(C) MANAGER INCENTIVE PLAN (MIP)

The MIP is the annual incentive plan for the broader Management group. Each year, to the extent that the plan's performance conditions are achieved, this group may receive an award that is a combination of cash and restricted shares. The scorecard performance outcomes are the same as those for STIP. For scorecard performance outcomes, refer to the details of the operation of the STIP on pages 34 to 35. The CEO retains discretion over any awards made under the MIP. There were 10,891,916 awards of Qantas shares made under the 2016/17 MIP during the year ended 30 June 2018 (2017: 11,837,954 awards under the 2015/16 MIP).

Notes to the Financial Statements continued

For the year ended 30 June 2018

20 FINANCIAL RISK MANAGEMENT

(A) RISKS

The Qantas Group is subject to financial risks which are an inherent part of the operations of an airline. The Qantas Group manages these risk exposures using various financial instruments, governed by a set of policies approved by the Board. The Qantas Group's policy is not to enter into, issue or hold derivative financial instruments for speculative trading purposes.

The Qantas Group uses different methods to assess and manage different types of financial risk to which it is exposed. These methods include correlations between risk types, sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis and sensitivity analysis for liquidity and credit risk. A summary of these risks has been presented below:

Risk	Nature of Risk	Management of Risk
Liquidity risk	Difficulty in meeting financial liability obligations	Remaining within optimal capital structure, targeting a minimum liquidity level, ensuring long-term commitments are managed, maintaining access to a variety of additional funding sources and managing maturity profiles.
Interest rate risk	Fluctuation in the fair value or future cash flows of a financial instrument because of changes in market interest rates	Floating versus fixed rate debt framework, interest rate swaps, forward rate agreement and options.
Foreign exchange risk	Fluctuation in the fair value or future cash flows denominated in a currency other than AUD because of changes in foreign exchange rates	Forward foreign exchange contracts, currency options and cross-currency swaps.
Fuel price risk	Exposure of future AUD fuel to unfavourable USD denominated price movements and foreign exchange movements	USD price – Options and swaps on jet kerosene, gasoil and crude oil. Foreign exchange risk – Foreign exchange contracts and currency options.
Credit risk	Potential loss from a transaction in the event of a default by a counterparty during the term or on settlement of a transaction	Trade Debtor counterparties – Stringent credit policies and accreditation of travel agents through industry programs. Other financial asset counterparties – Transact only with counterparties that have acceptable credit ratings and counterparty limits.

i. Liquidity Risk

Nature of the Risk:
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

Liquidity Risk Management:
The Qantas Group manages liquidity risk by targeting a minimum liquidity level, ensuring long-term commitments are managed with respect to forecast available cash inflows, maintaining access to a variety of additional funding sources, including commercial paper and standby facilities, and managing maturity profiles. Qantas may from time to time seek to purchase and retire outstanding debt through cash purchases in open market transactions, privately negotiated transactions or otherwise. Any such repurchases would depend on prevailing market conditions, liquidity requirements and possibly other factors.

The following table summarises the contractual timing of cash flows, including estimated interest payments, of financial liabilities and derivative instruments. The contractual amount assumes current interest rates and foreign exchange rates.

2018 $M	Less Than 1 Year	1 to 5 Years	More Than 5 Years	Total
FINANCIAL LIABILITIES				
Payables	2,295	–	–	2,295
Bank loans – secured[1]	321	1,235	448	2,004
Bank loans – unsecured[1]	11	367	–	378
Other loans – unsecured[1]	87	1,457	196	1,740
Lease and hire purchase liabilities[1]	121	1,309	56	1,486
Derivatives – inflows	(10)	(10)	–	(20)
Derivatives – outflows	24	24	–	48
Net other financial assets/liabilities – inflows	(454)	(98)	–	(552)
Total financial liabilities	**2,395**	**4,284**	**700**	**7,379**

1 Recognised financial liability maturity values are shown pre-hedging.

Notes to the Financial Statements continued

For the year ended 30 June 2018

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

2017 $M	Less Than 1 Year	1 to 5 Years	More Than 5 Years	Total
FINANCIAL LIABILITIES				
Payables	2,008	–	–	2,008
Bank loans – secured[1]	333	1,494	158	1,985
Bank loans – unsecured[1]	6	290	–	296
Other loans – unsecured[1]	101	1,293	460	1,854
Lease and hire purchase liabilities[1]	118	1,019	466	1,603
Derivatives – inflows	(12)	(30)	–	(42)
Derivatives – outflows	27	59	–	86
Net other financial assets/liabilities – inflows	(47)	(12)	–	(59)
Total financial liabilities	**2,534**	**4,113**	**1,084**	**7,731**

1 Recognised financial liability maturity values are shown pre-hedging.

ii. Interest Rate Risk

Nature of the Risk:
Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Qantas Group has exposure to movements in interest rates arising from its portfolio of interest rate sensitive assets and liabilities which are predominantly in AUD and USD currencies. These principally include corporate debt, leases and cash.

Management of Interest Rate Risk:
The Qantas Group manages interest rate risk by using a floating versus fixed rate debt framework. The relative mix of fixed and floating interest rate funding is managed by using interest rate swaps, forward rate agreements and options. For the year ended 30 June 2018, interest-bearing liabilities amounted to $4,748 million (2017: $4,838 million). The fixed/floating split is 53 per cent and 47 per cent respectively (2017: 53 per cent and 47 per cent). For the year ended 30 June 2018, other financial assets and liabilities included derivative financial instruments relating to debt obligations and future interest payments totalling $26 million (liability) (2017: $41 million (liability)). These are recognised at fair value.

Sensitivity to Interest Rate Risk:

	Profit Before Tax		Equity (Before Tax)	
$M	2018	2017	2018	2017
100bps increase in interest rates[1]				
Variable rate interest-bearing instruments (net of cash)	(7)	(8)	–	–
Derivatives designated in a cash flow hedge relationship	–	–	7	12
100bps decrease in interest rates[1]				
Variable rate interest-bearing instruments (net of cash)	7	8	–	–
Derivatives designated in a cash flow hedge relationship	–	–	(8)	(13)

1 Sensitivity analysis assumes hedge designations as at 30 June 2018 remain unchanged and that all designations are effective.

iii. Foreign Exchange Risk

Nature of the Risk:
Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The source and nature of this risk arises from operations, capital expenditure and translation risk.

Management of Foreign Exchange Risk:
Cross-currency swaps are used to convert long-term foreign currency borrowings to currencies in which the Qantas Group has forecast sufficient surplus net revenue to meet the principal and interest obligations under the swaps. Where long-term borrowings are held in foreign currencies in which the Qantas Group derives surplus net revenue, offsetting forward foreign exchange contracts have been used to match the timing of cash flows arising under the borrowings with the expected revenue surpluses. To the extent a foreign exchange gain or loss is incurred, and the cash flow hedge is deemed effective, this is deferred until the net revenue is realised. As at 30 June 2018, total unrealised exchange gains on hedges of net revenue designated to service long-term debt was nil (2017: nil).

Forward foreign exchange contracts and currency options are used to hedge a portion of remaining net foreign currency exposures in accordance with Qantas Group policy. Net foreign currency exposures, including foreign currency purchases and disposals of property, plant and equipment, may be hedged out to two years within specific parameters. Any hedging outside these parameters requires approval by the Board. For the year ended 30 June 2018, other financial assets and liabilities included derivative financial instruments relating to the hedging of future capital expenditure payments, totalling $13 million (net asset) (2017: $14 million (net liability)). These are recognised at fair value.

Notes to the Financial Statements continued

For the year ended 30 June 2018

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity to Foreign Exchange Risk:

	Profit Before Tax		Equity (Before Tax)	
$M	2018	2017	2018	2017
20% movement in Foreign Exchange Risk[1]				
20% (2017: 20%) USD depreciation	–	–	(31)	(100)
20% (2017: 20%) USD appreciation	–	–	84	152

1 Sensitivity analysis assumes hedge designations as at 30 June 2018 remain unchanged and that all designations are effective. Sensitivity analysis on foreign currency pairs of 20 per cent represent recent volatile market conditions.

iv. Fuel Price Risk

Nature of the Risk:

Exposure of future AUD fuel costs to unfavourable USD denominated price and foreign exchange movements.

Management of Future AUD Fuel Costs Risk:

The Qantas Group uses options and swaps on jet kerosene, gasoil and crude oil to hedge exposure to movements in the USD price of aviation fuel. Qantas considers the crude component to be a separately identifiable and measurable component of aviation fuel. The foreign exchange risk in the total fuel cost is separately hedged using foreign exchange contracts and currency options. Hedging is conducted in accordance with Qantas Group policy. Fuel consumption out to two years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board. For the year ended 30 June 2018, other financial assets and liabilities included fuel and foreign exchange derivatives totalling $540 million (net asset) (2017: $72 million (net asset)). These are recognised at fair value.

Sensitivity to Foreign Exchange and Fuel Price Risk:

	Profit Before Tax		Equity (Before Tax)	
$M	2018	2017	2018	2017
20% movement in AUD fuel costs[1]				
20% (2017: 20%) USD depreciation, 20% (2017: 20%) increase per barrel in fuel indices	–	1	282	104
20% (2017: 20%) USD appreciation, 20% (2017: 20%) decrease per barrel in fuel indices	–	–	7	153

1 Sensitivity analysis assumes hedge designations as at 30 June 2018 remain unchanged and that all designations are effective. Sensitivity analysis on foreign currency pairs and fuel indices of 20 per cent represent recent volatile market conditions. Sensitivity analysis assumes an offset between USD and fuel price indices based on observed market movements.

v. Credit Risk

Nature of the Risk:

Credit risk is the potential loss from a transaction in the event of default by the counterparty during the term of the transaction or on settlement of the transaction. Credit exposure is measured as the cost to replace existing transactions should a counterparty default.

Management of Credit Risk:

The Qantas Group conducts transactions with the following major types of counterparties:

- **Trade debtor counterparties:** The credit risk is the recognised amount, net of any impairment losses. As at 30 June 2018, trade debtors amounted to $781 million (2017: $664 million). The Qantas Group has credit risk associated with travel agents, industry settlement organisations and credit provided to direct customers. The Qantas Group minimises this credit risk through the application of stringent credit policies and accreditation of travel agents through industry programs
- **Other financial asset counterparties:** The Qantas Group restricts its dealings to counterparties that have acceptable credit ratings. Should the rating of a counterparty fall below certain levels, internal policy dictates that approval by the Board is required to maintain the level of the counterparty exposure. Alternatively, Management may consider closing out positions with the counterparty or novate open positions to another counterparty with acceptable credit ratings

The Qantas Group minimises the concentration of credit risk by undertaking transactions with a large number of customers and counterparties in various countries in accordance with Board-approved policy. As at 30 June 2018, the credit risk of the Qantas Group to counterparties in relation to other financial assets, cash and cash equivalents, and other financial liabilities amounted to $1,958 million (2017: $1,533 million). Refer to Note 20 (C) for offsetting disclosures of contractual arrangements. The Qantas Group's credit exposure in relation to these assets is with counterparties that have a minimum credit rating of A-/A3, unless individually approved by the Board.

(B) FAIR VALUE

The fair value of cash, cash equivalents and non-interest-bearing financial assets and liabilities approximates their carrying value due to their short maturity. The fair value of financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The fair value of options is determined using standard valuation techniques. Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet. Refer to Note 29(E) for a definition of the fair value hierarchy.

Notes to the Financial Statements continued

For the year ended 30 June 2018

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2018			2017		
	Carrying Amount Held at			Carrying Amount Held at		
$M	Fair Value Through Profit and Loss	Amortised Cost	Fair Value	Fair Value Through Profit and Loss	Amortised Cost	Fair Value
Financial assets						
Cash and cash equivalents	–	1,694	1,699	–	1,775	1,779
Receivables	–	1,008	1,008	–	907	907
Other financial assets[1]	586	–	586	143	–	143
Financial liabilities						
Payables	–	2,295	2,295	–	2,008	2,008
Interest-bearing liabilities	–	4,748	5,079	–	4,838	5,049
Other financial liabilities[1]	59	–	59	125	–	125

1 Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet. These derivative financial instruments have been measured at fair value using Level 2 inputs in estimating their fair values.

(C) DERIVATIVES AND HEDGING INSTRUMENTS

The following section summarises derivative financial instruments in the Consolidated Financial Statements:

Type of Hedge	Description	Derivative
Cash flow hedges	A derivative or financial instrument to hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction.	Exchange derivative contracts to hedge future AUD fuel costs and foreign currency operational payments (forwards, swaps or options). Interest rate derivative contracts to hedge future interest payments (forwards, swaps or options). Foreign exchange derivative contracts to hedge future capital expenditure payments (forwards or options).
Fair value hedges	A derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability.	Contracts to hedge the fair value movement of designated assets.

The Group's derivative assets and liabilities as at 30 June 2018 are detailed below:

	2018			2017		
$M	Current	Non-current	Total	Current	Non-current	Total
Derivative assets						
Designated as cash flow hedges	474	112	586	100	42	142
Designated as fair value hedges	–	–	–	–	1	1
Total other financial assets	**474**	**112**	**586**	**100**	**43**	**143**
Derivative liabilities						
Designated as cash flow hedges	(34)	(25)	(59)	(69)	(56)	(125)
Total other financial liabilities	**(34)**	**(25)**	**(59)**	**(69)**	**(56)**	**(125)**
Net other financial assets/(liabilities)	**440**	**87**	**527**	**31**	**(13)**	**18**

i. Offsetting

The Group enters into contractual arrangements such as the International Swaps and Derivatives Association (ISDA) Master Agreement where, upon the occurrence of a credit event (such as default), a termination value is calculated and only a single net amount is payable in settlement of all transactions that are capable of offset under the contractual terms. The ISDA agreements do not meet the criteria for offsetting in the Consolidated Balance Sheet and consequently financial assets and liabilities are recognised gross. This is because the Group does not have any current legal enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events. The amounts shown as financial assets and financial liabilities would each have been $33 million lower (2017: $68 million lower) in the event of the right to offset being currently enforceable.

ii. Hedge Reserve

The effective portion of the cumulative net change in the fair value of derivative financial instruments designated as a cash flow hedge and the cumulative change in fair value arising from the time value of options are included in the hedge reserve. These options relate entirely to transaction-related hedged items. For further information on accounting for derivative financial instruments as cash flow hedges, refer to Note 29(E). For the year ended 30 June 2018, $251 million (2017: $81 million) of the related cash flows are expected to occur within one year and $50 million (2017: $19 million) after one year. Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet. Refer to Note 29(E) for a definition of the fair value hierarchy.

Notes to the Financial Statements continued

For the year ended 30 June 2018

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) HEDGE ACCOUNTING

As at 30 June 2018		Nominal Amount of Hedging Instrument and Hedged Item	Hedge Rates	Carrying Amount of the Hedging Instrument (AUD)[1] Assets	Liabilities	Change in Value of the Hedging Instrument Used for Calculating Hedge Ineffectiveness	Change in Value of the Hedged Item used for Calculating Hedge Ineffectiveness	Change in Value of the Hedging Instrument Recognised in Other Comprehensive Income	Hedge Ineffective-ness Recognised in Profit or Loss	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss
		$M	$M	$M	$M	$M	$M	$M	$M	$M
Cash flow hedges										
AUD fuel costs (up to 2 years)	Barrels	27	AUD/Barrel 67-108	572	(32)	783	(783)	783	–	329
Capital expenditure (up to 2 years)	AUD	446	AUD/USD 0.74-0.76	14	(1)	1	(1)	1	–	–
Interest (up to 6 years)	AUD	507	Fixed 4.40%-5.99%	–	(26)	15	(15)	15	–	–
Fair value hedges										
Interest (up to 5 years)	AUD	–	Floating n/a	–	–	–	–	–	–	–

1 Hedging instruments are located within the Other Financial Assets and Other Financial Liabilities on the Consolidated Balance Sheet and include costs of hedging. The carrying amount of the hedged item equals the nominal amount of the hedging instrument.

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(A) RECONCILIATION OF STATUTORY PROFIT FOR THE YEAR TO NET CASH FROM OPERATING ACTIVITIES

$M	Notes	2018	2017
Statutory profit for the year		**980**	**853**
Adjusted for:			
Depreciation and amortisation		1,528	1,382
Share-based payments	19	64	67
Inventory write-off	3	9	14
Amortisation of deferred financing fees and lease benefits		16	19
Net gain on disposal of property, plant and equipment	3	(5)	(11)
Net (gains)/losses on investments	3	(12)	(18)
Share of net (profit)/loss of investments accounted for under the equity method		(15)	7
Hedging-related activities		16	–
Other items		(12)	(12)
Dividends received from investments accounted for under the equity method		6	7
Changes in other items:			
— Receivables		(109)	(3)
— Inventories		(66)	(29)
— Other assets		(45)	56
— Payables		342	59
— Revenue received in advance		277	123
— Provisions		28	(136)
— Deferred tax liabilities/(assets)		411	326
Net cash from operating activities		**3,413**	**2,704**

Notes to the Financial Statements continued

For the year ended 30 June 2018

22 COMMITMENTS

(A) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	2018 $M	2017 $M
AS LESSEE		
Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)		
Aircraft and engines – payable:		
Not later than one year	147	143
Later than one year but not later than five years	944	697
Later than five years	404	762
Total aircraft and engines	**1,495**	**1,602**
Less: future lease and hire purchase finance charges and deferred lease benefits	(207)	(238)
Total finance lease and hire purchase liabilities	**1,288**	**1,364**

	Notes	2018 $M	2017 $M
Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)			
Current liabilities	15	109	103
Non-current liabilities	15	1,179	1,261
Total finance lease and hire purchase liabilities		**1,288**	**1,364**

The Qantas Group leases aircraft under finance leases with expiry dates between one and 10 years. Most finance leases contain purchase options exercisable at the end of the lease term. The Qantas Group has the right to negotiate extensions on most leases.

(B) OPERATING LEASE COMMITMENTS

	2018 $M	2017 $M
AS LESSEE		
Non-cancellable operating lease commitments		
Aircraft and engines – payable:		
Not later than one year	249	279
Later than one year but not later than five years	634	715
Later than five years	58	75
Total aircraft and engines	**941**	**1,069**
Non-aircraft – payable:		
Not later than one year	162	161
Later than one year but not later than five years	395	398
Later than five years but not later than 10 years	290	295
Later than 10 years	272	298
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	(2)	(3)
Total non-aircraft	**1,117**	**1,149**
Total non-cancellable operating lease commitments	**2,058**	**2,218**

Notes to the Financial Statements continued

For the year ended 30 June 2018

23 SUPERANNUATION

The Qantas Superannuation Plan (QSP) is a hybrid defined benefit/defined contribution fund with multiple divisions that commenced operation in June 1939. In addition to the QSP, there are a number of small overseas defined benefit plans. The Qantas Group makes contributions to defined benefit plans that provide defined benefit amounts for employees upon retirement. Under the plans, employees are entitled to retirement benefits determined, at least in part, by reference to a formula based on years of membership and salary levels.

The defined benefit plans are legally separated from the Qantas Group. Responsibility for governance of the plans, including investment decisions and plan rules, rests solely with the Trustee of the plan. The Trustee of the QSP is a corporate trustee which has a Board comprising five company-appointed Directors and five member-elected Directors.

The QSP's defined benefit plan exposes the Group to a number of risks, the most significant of which are detailed below:

— **Investment risk:** The investment strategy of the QSP's defined benefit plan is to progressively de-risk the defined benefit investment portfolio as the plan's funding position improves over time. If the plan assets underperform expectations, the Group may be required to provide additional funding to the plan.

— **Interest rate risk:** Changes in bond yields, such as a decrease in corporate bond yields, will increase defined benefit liabilities through the discount rate assumed.

— **Inflation risk:** The defined benefit liabilities are linked to salary inflation, and higher inflation will lead to higher liabilities.

(A) FUNDING

Employer contributions to the defined benefit plans are based on recommendations by the plans' actuaries. It is estimated that $84 million of normal employer contributions will be paid by the Qantas Group to its defined benefit plans in 2018/19 (2017/18: $83 million).

In March 2017, a revised additional funding plan, which addresses the requirements of APRA Prudential Standards, was agreed with the Trustee of the QSP. The determination of Qantas' additional employer contributions under the funding plan is triggered where the Defined Benefit Vested Benefits Index (DB VBI) is below 100 per cent and may also be triggered where the Retrenchment Benefit Index is below 100 per cent. The DB VBI is the ratio of the QSP's assets attributable to the defined benefit liabilities to the total defined benefit amount that the QSP would be required to pay if all members were to voluntarily leave the plan on the funding valuation date. The additional funding plan also triggers further contributions being made where the amount of any retrenchment benefit paid from the plan is in excess of the funded benefit at the time of payment, subject to the DB VBI being below 105 per cent. Qantas contributed an additional $nil million to the QSP during the year ended 30 June 2018 (2017: $3 million). The QSP's financial position is monitored by the Trustee each quarter. The actuary recommends the amounts of additional contributions to be made each quarter, as required under the agreed additional funding plan.

(B) MOVEMENT IN NET DEFINED BENEFIT (ASSET)/LIABILITY

	Present Value of Obligation $M		Fair Value of Plan Assets $M		Net Defined Benefit (Asset)/Liability[1] $M	
	2018	2017	2018	2017	2018	2017
Balance as at 1 July	**2,234**	**2,387**	**(2,427)**	**(2,363)**	**(193)**	**24**
Included in the Consolidated Income Statement						
Current service cost	123	142	–	–	123	142
Past service cost	–	(2)	–	–	–	(2)
Interest expense/(income)	89	79	(93)	(76)	(4)	3
Contributions by plan participants	–	–	(22)	(22)	(22)	(22)
Total amount included in manpower and staff-related expenditure	**212**	**219**	**(115)**	**(98)**	**97**	**121**
Included in the Consolidated Statement of Comprehensive Income						
— Return on plan assets, excluding interest income	–	–	(56)	(86)	(56)	(86)
— Gains from change in demographic assumptions	(4)	(50)	–	–	(4)	(50)
— Gains from change in financial assumptions	(22)	(166)	–	–	(22)	(166)
— Experience (gain)/loss	(38)	52	–	–	(38)	52
— Exchange differences on foreign plans	6	(26)	(6)	26	–	–
Total amount recognised in other comprehensive income	**(58)**	**(190)**	**(62)**	**(60)**	**(120)**	**(250)**
Contributions by employer	–	–	(83)	(88)	(83)	(88)
Benefit payments	(180)	(182)	180	182	–	–
Assets distributed/Liabilities extinguished on settlements	(32)	–	32	–	–	–
Asset transfers to employer and other plans[2]	–	–	7	–	7	–
Balance as at 30 June	**2,176**	**2,234**	**(2,468)**	**(2,427)**	**(292)**	**(193)**

1 The net defined benefit asset is included in non-current other assets and the net defined benefit liability is included in non-current provisions (refer to note 16).
2 Plan surplus on termination net of excess tax on reversion and distributions to other plans.

Notes to the Financial Statements continued

For the year ended 30 June 2018

23 SUPERANNUATION (CONTINUED)

(C) PLAN ASSETS

The major categories of plan assets as a percentage of total plan assets of the Group's defined benefit plans are as follows:

	2018 %	2017 %
Australian equity[1]	13	13
Global equity[1]		
United States	13	11
Europe	4	5
Japan	2	2
Other	5	6
Private equity	3	4
Fixed interest[1]		
Government bonds	14	11
Other	8	12
Credit[1]		
Corporate debt	7	7
Other	2	3
Hedge funds	9	9
Property and infrastructure	7	9
Timberland	2	–
Cash and cash equivalents[1]	11	8
Total	**100**	**100**

1 The majority of these plan assets have a quoted market price in an active market.

The Trustee of the QSP is responsible for setting the investment strategy and objectives for the QSP's assets to support the defined benefit liabilities. The QSP does not use any asset-liability matching strategies. It utilises traditional investment management techniques to manage the defined benefit assets.

(D) ACTUARIAL ASSUMPTIONS AND SENSITIVITY

The significant actuarial assumptions (expressed as weighted averages per annum) were as follows:

	2018 %	2017 %
Discount rate	4.1	4.0
Future salary increases[1]	3.0	3.0

1 For the 30 June 2018 actuarial calculation, salary increases of 2.8 per cent in year 1 and three per cent for the remaining duration of the plan were assumed (30 June 2017: salary increases of 2.8 per cent in year 1, and three per cent for the remaining duration of the plan were assumed).

The weighted average duration of the QSP's defined benefit obligation as at 30 June 2018 was 10 years (2017: 10 years).
The sensitivity of the defined benefit obligation to changes in the significant assumption is as follows:

		Impact on Defined Benefit Obligation			
		30 June 2018		30 June 2017	
	Change in Assumption	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	1%	Decrease by 10.4%	Increase by 12.2%	Decrease by 10.9%	Increase by 12.6%
Future salary increase	1%	Increase by 10.0%	Decrease by 8.7%	Increase by 10.0%	Decrease by 8.9%

Defined contribution fund

A defined contribution expense of $188 million has been recognised for the year ended 30 June 2018 (2017: $175 million).

Notes to the Financial Statements continued

For the year ended 30 June 2018

24 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned companies) instrument 2016/785 (Instrument), the wholly-owned entities identified below are relieved from the *Corporations Act 2001* requirements for preparation, audit, distribution and lodgement of Financial Statements and Directors' Reports:

AAL Aviation Limited	Network Aviation Holdings Pty Ltd	Qantas Ground Services Pty Ltd
Airlink Pty Ltd	Network Aviation Pty Ltd	Qantas Group Flight Training (Australia) Pty Ltd
Australian Air Express Pty Ltd	Network Holding Investments Pty Ltd	Qantas Group Flight Training Pty Ltd
Australian Airlines Limited	Network Turbine Solutions Pty Ltd	Qantas Information Technology Limited
Australian Regional Airlines Pty Ltd	Osnet Jets Pty Ltd	Qantas Road Express Pty Ltd
Eastern Australia Airlines Pty Ltd	Q Catering Limited	Qantas Ventures Limited
Express Freighters Australia (Operations) Pty Ltd	Q H Tours Limited	QF Cabin Crew Australia Pty Ltd
Express Freighters Australia Pty Ltd	Qantas Asia Investment Company Pty Ltd	Regional Airlines Charter Pty Ltd
Hooroo Pty Ltd	Qantas Catering Group Limited	Snap Fresh Pty Ltd
Impulse Airlines Holdings Pty Ltd	Qantas Courier Limited	Sunstate Airlines (Qld) Pty Ltd
Jetstar Airways Pty Ltd	Qantas Domestic Pty Ltd	The Network Holding Trust
Jetstar Asia Holdings Pty Ltd	Qantas Freight Enterprises Limited	The Network Trust
Jetstar Group Pty Ltd	Qantas Frequent Flyer Limited	Vii Pty Limited
Jetstar Services Pty Ltd	Qantas Frequent Flyer Operations Pty Ltd	

It is a condition of the Instrument that Qantas and each of the controlled entities eligible to obtain relief under the Instrument enter into a Deed of Cross Guarantee (Deed). Under the Deed, Qantas guarantees to each creditor payment in full of any debt upon the winding up under certain provisions of the *Corporations Act (2001)* of any of the controlled entities that are party to the Deed. If the winding up occurs under other provisions of the *Corporations Act (2001)*, Qantas will only be liable if, six months after a resolution or order for the winding up of the controlled entity, any debt of a creditor of that controlled entity has not been paid in full. Each controlled entity that is party to the Deed has given similar guarantees in the event Qantas is wound up.

Qantas and its eligible controlled entities first entered into a Deed on 4 June 2001. Subsequently, additional controlled entities became party to the Deed by way of Assumption Deeds dated 17 June 2002, 26 June 2006, 29 June 2007, 30 June 2008, 29 June 2009, 16 June 2010, 25 November 2010, 4 April 2011, 13 October 2011, 20 November 2012, 26 November 2015, 26 June 2017 and 2 November 2017.

The Consolidated Condensed Income Statement and Consolidated Condensed Balance Sheet for Qantas and each of its controlled entities that are party to the Deed are set out below. The principles of consolidation are:
— Transactions, balances and unrealised gains and losses on transactions between entities that are party to the Deed are eliminated
— Investments in entities that are not party to the Deed are carried at cost less any accumulated impairment; and
— Dividends received from entities that are not party to the Deed are recognised as income.

(A) CONSOLIDATED CONDENSED INCOME STATEMENT

	2018 $M	2017 $M
Revenue and other income	16,581	15,566
Expenditure	(15,013)	(14,264)
Statutory profit before income tax expense and net finance costs	**1,568**	**1,302**
Net finance costs	(173)	(182)
Statutory profit before income tax expense	**1,395**	**1,120**
Income tax expense	(410)	(327)
Statutory profit for the year	**985**	**793**
Retained earnings as at 1 July	338	(175)
Dividends paid	(249)	(261)
Shares vested and transferred to employees	(119)	(19)
Retained earnings as at 30 June	**955**	**338**

Notes to the Financial Statements continued

For the year ended 30 June 2018

24 DEED OF CROSS GUARANTEE (CONTINUED)

(B) CONSOLIDATED CONDENSED BALANCE SHEET

	2018 $M	2017 $M
CURRENT ASSETS		
Cash and cash equivalents	1,580	1,624
Receivables	1,637	930
Other financial assets	474	100
Inventories	351	351
Assets classified as held for sale	114	12
Other	160	87
Total current assets	**4,316**	**3,104**
NON-CURRENT ASSETS		
Receivables	861	1,042
Other financial assets	112	43
Investments	330	300
Property, plant and equipment	12,774	12,182
Intangible assets	1,021	935
Other	503	420
Total non-current assets	**15,601**	**14,922**
Total assets	**19,917**	**18,026**
CURRENT LIABILITIES		
Payables	2,877	1,992
Revenue received in advance	3,870	3,671
Interest-bearing liabilities	565	562
Other financial liabilities	34	69
Liabilities classified as held for sale	64	–
Provisions	841	804
Total current liabilities	**8,251**	**7,098**
NON-CURRENT LIABILITIES		
Revenue received in advance	1,445	1,424
Interest-bearing liabilities	5,099	5,334
Other financial liabilities	25	56
Provisions	353	343
Deferred tax liabilities	912	356
Total non-current liabilities	**7,834**	**7,513**
Total liabilities	**16,085**	**14,611**
Net assets	**3,832**	**3,415**
EQUITY		
Issued capital	2,508	3,259
Treasury shares	(115)	(206)
Reserves	484	24
Retained earnings	955	338
Equity attributable to members of Qantas	**3,832**	**3,415**
Non-controlling interests	–	–
Total equity	**3,832**	**3,415**

Notes to the Financial Statements continued

For the year ended 30 June 2018

25 RELATED PARTIES

(A) REMUNERATION OF KEY MANAGEMENT PERSONNEL

The aggregate remuneration of the KMP of the Qantas Group is set out below:

	2018 $'000	2017 $'000
Short-term employee benefits	14,669	13,729
Post-employment benefits	638	529
Other long-term benefits[1]	(271)	113
Share-based payments	6,202	8,847
	21,238	**23,218**

1 Other long-term benefits include movement in annual leave and long service leave balances. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days' annual leave they accrue during the year.

Further details in relation to the remuneration of KMPs are included in the Directors' Report from pages 27 to 48.

(B) OTHER RELATED PARTY TRANSACTIONS – INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Transactions with investments accounted for under the equity method are conducted on normal terms and conditions.

Transactions between the Qantas Group and associates include:
- The Qantas Group provides airline seats on domestic and international routes to Helloworld Ltd for sale through its travel agency network
- The Qantas Group sells Qantas Points to Helloworld Ltd and purchases vouchers from Helloworld Ltd for the Qantas store
- The Qantas Group established a business service agreement with Jetstar-branded airlines in Japan and Vietnam for the provision of business services to enable the low-cost airline to operate a consistent customer experience for the Jetstar brand.

26 PARENT ENTITY DISCLOSURES - QANTAS AIRWAYS LIMITED

(A) CONDENSED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	2018 $M	2017 $M
Revenue and other income	11,891	11,903
Expenditure	(10,489)	(9,933)
Statutory profit before income tax expense and net finance costs	**1,402**	**1,970**
Net finance costs	(169)	(178)
Statutory profit before income tax expense	**1,233**	**1,792**
Income tax expense	(149)	(139)
Statutory profit for the year	**1,084**	**1,653**

Revenue and other income included $665 million (2017: $1,336 million) of dividend income from wholly-owned subsidiaries of the Qantas Group.

(B) CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	2018 $M	2017 $M
Statutory profit for the year	**1,084**	**1,653**
Effective portion of changes in fair value of cash flow hedges, net of tax	559	46
Transfer of hedge reserve to the Income Statement, net of tax	(230)	(6)
Recognition of effective cash flow hedges on capitalised assets, net of tax	16	(2)
Net changes in hedge reserve for time value of options, net of tax	51	(22)
Defined benefit actuarial gains/(losses), net of tax	84	175
Total other comprehensive income/(loss) for the year	**480**	**191**
Total comprehensive income for the year	**1,564**	**1,844**

Notes to the Financial Statements continued

For the year ended 30 June 2018

26 PARENT ENTITY DISCLOSURES – QANTAS AIRWAYS LIMITED (CONTINUED)

(C) CONDENSED BALANCE SHEET AS AT 30 JUNE 2018

	2018 $M	2017 $M
CURRENT ASSETS		
Cash and cash equivalents	1,576	1,595
Receivables	6,124	4,873
Inventories	249	238
Other	614	181
Total current assets	**8,563**	**6,887**
NON-CURRENT ASSETS		
Receivables	859	1,057
Property, plant and equipment	11,311	10,680
Intangible assets	761	665
Other	1,173	1,024
Total non-current assets	**14,104**	**13,426**
Total assets	**22,667**	**20,313**
CURRENT LIABILITIES		
Payables	6,299	4,944
Revenue received in advance	3,225	3,065
Interest-bearing liabilities	563	562
Other	692	677
Total current liabilities	**10,779**	**9,248**
NON-CURRENT LIABILITIES		
Revenue received in advance	1,442	1,418
Interest-bearing liabilities	5,099	5,334
Other	1,145	628
Total non-current liabilities	**7,686**	**7,380**
Total liabilities	**18,465**	**16,628**
Net assets	**4,202**	**3,685**
EQUITY		
Issued capital	2,508	3,259
Treasury shares	(115)	(206)
Other reserves	485	24
Profit reserves	2,633	1,798
Retained losses	(1,309)	(1,190)
Total equity	**4,202**	**3,685**

(D) DIVIDENDS DECLARED AND PAID

The Directors have declared a fully franked final dividend of ten cents per ordinary share for the current year, totalling $168 million. Dividends are paid from the profit reserves of Qantas Airways Limited, as the parent of the Group.

During the year, Qantas Airways Limited reported a Statutory Profit After Tax of $1,084 million, which was set aside in a separate profit reserve. For the year ended 30 June 2018, $249 million dividends (2017: $261 million) were paid to shareholders.

Notes to the Financial Statements continued

For the year ended 30 June 2018

26 PARENT ENTITY DISCLOSURES – QANTAS AIRWAYS LIMITED (CONTINUED)

(E) CAPITAL EXPENDITURE COMMITMENTS

Qantas' capital expenditure commitments as at 30 June 2018 are $12,478 million (2017: $11,385 million). Qantas has certain rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure.

Qantas' capital expenditure commitments are predominantly denominated in US dollars. Disclosures outlined above are translated to Australian dollar presentational currency at the 30 June 2018 closing exchange rate of $0.74 (30 June 2017: $0.76).

(F) CONTINGENT LIABILITIES

The contingent liabilities held by the parent entity are the same as those held by the Group as disclosed in Note 27.

(G) PARENT ENTITY GUARANTEES IN RESPECT OF DEBTS OF ITS SUBSIDIARIES

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Note 24.

(H) INTEREST-BEARING LIABILITIES

The parent entity has total interest-bearing liabilities of $5,662 million (2017: $5,896 million), of which $2,023 million (2017: $2,447 million) represent lease and hire purchase liabilities payable to controlled entities. Of the $3,639 million (2017: $3,449 million) payable to other parties, $1,943 million (2017: $1,774 million) represents secured bank loans and lease liabilities with the remaining balance representing unsecured loans and deferred lease benefits.

27 CONTINGENT LIABILITIES

Details of contingent liabilities are set out below. The Directors are of the opinion that provisions are not required with respect to these matters, as it is not probable that a future outflow of economic benefits will be required or the amount is not capable of reliable measurement.

(A) GUARANTEES

Qantas has entered into guarantees in the normal course of business to secure a self-insurance licence under the *Safety, Rehabilitation and Compensation Act 1988*, the *New South Wales Workers' Compensation Act*, the *Victorian Accident Compensation Act* and the *Queensland Workers' Compensation Act and Rehabilitation Act*, to support non-aircraft operating lease commitments and other arrangements entered into with third parties. Due to specific self-insurance provisions raised, the Directors are of the opinion that the probability of having to make a payment under these guarantees is remote.

(B) AIRCRAFT FINANCING

As part of the financing arrangements for the acquisition of aircraft, the Qantas Group has provided certain guarantees and indemnities to various parties in aircraft lease transactions. In certain circumstances, including the default of other counterparties, the Qantas Group may be required to make payment under these guarantees and indemnities.

(C) LITIGATION

From time to time Qantas is subject to claims and litigation during the normal course of business. The Directors have given consideration to such matters, which are or may be subject to litigation at year end and, subject to specific provisions raised, are of the opinion that no material contingent liability exists.

28 POST BALANCE DATE EVENTS

Other than as noted in Note 6 - Dividends and Other Shareholder Distributions, there has not arisen in the interval between 30 June 2018 and the date of this Report any other event that would have had a material effect on the Consolidated Financial Statements as at 30 June 2018.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) REPORTING ENTITY

Qantas Airways Limited (Qantas) is a for-profit company limited by shares, incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) and which is subject to the operation of the *Qantas Sale Act 1992*.

The Consolidated Financial Statements for the year ended 30 June 2018 comprise Qantas and its controlled entities (together referred to as the Qantas Group) and the Qantas Group's interest in investments accounted for under the equity method.

Qantas has five subsidiaries that are material to the Qantas Group in 2018 and 2017. The parent has majority voting rights in respect of each of the material subsidiaries. Materiality has been assessed based on the contribution of statutory profit/(loss) to the Qantas Group.

The Consolidated Financial Statements of Qantas for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 31 August 2018.

i. Statement of Compliance

The Consolidated Financial Statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Consolidated Financial Statements also comply with International Financial Reporting Standards and interpretations (IFRICs) adopted by the International Accounting Standards Board (IASB).

ii. Basis of Preparation

The Consolidated Financial Statements are presented in Australian dollars, which is the functional currency of the Qantas Group, and have been prepared on the basis of historical cost except for the following material items in the Consolidated Balance Sheet:
— Derivatives at fair value through profit and loss are measured at fair value
— Assets classified as held for sale are measured at lower of carrying amount and fair value less costs to sell
— Net defined benefit asset/(liability) is measured at fair value of plan assets less the present value of the defined benefit obligation

Qantas is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. In accordance with that Instrument, all financial information presented has been rounded to the nearest million dollars, unless otherwise stated. In addition, all financial information presented is representative of the Qantas Group, unless otherwise stated.

(B) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Consolidated Financial Statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Judgements made by Management in the application of AASBs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in future periods are included in the following notes:
— Note 16 – Provisions
— Note 23 – Superannuation

(C) PRINCIPLES OF CONSOLIDATION

i. Controlled Entities

Controlled entities are entities controlled by the Group. Control exists when the Group is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of controlled entities are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

ii. Non-Controlling Interests

Non-controlling interests in the results and equity of controlled entities are shown separately in the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Balance Sheet.

iii. Equity Accounted Investments

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for under the equity accounting method and initially recognised at cost, including transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases. Dividends received reduce the carrying amount of the equity accounted investment.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group's share of losses exceeds the equity accounted carrying value of an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations to fund the associates' operations or has made payments on behalf of an associate.

iv. Transactions Eliminated on Consolidation

Intra-group transactions, balances and unrealised gains and losses on transactions between controlled entities are eliminated in the Consolidated Financial Statements. Unrealised gains and losses arising from transactions with investments accounted for under the equity method are eliminated to the extent of the Group's interest in the associate.

(D) FOREIGN CURRENCY

i. Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group's companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transactions. Foreign currency differences are generally recognised in the Consolidated Income Statement.

ii. Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into AUD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into AUD at the exchange rates at the date of the transactions.

Foreign currency differences are recognised in the Consolidated Statement of Comprehensive Income and accumulated in the Foreign Currency Translation Reserve, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the Foreign Currency Translation Reserve related to that foreign operation is reclassified to the Consolidated Income Statement as part of the gain or loss on disposal. If the Group disposes of part of its interests in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Consolidated Income Statement.

(E) FINANCIAL INSTRUMENTS

Non-Derivative Financial Instruments

i. Recognition and Measurement of Non-Derivative Financial Assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed.

The Group subsequently classifies its financial assets in the following measurement categories:
- Those to be measured subsequently at fair value (either through the Consolidated Income Statement or the Consolidated Statement of Comprehensive Income)
- Those to be measured at amortised cost

ii. Recognition and Measurement of Non-Derivative Financial Liabilities

At initial recognition, the Group measures a non-derivative financial liability at its fair value, less transaction costs.

The Group subsequently measures non-derivative financial liabilities at amortised cost, with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis. Non-derivative financial liabilities that are designated as hedged items are subject to measurement under the hedge accounting requirements.

Derivative Financial Instruments

Derivative financial instruments are recognised at fair value both initially and on an ongoing basis. The accounting for subsequent changes in fair value depends on whether the derivative is a designated hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated. The Group designates derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or as hedges of highly probable forecast transactions (cash flow hedges). At the inception of the transactions, the Qantas Group documents the relationship between hedging instruments and hedged items, including the risk management objective and strategy for undertaking each transaction. The Qantas Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedge transactions have been and will continue to be highly effective.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

From time to time certain derivative financial instruments do not qualify for hedge accounting, notwithstanding that the derivatives are held to hedge identified exposures. Any changes in the fair value of a derivative instrument or part of a derivative instrument that do not qualify for hedge accounting are classified as 'ineffective' and recognised immediately in the Consolidated Income Statement.

i. Fair Value Hedges

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the Consolidated Income Statement, together with any changes in the fair value of the hedged asset or liability or firm commitment attributable to the hedged risk.

ii. Cash Flow Hedges

Where a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in the Consolidated Statement of Comprehensive Income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the Consolidated Income Statement.

The amount accumulated in equity is retained in the Consolidated Statement of Comprehensive Income and reclassified to the Consolidated Income Statement in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to the Consolidated Income Statement. Where the hedged item is capital in nature, the cumulative gain or loss recognised in the hedge reserve is transferred to the carrying amount of the asset when the asset is recognised.

iii. Cost of Hedging

The time value of an option, the forward element of a forward contract and any foreign currency basis spread is excluded from the designation of a financial instrument and accounted for as a cost of hedging. The fair value changes of these elements are recognised in other comprehensive income and depending on the nature of the hedged item, will either be transferred to the Consolidated Income Statement in the same period that the underlying transaction affects the Consolidated Income Statement or be capitalised into the initial carrying value of the asset and reported as ineffectiveness.

iv. Fair Value Calculations

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market is estimated using valuation techniques consistent with accepted market practice. The Qantas Group uses a variety of methods and input assumptions that are based on market conditions existing at balance date. The different methods of estimating the fair value of these items have been defined in the Consolidated Financial Statements as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

v. Financial Guarantee Contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, and the amount is initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or payables of associates and jointly controlled entities are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(F) REVENUE RECOGNITION

i. Passenger and Freight Revenue

Passenger and freight revenue is measured at the fair value of the consideration received, net of sales discounts, passenger and freight interline/IATA commission and Goods and Services Tax. Passenger revenue and freight revenue is recognised when passengers or freight are uplifted. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket, historic trends and experience.

Passenger recoveries (including fuel surcharge on passenger tickets) are included in net passenger revenue. Freight fuel surcharge is included in net freight revenue.

Revenue from ancillary passenger revenue, passenger services fees, lease capacity revenue and air charter revenue is recognised as revenue when the services are provided.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receipts for advanced passenger ticket sales or freight sales which have not yet been availed or recognised as revenue are deferred on the balance sheet as revenue received in advance.

ii. Frequent Flyer Marketing Revenue

Marketing revenue associated with the issuance of Frequent Flyer points is recognised when the service is performed (typically on the issuance of the point). Marketing revenue is measured as the difference between the cash received on issuance of a point and the amount deferred as unrecognised redemption revenue.

iii. Frequent Flyer Redemption Revenue

Revenue received for the issuance of points is deferred as a liability (revenue received in advance) until the points are redeemed or, in the case of Qantas Group flight redemption, the passenger is uplifted. Redemption revenue is measured based on the weighted average fair value of the points redeemed. The fair value of the awards is reduced to take into account the proportion of points that are expected to expire (breakage). Redemption revenue arising from Qantas Group flight redemptions is recognised in passenger revenue. Redemptions on other airlines are recognised in other revenue.

(G) TAXES

i. Tax Compliance

The Qantas Group is committed to embedding risk management practices to support the achievement of compliance objectives and fulfil corporate governance obligations. Tax risk management is governed by both the Qantas Group Risk Management Policy and the Qantas Group Tax Risk Management Policy, ensuring corporate governance obligations with respect to tax risks are met. The Qantas Group has paid all taxes that it owes and all tax compliance obligations are up to date. The Australian Taxation Office (ATO) has advised that the Qantas Group is a key taxpayer continuing to have a 'low' likelihood of non-compliance. The ATO also acknowledged Qantas' continued commitment to engage cooperatively and transparently to mitigate tax risks, including obtaining tax certainty on key transactions through the use of binding Private Rulings and entering into a multi-tax Annual Compliance Arrangement (ACA).

Tax Treaties:

Due to the operation of income tax treaties and specific rules dealing with airlines, the Qantas Group appropriately reports the majority of its income in Australia, with only a small component being reported in foreign jurisdictions (for the purpose of determining liability to company tax). This effectively results in more than 99 per cent of the Qantas Group's profit being subject to taxation in Australia.

Current Tax:

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at balance date and any adjustment to tax payable with respect to previous years.

Deferred Tax:

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit
- Temporary differences relating to investments in controlled entities and associates and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future
- Taxable temporary differences arising on the initial recognition of goodwill

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantially enacted at reporting date. Qantas provides for income tax in both Australia and overseas jurisdictions where a liability exists.

ii. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

iii. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Consolidated Balance Sheet. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv. Tax Consolidation

Qantas and its Australian wholly-owned controlled entities, trusts and partnerships are part of a tax consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity.

(H) IMPAIRMENT

i. Non-Financial Assets

The carrying amounts of non-financial assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite lives, recoverable amounts are estimated at the end of each financial year. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. Assets which primarily generate cash flows as a group, such as aircraft, are assessed on a cash generating unit (CGU) basis, inclusive of related infrastructure and intangible assets and compared to net cash inflows for the CGU. Estimated net cash flows used in determining recoverable amounts are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU. Identification of an asset's CGU requires judgement, as it requires identification of the lowest aggregation of assets that generate largely independent cash inflows. In Management's judgement, the lowest aggregation of assets which give rise to CGUs as defined by AASB 136 *Impairment of Assets* are the Qantas Domestic CGU, Qantas International CGU, Qantas Loyalty CGU, Qantas Freight CGU and the Jetstar Group CGU.

ii. Financial Assets

The carrying value of financial assets is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

(I) PROPERTY, PLANT AND EQUIPMENT

i. Recognition and Measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Items of property, plant and equipment are initially recorded at cost, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. The cost of acquired assets includes the initial estimate at the time of installation of the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate. The unwinding of the discount is treated as a finance expense in the Consolidated Income Statement. The cost also may include transfers from the hedge reserve of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment in accordance with Note 29(E). Borrowing costs associated with the acquisition, construction or production of qualifying assets are recognised as part of the cost of the asset to which they relate.

ii. Subsequent Expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

iii. Depreciation

Depreciation is provided on a straight-line basis on all items of property, plant and equipment except for freehold land, which is not depreciated. The depreciation rates of owned assets are calculated so as to allocate the cost or valuation of an asset, less any estimated residual value, over the asset's estimated useful life to the Qantas Group. Assets are depreciated from the date of acquisition or, with respect to internally constructed assets, from the time an asset is available for use. The costs of improvements to assets are depreciated over the remaining useful life of the asset or the estimated useful life of the improvement, whichever is the shorter. Assets under finance lease are depreciated over the term of the relevant lease or, where it is likely the Qantas Group will obtain ownership of the asset, the life of the asset. The principal asset depreciation periods and estimated residual value percentages are:

	Years	Residual Value (%)
Buildings and leasehold improvements	10 – 40	0[1]
Plant and equipment	2.5 – 20	0
Passenger aircraft and engines	2.5 – 20	0 – 10
Freighter aircraft and engines	2.5 – 20	0 – 20
Aircraft spare parts	15 – 20	0 – 20

1 Certain leases allow for the sale of leasehold improvements for fair value. In these instances, the expected fair value is used as the estimated residual value.

Useful lives and residual values are reviewed annually and reassessed having regard to commercial and technological developments, the estimated useful life of assets to the Qantas Group and the long-term fleet plan.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv. Maintenance and Overhaul Costs

Embedded Maintenance:
An element of the cost of an acquired aircraft (owned or finance-leased) is attributed to its service potential, reflecting the maintenance condition of its engines and airframe. This cost is depreciated over the shorter of the period to the next major inspection event, the remaining life of the asset or remaining lease term.

Subsequent Maintenance Expenditure:
The costs of subsequent major cyclical maintenance checks for owned and leased aircraft (including operating leases) are recognised as an asset and depreciated over the shorter of the scheduled usage period to the next major inspection event, the remaining life of the aircraft or lease term (as appropriate to their estimated residual value). Maintenance checks which are covered by third-party maintenance agreements where there is a transfer of risk and legal obligation are expensed on the basis of hours flown. All other maintenance costs are expensed as incurred.

Modifications:
Modifications that enhance the operating performance or extend the useful lives of aircraft are capitalised and depreciated over the remaining estimated useful life of the asset or remaining lease term (as appropriate to their estimated residual value).

v. Manufacturers' Credits

The Qantas Group receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are recorded as a reduction to the cost of the related aircraft and engines. Where the aircraft are held under operating leases, the credits are deferred and reduced from the operating lease rentals on a straight-line basis over the period of the related lease.

(J) LEASES

i. Determining Whether an Arrangement Contains a Lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

ii. Finance Leased and Hire Purchase Assets

Leased assets under which the Qantas Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments and guaranteed residual value are recorded at the inception of the lease. Any gains and losses arising under sale and finance leaseback arrangements are deferred and depreciated over the lease term. Capitalised leased assets are depreciated on a straight-line basis over the period in which benefits are expected to arise from the use of those assets. Lease payments are allocated between the reduction in the principal component of the lease liability and the interest element.

Fully prepaid leases are classified in the Consolidated Balance Sheet as hire purchase assets to recognise that the financing structures impose certain obligations, commitments and/or restrictions on the Qantas Group, which differentiate these aircraft from owned assets.

iii. Operating Leases

Rental payments under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the term of the lease. With respect to any premises rented under long-term operating leases, which are subject to sub-tenancy agreements, a provision is made for any shortfall between primary payments to the head lessor less any recoveries from sub-tenants. These provisions are determined on a discounted cash flow basis, using a rate reflecting the cost of funds.

(K) INTANGIBLE ASSETS

i. Recognition and Measurement

Goodwill	Goodwill is stated at cost less any accumulated impairment losses. With respect to investments accounted for under the equity method, the carrying amount of goodwill is included in the carrying amount of the investment.
Airport landing slots	Airport landing slots are stated at cost less any accumulated impairment losses.
Software	Software is stated at cost less accumulated amortisation and impairment losses. Software development expenditure, including the cost of materials, direct labour and other direct costs, is only recognised as an asset when the Qantas Group controls future economic benefits as a result of the costs incurred and it is probable that those future economic benefits will eventuate and the costs can be measured reliably.
Brand names and trademarks	Brand names and trademarks are carried at cost less any accumulated impairment losses.
Customer contracts/relationships	Customer contracts/relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses.
Contract intangible assets	Contract intangible assets are stated at cost less accumulated amortisation. Amortisation commences when the asset is ready for use.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Consolidated Income Statement as incurred.

iii. Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Consolidated Income Statement. Goodwill, brand names and trademarks and airport landing slots are indefinite lived intangible assets and are allocated to the relevant CGU. These indefinite lived intangible assets are not amortised but tested annually for impairment. Contract intangible assets are not amortised until such time as the intangible asset is ready for use but are tested annually for impairment.

Software	3 – 10 years

(L) PROVISIONS

A provision is recognised if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as a finance expense in the Consolidated Income Statement.

Onerous contracts	An onerous contract is a contract in which the unavoidable cost of meeting the obligations under the contract exceeds the economic benefit expected to be received. A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.
Make good on leased assets	**Aircraft:** A provision for return costs to meet expected aircraft return costs, at the end of the lease term, is recognised over the lease term. **Property and environment:** Where the occupation of property or land gives rise to an obligation for site closure or rehabilitation, the Group recognises a provision for the costs associated with restoration.
Insurance, legal and other	**Insurance:** The Qantas Group self-insures for risks associated with workers' compensation in certain jurisdictions. Qantas has made a provision for all notified assessed workers' compensation liabilities, together with an estimate of liabilities incurred but not reported, based on an independent actuarial assessment. The provision is discounted using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the liabilities and which have maturity dates approximating the terms of Qantas' obligations. Workers' compensation for all remaining employees is commercially insured. **Legal and other provisions:** These are recognised where they are incurred as a result of a past event, there is a legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(M) NET FINANCE COSTS

Net finance costs comprise interest payable on borrowings calculated using the effective interest method, unwinding of the discount on provisions and receivables, interest receivable on funds invested and gains and losses on mark-to-market movements in fair value hedges. Finance income is recognised in the Consolidated Income Statement as it accrues, using the effective interest method.

Finance costs are recognised in the Consolidated Income Statement as incurred, except where interest costs relate to qualifying assets in which case they are capitalised to the cost of the assets. Qualifying assets are assets that necessarily take a substantial period of time to be made ready for intended use. Where funds are borrowed generally, borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) EMPLOYEE BENEFITS

Wages, salaries, annual leave and sick leave	Liabilities for wages, salaries and annual leave vesting to employees are recognised in respect of employees' services up to the end of the reporting period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as workers' compensation insurance, superannuation and payroll tax. The annual leave provision is discounted using corporate bond rates which most closely match the terms to maturity of the provision. The unwinding of the discount is treated as a finance expense in the Consolidated Income Statement.
Employee share plans	The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market performance conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. The fair value of equity-based entitlements settled in cash is recognised as an employee expense with a corresponding increase in liability over the period during which employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value. Any changes in the fair value of the liability are recognised as an employee expense in the Consolidated Income Statement.
Long service leave	The liability for long service leave is recognised as a provision for employee benefits and measured at the present value of estimated future payments to be made in respect of services provided by employees up to the end of the reporting period. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on staff turnover history. The provision is discounted using corporate bond rates which most closely match the terms to maturity of the provision. The unwinding of the discount is treated as a finance expense in the Consolidated Income Statement.
Defined contribution superannuation plans	The Qantas Group contributes to employee defined contribution superannuation plans. Contributions to these plans are recognised as an expense in the Consolidated Income Statement as incurred.
Defined benefit superannuation plans	The Qantas Group's net obligation with respect to defined benefit superannuation plans is calculated separately for each plan. The Qantas Superannuation Plan has been split based on the divisions which relate to accumulation members and defined benefit members. Only defined benefit members are included in the Qantas Group's net obligation calculations. The calculation estimates the amount of future benefit that employees have earned in return for their service in the current and prior periods, which is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. Remeasurements of the net defined benefit liability or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling are recognised immediately in other comprehensive income. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the Consolidated Income Statement. The discount rate used is the corporate bond rate which has a maturity date that approximates the terms of Qantas' obligations. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the Consolidated Income Statement. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.
Employee termination benefits	Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) CAPITAL AND RESERVES

i. Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any related income tax benefit.

ii. Repurchase of Share Capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity.

iii. Treasury Shares

Shares held by the Qantas-sponsored Employee Share Plan Trust are recognised as treasury shares and deducted from equity.

iv. Employee Compensation Reserve

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee at the fair value. The difference between the fair value at grant date and the cost of treasury shares used is recognised in retained earnings (net of tax).

v. Hedge Reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments and the cumulative change in fair value arising from the time value of options related to future forecast transactions.

vi. Foreign Currency Translation Reserve

The Foreign Currency Translation Reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign controlled entities and investments accounted for under the equity method.

vii. Other Reserves

Other reserves includes the defined benefit reserve comprising the remeasurements of the net defined benefit asset/(liability) which are recognised in other comprehensive income in accordance with AASB 119 *Employee Benefits* and the fair value reserve comprising of the fair value gains/(losses) on investments at fair value through Other Comprehensive Income.

(P) COMPARATIVES

Where applicable, various comparative balances have been reclassified to align with current period presentation.

(Q) SEGMENT REPORTING

Underlying EBIT of the Qantas Group's operating segments is prepared and presented on the basis that it reflects the revenue earned and the expenses incurred by each operating segment. The significant accounting policies applied in implementing this basis of preparation are set out below. These accounting policies have been consistently applied to all periods presented in the Consolidated Financial Statements.

Segment Performance Measure	Basis of Preparation
External segment revenue	External segment revenue is reported by operating segments as follows: — Net passenger revenue is reported by the operating segment that operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process — Other revenue is reported by the operating segment that earned the revenue
Inter-segment revenue	Inter-segment revenue for Qantas Domestic, Qantas International and Jetstar Group operating segments primarily represents: — Net passenger revenue arising from the redemption of Frequent Flyer points for Qantas Group flights by Qantas Loyalty — Net freight revenue from the utilisation of Qantas Group's aircraft bellyspace Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of Frequent Flyer points to Qantas Domestic, Qantas International and Jetstar Group. Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices. The inter-segment arrangements with Qantas Loyalty are not designed to derive a net profit from inter-segment Frequent Flyer point issuances and redemptions.

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment Performance Measure	Basis of Preparation
Share of net profit/(loss) of investments accounted for under the equity method	Share of net profit/(loss) of investments accounted for under the equity method is reported by the operating segment that is accountable for the management of the investment. The share of net profit/(loss) of investments accounted for under the equity method for Qantas Airlines' investments has been equally shared between Qantas Domestic and Qantas International.
Underlying EBITDAR	The significant expenses impacting Underlying EBITDAR are as follows: — Manpower and staff-related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by using an appropriate allocation methodology — Fuel expenditure is reported by the segment that consumes the fuel in its operations — Aircraft operating variable costs are reported by the segment that incurs these costs — All other expenditure is reported by the operating segment to which it is directly attributable or, in the case of Qantas Airlines, between Qantas Domestic and Qantas International using an appropriate allocation methodology To apply this accounting policy, where necessary, expenditure is recharged between operating segments as a cost recovery.

(R) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following table details the standards, amendments to standards and interpretations that have been identified as those that may impact the Qantas Group in the period of initial application.

Topic	Impact
AASB 9 (2014) – *Financial Instruments* AASB 9 (2014) is effective for annual reporting periods beginning on or after 1 January 2018. The Group will adopt AASB 9 (2014) from 1 July 2018.	The Group early adopted AASB 9 (2013) from 1 July 2014. AASB 9 (2014) amends AASB 9 (2013) to include a new expected credit loss model for calculating impairment on financial assets. This standard is not expected to have a material impact on the Group.
AASB 15 - *Revenue from Contracts with Customers* AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group will adopt AASB 15 from 1 July 2018.	AASB 15 *Revenue from contracts with customers* (AASB 15) will replace AASB 111 *Construction Contracts*, AASB 118 *Revenue* and Interpretation 13 *Customer Loyalty Programmes*. AASB 15 provides a single, principles-based five-step model to be applied to all revenue contracts based on the transfer of control of goods and services to customers. AASB 15 requires separation of distinct performance obligations. Revenue is recognised when the performance obligations are satisfied and recognised at an amount that reflects the consideration the Group expects to be entitled to receive in exchange for goods and services. **Application to the Qantas Group** The Group will adopt AASB 15 with effect from 1 July 2018. The half-year ending 31 December 2018 and full year ending 30 June 2019 will be presented in accordance with the new standard. AASB 15 will be applied on a fully retrospective basis resulting in the comparative results for the half-year 31 December 2017 and the full year 30 June 2018 being restated as if AASB 15 had applied during those periods when the half year and full year results are presented at 31 December 2018 and 30 June 2019 respectively. **Impact on retained earnings and future financial performance** The effect of applying the standard on a fully retrospective basis is expected to result in an increase in opening retained earnings before tax of between $50 million to $100 million and an increase in opening retained earnings after tax of $35 million to $70 million (assuming a 30 per cent tax rate) as at 1 July 2017. For the year ended 30 June 2018, adjustments to reflect the new standard are estimated to reduce Statutory Profit Before Tax by $25 million to $50 million and reduce Statutory Profit After Tax by $18 million to $35 million (assuming a 30 per cent tax rate). The actual impacts of AASB 15 may differ from the estimates above when adopting the standard as of 1 July 2018. The practical implementation of the Group's accounting policies relating to AASB 15 are subject to change until the Group presents the 31 December 2018 Interim Financial Statements that include AASB 15. In its 31 December 2018 Interim

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Topic	Impact
AASB 15 - *Revenue from Contracts with Customers (continued)*	Financial Statements, the Group will provide the final disclosure and impact on adoption of AASB 15. The adoption of the new revenue standard has no impact on the cash performance of the Group nor does it change how the Group makes decisions around the allocation of capital. Overview of the significant changes to the Group To date, the Group has identified the following significant changes to revenue recognition on adoption of the standard:

Area	Description of Change
Allocation of revenue	Allocation of revenue between passenger travel and Qantas Points AASB 15 requires the allocation of a transaction price to distinct performance obligations based on their relative stand-alone selling prices. As such, the allocation of revenue between passenger travel and Qantas Points will change at a Group level under the new revenue standard. Currently the revenue is allocated using the residual method. Under AASB 15, the allocation will change to a proportional basis based on the relative stand-alone selling prices. This will result in a higher allocation to passenger travel at a Group level, which is recognised earlier than the redemption of the Qantas Points earned on that travel.
Net passenger revenue	Ancillary services AASB 15 requires the identification of distinct performance obligations and where performance obligations are not distinct, an entity shall combine them and account for them as a single performance obligation. Under AASB 15, revenue associated with certain ancillary services related to passenger travel such as credit card fees and change fees are not considered to be distinct from the passenger flight. Revenue for these services is currently recognised when paid whereas under AASB 15, the revenue relating to these ancillary services will be deferred from booking until uplift to align with the recognition of revenue from the related passenger travel.
Frequent Flyer Revenue	Timing of revenue recognition in relation to Qantas Points AASB 15 provides new guidance for the accounting for Qantas Points issued which are expected to expire unredeemed, which results in revenue being recognised earlier than under current accounting standards. The impact of the change will result in more revenue being recognised in prior periods (within retained earnings) and lead to a reduction in the Underlying EBIT recognised by the Qantas Loyalty segment and the Group for 30 June 2018. This change is expected to have a declining impact in future periods. The adoption of AASB 15 will also align the pattern of recognition of certain incentives with the principal activity to which the incentive related. The impact of AASB 15 does not change the operating cash flow performance of Qantas Loyalty or the Group.
Principal/agent	Principal/agent assessment AASB 15 provides additional guidance for determining whether the Group is acting as a principal or an agent in an arrangement. As a result, some revenue streams will be recognised net of related costs rather than on a gross basis where the Group is acting as an agent. This will result in lower revenue and lower expenses being presented, with no net impact on the Group Consolidated Income Statement. Notwithstanding that at a Group level, Frequent Flyer redemption revenue for Qantas Group flights is recognised on a net basis, the Qantas Loyalty segment will continue to report Frequent Flyer redemptions on a gross basis, with the

Notes to the Financial Statements continued

For the year ended 30 June 2018

29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Topic	Impact
AASB 15 - ***Revenue from Contracts with Customers (continued)***	**Area:** Principal/agent **Description of change:** adjustment to net presentation on a Group basis being recognised within consolidation eliminations. For some other revenue streams such as Freight interline revenue, revenue will be presented on a gross basis rather than net of related costs where the Group is acting as a principal. This means there will be higher revenue and higher expenses being presented with no net impact on the Group Consolidated Income Statement. Timing of revenue recognition where the Group acts as an agent The timing of revenue recognition where the Group is acting as an agent may change to align with the principal performance obligations associated with the services provided to the principal.
AASB 16 – ***Leases*** AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group will adopt AASB 16 from 1 July 2019.	AASB 16 will replace AASB 117 *Leases*, Interpretation 4 *Determining whether an arrangement contains a lease*, Interpretation *115 Operating Leases – Incentives* and Interpretation 127 *Transactions Involving the Legal Form of a Lease*. Currently operating leases (primarily aircraft and property) are not recognised on the balance sheet under AASB 117. AASB 16 removes the distinction between operating leases and finance leases for lessees and requires, where the Group is a lessee, the recognition of all leases on balance sheet as a right of use asset and an associated lease liability. The Group expects to apply AASB 16 retrospectively. Overview of Changes on Adoption of AASB 16 The Group has initiated a project to lead the implementation of the new leases standard. The Group is in the process of reviewing existing lease contracts, reviewing other arrangements against the AASB 16 definition of a lease, identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls. The expected areas of impact on the Group upon adoption of the new leases standard are set out below: — Recognition of a right of use asset and a lease liability for operating leases on the Consolidated Balance Sheet — In most cases, the lease liability and right of use asset are initially recognised as the present value of future lease payments, discounted using the interest rate implicit in the lease where available, or if not available, the Group's incremental borrowing rate. Retrospective application will result in a difference between the right of use asset and lease liability recognised on transition. Non-cancellable operating lease commitments are disclosed in Note 8 — Recognition of depreciation and interest expense instead of operating lease rental expense in the Consolidated Income Statement — The repayment of the principal portion of lease payments will be classified as financing activities in the Consolidated Cash Flow Statement. The interest portion will be classified as operating activities. Under the existing standard, Operating lease rentals are disclosed as operating activities — The Group's aircraft lease rental payments are predominantly USD denominated. The Group manages its exposure to foreign exchange rate fluctuations as part of the overall Group Treasury Risk Management Policy. While the Group's foreign currency cash flow risk for lease rental payments are unchanged, the adoption of AASB 16 will result in foreign currency denominated lease liabilities recognised on balance sheet revaluing in response to exchange rate fluctuations in the USD/AUD exchange rate. Application to the Qantas Group The impact of AASB 16 will first be presented in the half-year ending 31 December 2019, along with a restatement of the comparatives for the half-year ending 31 December 2018 and an opening balance sheet on 1 July 2018. The first full-year annual report impacted by AASB 16 will be the year ended 30 June 2020, along with a restatement of the comparatives for the year ended 30 June 2019 and an opening balance sheet on 1 July 2018.

Directors' Declaration

For the year ended 30 June 2018

1. In the opinion of the Directors of Qantas Airways Limited (Qantas):
   a. The Consolidated Financial Statements and Notes are in accordance with the *Corporations Act 2001*, including:
      i. Giving a true and fair view of the financial position of the Qantas Group as at 30 June 2018 and of its performance for the financial year ended on that date
      ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
   b. There are reasonable grounds to believe that Qantas will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that Qantas and the controlled entities will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between Qantas and those controlled entities pursuant to ASIC Corporations (Wholly-owned companies) instrument 2016/785 (Instrument).
3. The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2018.
4. The Directors draw attention to Note 29(A) which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a Resolution of the Directors:

Leigh Clifford Chairman	Alan Joyce Chief Executive Officer
31 August 2018	31 August 2018

Independent Auditor's Report

For the year ended 30 June 2018

KPMG

To the Members of Qantas Airways Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the **Financial Report** of Qantas Airways Limited (the Company).

In our opinion, the accompanying **Financial Report** of the Company is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Group consists of Qantas Airways Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year.

The **Financial Report** comprises the:

- Consolidated Balance Sheet as at 30 June 2018
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Passenger revenue recognition
- Frequent Flyer revenue recognition
- Derivative financial instrument accounting

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report continued

For the year ended 30 June 2018

KPMG

Passenger revenue recognition

Refer to Note 29(F)(i) to the Financial Report

THE KEY AUDIT MATTER

Recognition of passenger revenue is a key audit matter due to:

- its financial significance;
- the high volume of relatively low value passenger tickets; and
- accounting process complexity arising from a variety of ticket conditions and points of sale.

Our audit effort was directed to assessing these conditions, in particular the accounting process complexity, which is influenced by:

- the use of multiple systems and their interface and interactions with agents, other airlines and industry bodies given the possible variations in the method of purchasing and modifying tickets.
- the accuracy of automated revenue recognition within the Group's systems and consistency with accounting standards, given the Group's dependence on automated processes for recording ticket sales and recognising revenue at passenger flight date.
- the application of estimates to recognise revenue for the proportion of tickets that are unused on the scheduled flight date, but with terms and conditions that allow future usage.
- manual revenue recognition processes related to tickets identified as exceptions to automated rules.

Given the dependence on systems and controls, we involved our IT specialists in addressing this key audit matter.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Working with our IT specialists, our procedures included:

- analysing the end to end flow of ticket information through passenger revenue systems and evaluating the logic of accounting outputs against accounting standards.
- evaluating the accurate processing of tickets and associated accounting outcomes in internal passenger revenue systems. We did this by testing the key controls restricting access to appropriate users and preventing unauthorised changes to the systems. We tested key controls within the system that relate to ticket validation and the recognition of revenue at flight date.
- testing key controls related to manual changes to revenue accounting records where tickets have been identified as exceptions to automated validation.
- assessing the historical accuracy of the Group's expectation of the proportion of tickets that will expire unused after scheduled flight date by comparing previous estimates to actual outcomes.
- checking the accurate calculation and use of source system reports in the Group's expectation of the proportion of tickets that will expire unused after scheduled flight date.
- analysing passenger revenue recognised by comparison to an expectation created using key revenue indicators, external data and knowledge of the Group.
- testing of balance sheet reconciliations including comparing to source systems and information available post year-end.

Frequent Flyer revenue recognition

Refer to Note 29(F)(ii) & (iii) to the Financial Report

THE KEY AUDIT MATTER

Recognition of Frequent Flyer revenue is a key audit matter due to the judgment involved in the estimation of the amount deferred as Unredeemed Frequent Flyer revenue. This balance represents revenue for Frequent Flyer points issued to members that are expected to be redeemed in the future. Auditing these judgments is inherently complex due to:

- the forward looking nature of the Group's models.
- the estimation of the fair value of the Frequent Flyer points which is based on the observable values of available awards weighted in proportion to expected redemptions.
- the estimation of the proportion of points issued that will not be redeemed by members (breakage). Qantas uses actuarial specialists in making this estimate.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

- assessing the methodology used to estimate the fair value of the Frequent Flyer points against accounting standards involving our corporate finance specialists.
- testing the accuracy of the model and reconciling to internal records.
- assessing the key inputs used to estimate the fair value of expected future redemptions by comparing to observable values such as comparable market air fares and the market retail prices of store products.
- involving our actuarial specialists, we assessed the appropriateness of the Qantas model used to calculate breakage by developing an independent model using our industry experience and understanding of the accounting standard requirements.
- involving our actuarial specialists, we assessed key breakage assumptions against historical experience, recent trends and our understanding of changes to the Frequent Flyer program that may impact expected future experience.
- checking the accuracy of points activity data used in the calculation of breakage to source systems and reports.

Independent Auditor's Report continued

For the year ended 30 June 2018

Derivative financial instrument accounting

Refer to Note 29(E) to the Financial Report

THE KEY AUDIT MATTER

Cash-flow hedge accounting and valuation of financial instruments is a key audit matter due to the following factors:

- the complexity inherent in estimating the fair value of derivative financial instruments. The Group uses valuation techniques to determine the fair value of options, swaps and cross-currency swaps that are not traded in active markets.
- the impact of changes in the underlying market price of fuel and foreign exchange rates which are key inputs to the derivative valuations.
- the complexity in the Group's cash-flow hedge accounting relationships driven by an active financial risk management strategy including the restructuring of hedging of specific exposures over time.
- the volume of transactions and counterparties.
- the hedging of a high proportion of forecast future cash flows.
- the significance of the Group's financial risk management program on the financial results.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

- testing key internal controls. These included the Group's assessment and approval of the details of trades to counterparty confirmations, the Group's assessment of hedge accounting designation, and the Group's assessment of the volume of hedged exposures compared to total exposures.
- comparing balances in the Group's accounting records to the records in the treasury risk management system.
- our valuation specialists independently estimated the fair values of the Group's derivatives as at 30 June 2018 using recognised market valuation methodologies and inputs. Our specialists determined fair value tolerance ranges to allow for inherent market valuation uncertainties and compared the Group's valuations to these ranges.
- we tested a sample of cash-flow hedge accounting designations against the requirements of the accounting standard including restructured positions involving multiple derivatives.

Other Information

Other Information is financial and non-financial information in Qantas Airways Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report continued

For the year ended 30 June 2018

KPMG

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

Opinion

In our opinion, the Remuneration Report of Qantas Airways Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

DIRECTORS' RESPONSIBILITIES

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

OUR RESPONSIBILITIES

We have audited the Remuneration Report included in pages 27 to 48 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Andrew Yates
Partner
Sydney
31 August 2018

Shareholder Information

The shareholder information set out below was applicable as at 20 July 2018.

TWENTY LARGEST SHAREHOLDERS

Shareholders	Ordinary Shares Held	% of Issued Shares
HSBC Custody Nominees (Australia) Limited	706,445,422	41.96
J P Morgan Nominees Australia Limited	301,736,195	17.92
Citicorp Nominees Pty Limited	164,163,102	9.75
National Nominees Limited	92,517,164	5.50
Pacific Custodians Pty Limited (Emp Share Plan Tst)	30,081,445	1.79
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	28,061,299	1.67
BNP Paribas Noms Pty Ltd (DRP)	20,685,515	1.23
HSBC Custody Nominees (Australia) Limited – A/C 2	13,547,697	0.80
HSBC Custody Nominees (Australia) Limited (NT-CTH S C A/C)	12,418,198	0.74
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	11,653,531	0.69
Pacific Custodians Pty Limited	7,091,274	0.42
AMP Life Limited	6,072,132	0.36
Australian Foundation Investment Company Limited	3,475,000	0.21
HSBC Custody Nominees (Australia) Limited-GSCO ECA	3,258,911	0.19
National Nominees Limited (N A/C)	3,214,697	0.19
Australian Foundation Investment Company Limited	2,750,000	0.16
Alan Joyce Pty Ltd	2,728,924	0.16
CS Third Nominees Pty Limited	2,579,849	0.15
UBS Nominees Pty Ltd	2,523,748	0.15
UBS Nominees Pty Ltd	2,200,000	0.13
Total	**1,417,204,103**	**84.17**

DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shareholders by size of shareholding:

Number of Shares	Ordinary Shares Held	Number of Shareholders	% of Issued Shares
1–1,000[1]	20,208,187	41,472	1.20
1,001–5,000	104,265,327	42,706	6.19
5,001–10,000	40,477,838	5,831	2.40
10,001–100,000	62,006,229	3,020	3.68
100,001 and over	1,456,610,299	132	86.53
Total	**1,683,567,880**	**93,161**	**100.00**

1 1,077 shareholders hold less than a marketable parcel of shares in Qantas, as at 20 July 2018.

ON-MARKET SHARE BUY-BACK

On 23 August 2018, Qantas announced its intention to undertake an on-market share buy-back of up to $332 million.

SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Qantas:

Shareholders	Ordinary Shares Held	% of Issued Shares
Pendal Group Limited[1,3]	100,287,939	5.96
BlackRock Group (BlackRock Inc. and subsidiaries)[2,3]	87,457,824	5.19

1 Substantial shareholder notice dated 3 July 2017. Company changed its name from BT Investment Management Limited to Pendal Group Limited on 27 April 2018.
2 Substantial shareholder notice dated 12 March 2018
3 Percentage adjusted for buy-back shares cancelled.

Financial Calendar and Additional Information

2018		2019	
22 February	Half year results announcement	21 February	Half year results announcement
30 June	Year end	5 March	Record date for interim dividend*
6 September	Record date for final dividend*	28 March	Interim dividend payable*
10 October	Final dividend payable*	30 June	Year end
26 October	Annual General Meeting	22 August	Preliminary final results announcement
		3 September	Record date for final dividend*
		23 September	Final dividend payable*
		25 October	Annual General Meeting

*Subject to a dividend declared by the Board

2018 ANNUAL GENERAL MEETING

The 2018 AGM of Qantas Airways Limited will be held at 11am on Friday 26 October 2018 in Brisbane.

Further details are available in the Investors section on the Qantas website http://investor.qantas.com/home/

COMPANY PUBLICATIONS

In addition to the Annual Report, the following publications can be accessed from https://www.qantas.com/au/en/qantas-group/acting-responsibly/our-reporting-approach.html

— Code of Conduct and Ethics
— Corporate Governance Statement
— Diversity and Inclusion Statement
— Workplace Gender Equality Reports

REGISTERED OFFICE

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Facsimile +61 2 9490 1888

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QANTAS SHARE REGISTRY

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Locked Bag A14, Sydney South NSW 1235 Australia

Telephone 1800 177 747 (toll free within Australia)
International +61 2 8280 7390
Facsimile +61 2 9287 0309

Email registry@qantas.com

STOCK EXCHANGE

Australian Securities Exchange
Exchange Centre, 20 Bridge Street,
Sydney NSW 2000 Australia

ADDITIONAL SHAREHOLDER INFORMATION

Using your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of your registered address, you are able to view your holding online through Qantas' share registry, Link Market Services. Log on at www.linkmarketservices.com.au, where you will have the option to:

— View your holding balance
— Retrieve holding statements
— Review your dividend payment history
— Access shareholder forms

The Investor Centre also allows you to update or add details to your shareholding, including the following:

— Change or amend your address if you are registered with an SRN
— Nominate or amend your direct credit payment instructions
— Set up or amend your DRP instructions
— Sign up for electronic communications
— Add/change TFN/ABN details

COMPANY SECRETARIES

Andrew Finch

Anna Pritchard

Debra Smith

An electronic copy of this Annual Report is available at http://investor.qantas.com/home/

Further information about the Qantas Group can be found on our corporate site at https://www.qantas.com/qantas-group


VH-ZND
Emily - BALARINJI