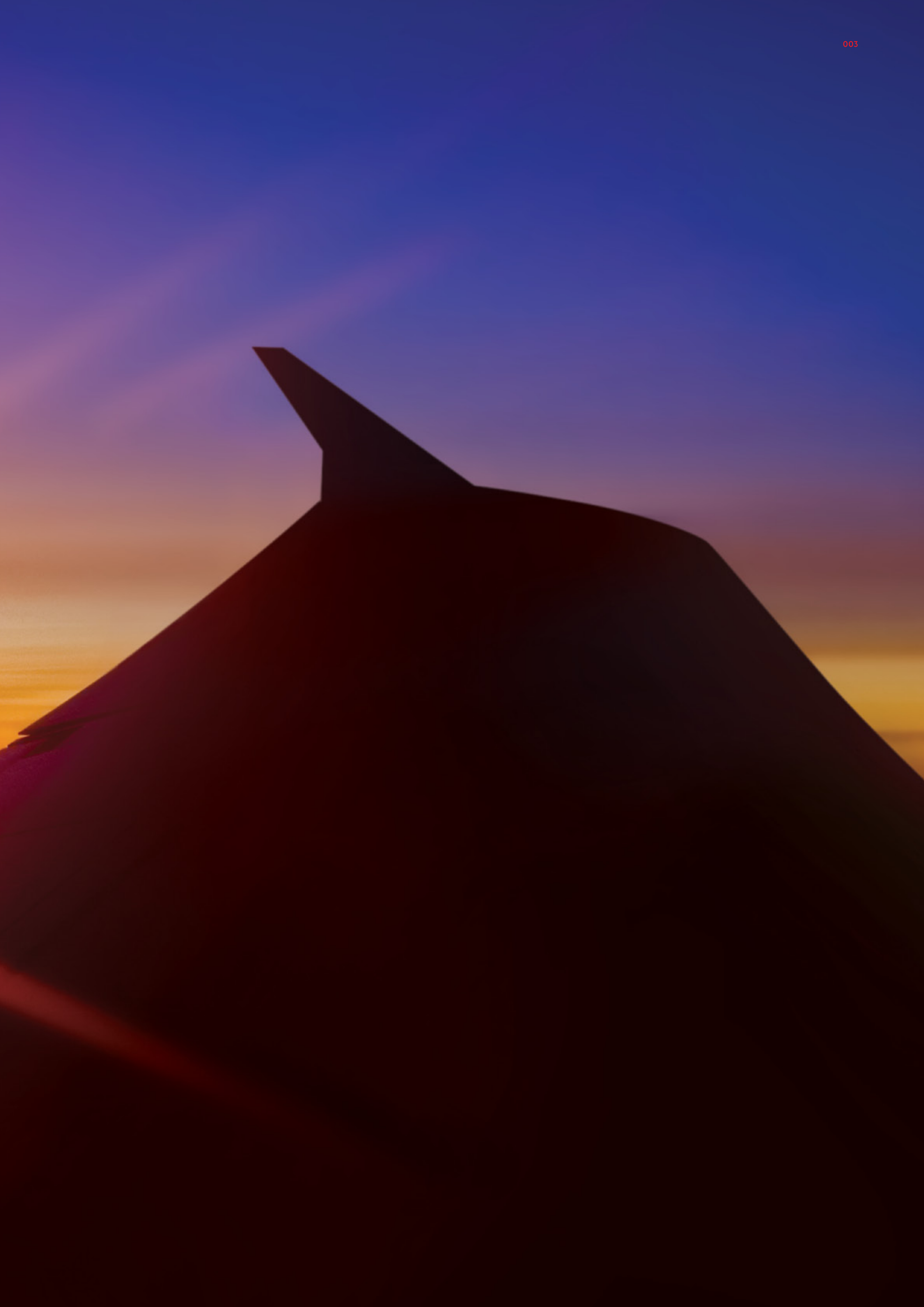
Broadening our horizons

Qantas Annual Report

Broadening our horizons

Broadening our horizons

Building on unique Australian qualities – and the skills of its 33,600 people – the Qantas Group is broadening its horizons to secure a successful and profitable future.



For the Qantas Group, 2011/2012 was a year of transformation. We recorded an Underlying Profit Before Tax* despite significant challenges. We continued to build Qantas' strong domestic network, Jetstar and Qantas Frequent Flyer. And we launched a five-year plan to turn around Qantas' international network.

*For explanations of non-statutory measures see the Review of Operations.

Building a stronger Qantas for our people, our customers, our shareholders and Australia

The Qantas Group has a broad portfolio and a clearly defined strategy, with the following core goals:

— Build on the Group's strong domestic businesses through a clear focus on the customer.

— Turn around Qantas International through the "four pillars" of targeting global gateways, growing with Asia, improving the customer experience and ensuring disciplined financial management.

— Strengthen Jetstar's rapid presence across Asia to capture the full benefits of the region's low-cost leisure travel boom.

— Continue to expand Qantas Frequent Flyer by adding new partners and increasing ways for members to earn and spend points.

Supporting these goals are several business transformation initiatives, including the modernisation of Qantas' engineering, catering and airports divisions. With the three-year QFuture initiative having concluded on 30 June 2012 and achieved $1.4 billion in cost savings through business improvements, a new phase of change programs has been launched across the Group in areas as diverse as engineering and IT.

While there are significant costs associated with the Group's transformation, affecting statutory profit for 2011/2012, they will be far outweighed by the long-term advantages of greater efficiency and competitiveness.

In June 2012, an organisational restructure was announced to bring further rigour to the management of the Group's strategy. As of 1 July 2012, Qantas Domestic and Qantas International are being managed as distinct business segments, each with its own accountable CEO. With dedicated CEOs also in place for Jetstar and Qantas Frequent Flyer, the Group is now operating as a true multi-brand aviation business across different market segments and regions.

In a fast-evolving global aviation marketplace, this approach positions the Group to maximise its strengths, fix its weaknesses and capitalise on new opportunities – drawing on its skills, knowledge and people.

Chairman's Report

In a difficult year for the global aviation industry the Qantas Group reported an Underlying Profit Before Tax of $95 million*.

The strength of the Group's portfolio of businesses enabled it to withstand the material financial impacts of fuel costs and industrial action culminating in the grounding of the Qantas fleet.

The Group reported a Statutory Loss After Tax of $244 million, primarily as a result of $376 million in costs associated with the launch of the five-year Qantas International turnaround plan.

This plan was outlined to and endorsed by shareholders at the 2011 Annual General Meeting.

A new management structure has subsequently been put in place so that each of our four core business segments is managed by a dedicated CEO.

The Group remains in a solid financial position, with over $3 billion in cash and an investment-grade credit rating with both Moody's and Standard & Poor's. We are one of only two airlines to hold this rating position.

The global and Australian context

The dominant economic trend in 2011/2012 was the poor operating conditions in Europe. For aviation, the crisis meant falling demand for travel to and from the region – already a weak spot for the Qantas Group given the rapid expansion of capacity between Australia and Europe.

While jet fuel prices moderated towards the end of the financial year, nobody should underestimate their impact on long-haul carriers. The Qantas Group's jet fuel bill reached a record high and many international airlines cited fuel costs in reporting weaker financial performance.

Set against European economies, Asian economic and aviation growth remains healthy albeit fragmented. As most of our business and political leaders recognise, Australia must write its own role in Asia's growth story or risk being marginalised.

The competitive and regulatory landscape for airlines in Asia is complex, with state-owned and government-supported carriers still dominant, but the success of the Jetstar brand demonstrates that Australian businesses can successfully establish themselves and grow in the region. The recently announced 10-year partnership between Qantas and Emirates will strengthen the Group in both Europe and Asia. Customers will gain access to Emirates' global network and extensive frequent flyer benefits, while Qantas' Asian network will be restructured to improve our competitive position.

Within Australia, extensive industrial action and union campaigns to discredit the Qantas brand caused significant damage to the Group. These unions' attempts to exert control over company strategy were unacceptable and the Board unanimously supported Alan Joyce's decision to ground the Qantas fleet. The Group's response brought certainty for passengers, employees and investors.

I have been impressed by the speed with which Qantas' operational performance and customer satisfaction ratings have recovered, and pay tribute to the hard work and commitment of all employees during the year.

Returns to shareholders

The Group's strategy is focused on building long-term shareholder value, balancing the need for careful financial management with our significant capital expenditure requirements, as we invest to improve the customer experience.

Given the considerable volatility in economic conditions and the aviation operating environment, and the imperative of retaining a strong cash position, the Board chose not to pay an interim or final dividend in 2011/2012. We recognise that it has been a difficult period for shareholders. However, the steps taken over the past 12 months have been consistent with the Group's goal of building long-term shareholder value.

Subject to these conditions, we remain committed to a resumption of dividends in the future.

Dr John Schubert AO

Independent Non-Executive Director Dr John Schubert AO will retire at the conclusion of this year's Annual General meeting. I would like to acknowledge John's significant contribution to the Qantas Board over the past 12 years, including as Chairman of the Safety, Health, Environment and Security Committee.

Leigh Clifford AO

*For explanations of non-statutory measures see the Review of Operations.

CEO's Report

The 2011/2012 financial year was one of transformation for the Qantas Group.

Our financial result was influenced by three factors:

- A record fuel bill, up $645 million to $4.3 billion
- The $194 million financial impact of last year's prolonged industrial dispute and the grounding of the Qantas fleet
- Transformation costs of $376 million, as we began to address our legacy cost base and turn around Qantas' international network

We have been through an exceptional period, but our strong, diverse portfolio means we are well positioned for the future. And over the past year we have made significant progress in our strategy.

The Qantas and Jetstar domestic networks combined delivered Underlying EBIT of over $600 million in 2011/2012, while Jetstar and Qantas Frequent Flyer achieved record results.

Qantas remains the airline of choice for corporate travellers, with an estimated 84 per cent share of the domestic corporate travel market. Our regional network has expanded in mining regions through charter operator Network Aviation.

Qantas Frequent Flyer grew to 8.6 million members during the year as we enhanced and expanded the program.

Jetstar's pan-Asian growth story continues. During 2011/2012, Jetstar Japan was established and commenced operations six months ahead of schedule – complementing airlines based in Singapore (Jetstar Asia) and Vietnam (Jetstar Pacific). Subject to regulatory approval, Jetstar Hong Kong will follow in 2013.

The transformation journey

In August 2011 we launched our five-year turnaround plan for Qantas' international network – the one weak part of the Group's portfolio.

This is our biggest challenge, but the transformation is on track.

During 2011/2012 we increased capacity to our Dallas/Fort Worth and Santiago hubs, reconfigured seven out of a planned nine Boeing 747 aircraft, strengthened alliance relationships and withdrew from loss-making routes.

Major operational transformation initiatives, such as heavy maintenance consolidation, were also begun during the year.

The benefits from these initiatives have started to flow and will deliver annual savings of approximately $300 million when all the measures announced to date have been implemented.

Fleet renewal

The Group's fleet renewal program is now largely complete.

Over the past three years we have taken delivery of 114 new aircraft. Our average passenger aircraft age reached 8.3 years in 2011/2012, meaning we are operating the youngest fleet since Qantas was privatised in 1995.

This is a significant milestone because it means we have a fleet that is attractive to customers, operationally efficient and competitive by international standards.

The financially prudent decision to cancel 35 firm orders for the B787-9 aircraft, while bringing forward 50 options and purchase rights, means that these outstanding aircraft will be available from 2016, in line with the timeframe of the Qantas International turnaround plan.

After a period of high capital expenditure, we are turning our focus to debt reduction. Planned capital expenditure will be $1.9 billion in 2012/2013 and remain at the same level next financial year.

Great people

We remain absolutely committed to making our company an exciting and rewarding place to work for our 33,600 employees.

As well as continued investment in the highest standards of safety and training, 2011/2012 saw the launch of major customer service initiatives in areas such as cabin crew and ground operations. We are working closely with our people to ensure that we deliver the best possible customer experience in all parts of the business.

I'd like to thank all Qantas Group employees for their vital contribution at a pivotal time in our history.

Alan Joyce

The Qantas Group

The Qantas Group reported an Underlying Profit Before Tax* of $95 million for 2011/2012. The Group's portfolio of businesses performed well in a challenging year of transformation to position it for a strong, sustainable future. As a result of record fuel costs, industrial action and major transformation costs, the Group reported a Statutory Loss After Tax of $244 million. The Group's financial position remains sound with $3.4 billion cash held and an investment-grade credit rating.

Qantas

Qantas reported an Underlying EBIT* loss of $21 million, reflecting the poor performance of its international network. Domestically, Qantas performed strongly with higher Underlying EBIT* compared with 2010/2011. Significant progress was made in Qantas' five-year international turnaround plan.

Jetstar

Jetstar reported record Underlying EBIT* of $203 million. Revenue increased by 18 per cent and unit costs* were reduced to record lows as Jetstar maintained capacity and passenger growth in all markets.

Qantas Frequent Flyer

Qantas Frequent Flyer delivered record Normalised EBIT* of $231 million. Billings increased by 14 per cent to $1.2 billion and membership now stands at 8.6 million people, averaging more than 2,000 new members each day.

*For explanations of non-statutory measures see the Review of Operations.

Board of Directors

Leigh Clifford, AO

BEng, MEngSci

Chairman, 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 Qantas Nominations Committee.

Mr Clifford is a Director of Bechtel Group Inc. He is Chairman of Bechtel Australia Pty Ltd and the Murdoch Childrens Research Institute, a Senior Advisor to Kohlberg Kravis Roberts & Co and a Board Member of the National Gallery of Victoria Foundation. Mr Clifford was previously a Director of Barclays Bank plc.

Mr Clifford was Chief Executive of Rio Tinto from 2000 to 2007. He retired from the Board of Rio Tinto in 2007 after serving as a Director of Rio Tinto plc and Rio Tinto Limited for 13 and 12 years respectively. His executive and board career with Rio Tinto spanned some 37 years, in Australia and overseas.

Age: 65

Alan Joyce

BApplSc(Phy)(Math)(Hon), MSc(MgtSc), FRAeS

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 the current Chairman of the International Air Transport Association. He is also a Director of a number of controlled entities of the Qantas Group.

Mr Joyce was the CEO of Jetstar from 2003 to 2008. Before that, Mr Joyce spent over 15 years in leadership positions for 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: 46

General Peter Cosgrove, AC, MC

FAICD

Independent Non-Executive Director

Peter Cosgrove was appointed to the Qantas Board in July 2005.

He is a Member of the Safety, Health, Environment and Security Committee and a Director of Qantas Superannuation Limited.

General Cosgrove is a Director of Cardno Limited and the Australian Rugby Union. He is Chairman of the South Australian Defence Industry Advisory Board and Leading Age Services Australia and Chancellor of the Australian Catholic University.

General Cosgrove served in the Australian Army from 1965 including command of the International Forces in East Timor from 1999 until the International Forces were withdrawn in February 2000. He was the Chief of the Australian Defence Force from July 2002 until his retirement in July 2005.

General Cosgrove was Australian of the Year in 2001.

Age: 65

Patricia Cross

BSc(Hons), FAICD
Independent Non-Executive Director

Patricia Cross was appointed to the Qantas Board in January 2004.

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

Mrs Cross is a Director of National Australia Bank Limited, JBWere Pty Limited, the Grattan Institute and Methodist Ladies College. She is also a Member of Melbourne University's Advisory Board to the Faculty of Business and Economics.

Mrs Cross is a former Director of Wesfarmers Limited, Suncorp-Metway Limited and AMP Limited, Chairman of Qantas Superannuation Limited and Deputy Chairman of Victoria's Transport Accident Commission. She has served in honorary Government roles including the Australian Financial Centre Forum and the Financial Sector Advisory Council, as well as numerous charities.

Prior to becoming a professional company director in 1996, Mrs Cross held senior executive positions over 15 years with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank.

Age: 53

Richard Goodmanson

BEng(Civil), BCom, BEc, MBA
Independent Non-Executive Director

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

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

Mr Goodmanson is a Director of Rio Tinto plc and Rio Tinto Limited.

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 previously Senior Vice President of Operations for Frito-Lay Inc. and was a Principal at McKinsey & Company Inc. He spent 10 years in heavy civil engineering project management, principally in South East Asia.

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

Age: 65

Garry Hounsell

BBus(Acc), FCA, CPA, FAICD
Independent Non-Executive Director

Garry Hounsell was appointed to the Qantas Board in January 2005.

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

Mr Hounsell is Chairman of PanAust Limited and a Director of Orica Limited, DuluxGroup Limited, Nufarm Limited and Treasury Wine Estates Limited. He is Chairman of Investec Global Aircraft Fund, a Director of Ingeus Limited and a Board Member of law firm Freehills.

Mr Hounsell is the former Deputy Chairman of Mitchell Communication Group Limited. He is also a former Senior Partner of Ernst & Young and Chief Executive Officer and Country Managing Partner of Arthur Andersen.

Age: 57

Board of Directors

William Meaney

BScMEng, MSIA

Independent Non-Executive Director

William Meaney was appointed to the Qantas Board in February 2012.

Mr Meaney has extensive international experience in advisory and executive roles. He is a Director of moksha8 Pharmaceuticals, Inc and until recently he served as Chief Executive Officer of The Zuellig Group. Mr Meaney is a Member of the Asia Business Council and also serves as Trustee of Carnegie Mellon University and Rensselaer Polytechnic Institute.

Mr Meaney has had broad airline experience, having been the Managing Director and Chief Commercial Officer of Swiss International Airlines and Executive Vice President of South African Airways responsible for sales, alliances and network management.

Prior to these roles, Mr Meaney spent 11 years providing strategic advisory services at Genhro Management Consultancy, as the Founder and Managing Director, and as a Principal with Strategic Planning Associates.

Mr Meaney holds United States, Swiss and Irish citizenships.

Age: 52

Corinne Namblard

MPolSc

Independent Non-Executive Director

Corinne Namblard was appointed to the Qantas Board in June 2011.

Ms Namblard is a Director of Codan Limited.

Ms Namblard has more than 30 years' international experience in finance, infrastructure and related industries. Most recently, Ms Namblard spent 10 years as CEO of Luxembourg-based Galaxy Fund, a transport equity fund. Prior to that, she held an executive committee level business development role with French engineering firm, Egis Group.

Earlier, Ms Namblard spent 19 years with Banque Nationale de Paris, holding roles in foreign exchange, debt and equity capital markets, mergers and acquisitions, and project finance.

Ms Namblard has held numerous board positions in investee companies including South Australian-based Flinders Ports. Ms Namblard was also Chair of the Geneva-based United Nations PPP Alliance and a Transport Expert for the European Commission.

Ms Namblard holds French and Canadian citizenships.

Age: 56

Paul Rayner

BEc, MAdmin, FAICD

Independent Non-Executive Director

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

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

Mr Rayner is Chairman of Treasury Wine Estates Limited. He is also a Director of Boral Limited and Centrica plc and Chairman of each of their Audit Committees.

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: 58

Dr John Schubert, AO

BE, PhD, FIEAust, CPEng, FTS, FIChemE
Independent Non-Executive Director

John Schubert was appointed to the Qantas Board in October 2000. In November 2012, Dr Schubert will retire from the Board after more than 12 years of service.

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

Dr Schubert is a Director of BHP Billiton Limited and BHP Billiton plc. He is also Chairman of G2 Therapies Limited and the Great Barrier Reef Foundation.

He was previously Chairman of the Commonwealth Bank of Australia and WorleyParsons Limited and President of the Business Council of Australia. Dr Schubert was also Managing Director and Chief Executive Officer of Pioneer International Limited from 1993 until 2000.

Dr Schubert held various positions with Esso in Australia and overseas. In 1983, he was appointed to the Board of Esso Australia. In 1985, Dr Schubert became Esso's Deputy Managing Director and in 1988 he became Esso's Chairman and Managing Director.

Age: 69

James Strong, AO

Independent Non-Executive Director

James Strong was appointed to the Qantas Board in July 2006.

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

Mr Strong was the Chief Executive Officer and Managing Director of Qantas between 1993 and 2001, following his appointment to the Board in 1991.

He is Chairman of Woolworths Limited, Kathmandu Holdings Limited and the Organising Committee for the ICC Cricket World Cup 2015. He is also a member of the Nomura Australia Advisory Board and a Director of the Australian Grand Prix Corporation and the Sydney Writers' Festival.

Mr Strong was formerly the Chairman of Insurance Australia Group Limited, a Director of IAG Finance (New Zealand) Limited, the Group Chief Executive of the DB Group in New Zealand and National Chairman of Partners of Corrs Chambers Westgarth. He was also Chief Executive Officer of Australian Airlines from 1985 until 1989.

He has been admitted as a barrister and/or solicitor in various state jurisdictions in Australia.

Age: 68

Barbara Ward, AM

BEc, MPolEc
Independent Non-Executive Director

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

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

Ms Ward is a Director of a number of Brookfield Multiplex Group companies and O'Connell Street Associates Pty Ltd and is on the Advisory Board of LEK Consulting. She is also a Director of Ausgrid, Endeavour Energy and Essential Energy.

She was formerly a Director of the Commonwealth Bank of Australia, Lion Nathan Limited, Brookfield Multiplex Limited, Allco Finance Group Limited, Rail Infrastructure Corporation and Delta Electricity. She was Chairman of Country Energy and NorthPower and a Board Member of Allens Arthur Robinson.

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 Adviser to The Hon PJ Keating.

Age: 58

Review of Operations

Review of Operations

FOR THE YEAR ENDED 30 JUNE 2012

The Qantas Group reported an Underlying PBT[1] of $95 million, Statutory Loss Before Tax of $349 million and a Statutory Loss after Tax of $244 million for the year ended 30 June 2012.

Highlights of the full-year result include:

- A challenging year of major transformational change. The Group's portfolio of businesses performed well except for Qantas' international network:
  - Record result[2] for Jetstar and Qantas Frequent Flyer
  - Underlying EBIT[3] of Qantas and Jetstar domestic networks both outperformed prior year notwithstanding impact of record fuel costs industrial action and significant transformational change
  - Statutory Loss driven by significant transformation costs
- Improving Cash Flow and Liquidity
  - Free cash flow[4] ($206 million) positive in second half
  - Operating cash flow improved on prior year
  - Fleet delivery profile strategically realigned
  - Fleet renewal substantially complete resulting in the lowest average fleet age (8.3 years)[5] since privatisation
  - Significant surplus liquidity, $3.4 billion cash with $300 million undrawn standby facility
- Successful execution of the Group's strategic objectives
  - Leading domestic market position
  - Jetstar growth in Asia, with successful launch of Jetstar Japan
  - Qantas International Transformation on track

Underlying Performance

Segment Performance Summary	June 2012 $M	June 2011 $M	$M Change	% Change
Qantas	(21)	228	(249)	>(100)
Jetstar	203	169	34	20
Qantas Frequent Flyer	231	342	(111)	(32)
Qantas Freight	45	62	(17)	(27)
Other Businesses	–	3	(3)	(100)
Corporate	(191)	(189)	(2)	1
Eliminations	(2)	29	(31)	>(100)
Underlying EBIT	**265**	**644**	**(379)**	**(59)**
Net finance costs[6]	(170)	(92)	(78)	(85)
Underlying PBT	**95**	**552**	**(457)**	**(83)**

The Group's Underlying PBT of $95 million was achieved in a year of significant challenges and major transformational change.

The industrial action and subsequent grounding in the first half of 2011/2012 had an unfavourable impact on the Group of $194 million. In addition, in 2011/2012 the Group recorded its highest ever fuel bill of $4,329 million, 18 per cent ($645 million) higher than 2010/2011.

Strong performances were achieved by all parts of the Group except Qantas' international network. Jetstar and Qantas Frequent Flyer demonstrated their value to the Group's portfolio by again achieving record results[2]. Overall domestic network Underlying EBIT improved on prior year, with Qantas and Jetstar remaining the most profitable domestic airlines in Australia.

1 Underlying Profit/Loss Before Tax (PBT) is a non-statutory measure used by Management and the Group's chief operating decision-making bodies as the primary measure to assess the financial performance of the Group. All line items in the Review of Operations are reported on an Underlying basis. A detailed reconciliation of Statutory and Underlying PBT is provided on page 25.
2 Jetstar result based on Underlying EBIT. Qantas Frequent Flyer result based on Normalised EBIT which is Underlying EBIT normalised for prior period changes in accounting estimates. Refer to page 24 for a reconciliation of Normalised EBIT to Underlying EBIT.
3 Underlying Earning Before Net Finance Costs and Tax (EBIT) is the primary reporting measure for all segments except Corporate.
4 Free cash flow – Operating cash flows less investing cash flows. Free cash flow is a measure of the amount of operating cash flows available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.
5 Average Fleet age of the Group's scheduled passenger fleet based on manufacturing dates.
6 Underlying Net Finance Costs differ from Statutory Net Finance Costs due to adjustments for impact of AASB 139 which relate to other reporting periods.

Review of Operations continued

FOR THE YEAR ENDED 30 JUNE 2012

Qantas was the most on-time domestic airline[8]. Qantas' domestic network[9] and QantasLink[10] were awarded Airline of the Year in their respective categories and Qantas domestic customer satisfaction is at its highest level in over three years. Qantas remains the airline of choice for corporate travellers with strong double digit corporate travel revenue growth. During the year 171 large-market corporate accounts were renewed and 48 new accounts[11] added, including nine won back as preferred airline.

Jetstar achieved a record Underlying EBIT of $203 million. Jetstar delivered capacity growth of 14 per cent in 2011/2012 and improved Underlying EBIT by 20 per cent. On 3 July 2012, Jetstar Japan was successfully launched five months ahead of schedule.

Qantas Frequent Flyer also delivered a record performance[7] with Underlying EBIT of $231 million up 14 per cent on prior year Normalised EBIT[7]. This result was achieved through 9 per cent member growth, increased partner engagement and enhanced product offerings. As Australia's leading loyalty program, membership continues to grow averaging more than 2,000 new members per day.

The performance of Qantas' international network weighed heavily on the Group's result. The impact of industrial action, negative global economic factors, an increase in fuel costs and a high Australian dollar have resulted in a decline in Underlying EBIT compared to prior year. Savings generated by the Qantas International Transformation program are expected to drive improvements in future results.

Group Underlying Income Statement Summary	June 2012 $M	June 2011 $M	$M Change	% Change
Net passenger revenue	12,494	12,042	452	4
Net freight revenue	784	842	(58)	(7)
Other	2,446	2,010	436	22
Revenue	**15,724**	**14,894**	**830**	**6**
Operating expenses (excluding Fuel)[12]	9,197	8,751	446	5
Fuel[12]	4,329	3,684	645	18
Depreciation and amortisation	1,384	1,249	135	11
Non-cancellable aircraft operating lease rentals	549	566	(17)	(3)
Expenses	**15,459**	**14,250**	**1,209**	**8**
Underlying EBIT	**265**	**644**	**(379)**	**(59)**
Net finance costs[12]	(170)	(92)	(78)	(85)
Underlying PBT	**95**	**552**	**(457)**	**(83)**

Operating Statistics		June 2012	June 2011	Fav/(Unfav) Change	Fav/(Unfav) % Change
Available Seat Kilometres (ASKs)[13]	M	139,423	133,281	6,142	5
Revenue Passenger Kilometres (RPKs)[14]	M	111,692	106,759	4,933	5
Passenger Numbers	'000	46,707	44,456	2,251	5
Seat Factor	%	80.1	80.1	0.0 pts	–
Yield (Excluding FX)[15]	c/RPK	10.99	10.71	0.28	2.6
Net Underlying Unit Cost[15, 16]	c/ASK	5.58	5.60	0.02	0.4
Comparable Net Underlying Unit Cost[16]	c/ASK	5.37	5.53	0.16	3

7 Based on Normalised EBIT for Qantas Frequent Flyer for the year ended 30 June 2011 of $202 million. Qantas Frequent Flyer Underlying EBIT is normalised for prior period changes in accounting estimates. Refer to page 24 for a reconciliation of Qantas Frequent Flyer's normalised result to Underlying EBIT.
8 Source: June 2012 BITRE data, Qantas most on time major domestic airline for jet operations greater than 10,000 sectors.
9 2012 Australian Federation of Travel Agents National Industry Awards.
10 2012 Air Transport World (ATW) awards.
11 Large market corporate accounts.
12 Underlying operating expenses (excluding fuel), fuel and net finance costs differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 139 which relate to other reporting periods and other items identified by Management. Refer to page 25 for a reconciliation of Statutory and Underlying PBT.
13 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
14 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
15 Yield and unit cost calculations are adjusted to treat fee revenue from Jetstar product bundles (launched in May 2011) as passenger revenue to ensure comparability between periods.
16 Net Underlying Unit Cost – Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate per ASK.
17 Comparable Unit Cost – Net Underlying Unit Cost adjusted for the impact of industrial action (2011/2012) and natural disasters (2010/2011) and movements in average sector length.

Review of Operations continued

FOR THE YEAR ENDED 30 JUNE 2012

Overall, the Group continued to deliver improvements in yield and unit cost compared to prior year.

Average Group yield excluding foreign exchange (FX) improved 3 per cent. This was driven by yield improvement of 4 per cent on the Group domestic network and 2 per cent on the Group international network. Comparable Unit Cost reduced 3 per cent compared to prior year.

Improving Cash Flow and Liquidity

Cash Flow Summary	First Half 2011/2012 $M	Second Half 2011/2012 $M	June 2012 $M	June 2011 $M	$M Change	% Change
Cash at beginning of period	**3,496**	**3,342**	**3,496**	**3,704**	**(208)**	**(6)**
Operating cash flows	823	987	1,810	1,782	28	2
Investing cash flows	(1,501)	(781)	(2,282)	(2,478)	196	8
Free cash flow[18]	**(678)**	**206**	**(472)**	**(696)**	**224**	**32**
Financing cash flows	525	(155)	370	508	(138)	(27)
Effect of foreign exchange on cash	(1)	5	4	(20)	24	>100
Cash at period end	**3,342**	**3,398**	**3,398**	**3,496**	**(98)**	**(3)**

Operating cash flows grew to $1,810 million for the year ended 30 June 2012, an increase of 2 per cent on the prior year result of $1,782 million.

The Group achieved free cash flow of $206 million for the second half of 2011/2012.

Investing cash flows decreased to $2,282 million for the year ended 30 June 2012, a reduction of 8 per cent on the prior year of $2,478 million. This result reflects the disciplined management of capital expenditure through the year in light of a weaker general economic outlook. Given the Group's fleet renewal program is substantially complete, focus has turned to deleveraging and strengthening the Group's credit metrics.

Debt and Gearing Analysis		June 2012	June 2011	Change	% Change
Net Debt[19]	$M	3,558	2,971	587	20
Net Debt Including Off Balance Sheet Debt[20]	$M	7,544	6,970	574	8
Equity (Excluding Hedge Reserves)	$M	5,848	6,071	(223)	(4)
Gearing Ratio[21]		56:44	53:47	3 pts	6

Qantas Group cash was $3,398 million at 30 June 2012. Net Debt including Off Balance Sheet Debt[19] was $7,544 million as at 30 June 2012, a decrease of $243 million from 31 December 2011 and an increase of $574 million from 30 June 2011. As at 30 June 2012, the Group's gearing ratio was 56 per cent.

For 2012/2013, the Group is forecasting capital expenditure of $1.9 billion.

Successful execution of the Group's strategic objectives

- Domestic strength
- Jetstar growth in Asia
- Significant International Transformation
  - Strengthening alliances and exiting loss-making routes
  - Qantas international fleet reconfiguration (A380/B747)
  - Fundamental reform of legacy cost base

18 Free cash flow – Operating cash flows less investing cash flows. Free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.
19 Net Debt includes interest-bearing liabilities and the fair value of hedges related to debt less cash and aircraft security deposits.
20 Net Debt Including Off Balance Sheet Debt includes Net Debt and non-cancellable operating leases. This measure reflects the total debt funding used by the Group to support its operations. Non-cancellable operating leases are a representation assuming assets are owned and debt funded and is not consistent with the disclosure requirements of AASB117: Leases.
21 Gearing Ratio is Net Debt including Off Balance Sheet Debt to Net Debt including Off Balance Sheet Debt and Equity (excluding hedge reserves). The gearing ratio is used by Management to represent the Qantas Group's entire capital position by measuring the proportion of the Group's total net funding provided using debt both on and off balance sheet debt.

Review of Operations continued

FOR THE YEAR ENDED 30 JUNE 2012

Successful execution of the Group's strategic objectives continued

Domestic strength - achieved through successful execution of multi brand strategy

The multi brand strategy allowed the Group to position Qantas' domestic network as 'best for business and premium travel' supported by Jetstar offering consistently low fares. The successful execution of the strategy is evidenced by Qantas and Jetstar continuing to be the two most profitable Australian domestic networks, maintaining the Group's profit maximising 65 per cent market share.

This domestic strength was further reinforced by additional Frequent Flyer program product offerings through the acquisition of Wishlist, development of epiQure by Qantas Frequent Flyer and launch of CBA Diamond Direct, Woolworths Qantas card and the NAB Qantas Business card.

Jetstar Growth in Asia

Significant milestones were achieved in the execution of Jetstar's pan-Asian strategy. Jetstar Asia grew capacity by 38 per cent in 2012. Jetstar Japan launched five months ahead of schedule on 3 July 2012. In addition, a joint venture with China Eastern Airlines (Jetstar Hong Kong) was announced and is planned to launch in mid 2013.

Jetstar Pacific has been restructured for growth with new local partner, Vietnam Airlines.

Qantas International Transformation

The Qantas International Transformation is on track. Significant progress has been made on announced initiatives including:

- The exit of the following international routes:
  - Bangkok and Hong Kong to London
  - Singapore to Mumbai
  - Auckland to Los Angeles

  These changes result in the early retirement of six Boeing 747-400 aircraft.
- Deepening and broadening alliances
  - Antitrust immunity received for a Joint Business Agreement with American Airlines
  - Network enhancements linking directly with the American Airlines hub in North America (Dallas-Fort Worth) and the LAN hub in South America (Santiago)
  - Enhanced network with British Airways
- Seven B747s (out of a planned nine) upgraded to the award-winning A380 product standard. Twelve A380s in the process of being reconfigured by adjusting the cabin layout and seating mix to better suit customer demand for different classes of travel.
- In addition, there were a number of announcements through the year including:
  - Streamlining heavy maintenance and engineering via:
    - Closure of the Melbourne Heavy Maintenance facility
    - Closure of Sydney Component Maintenance
    - Consolidation of a number of support activities into the remaining maintenance facilities
    - Streamlining of engineering practices through implementation of Maintenance on Demand
  - Decision to close the Adelaide catering facility in 2013
  - Agreement to sell the Cairns and Riverside catering facilities

These initiatives are expected to contribute around $300 million in annual benefits once fully implemented.

Fleet

The Qantas Group remains committed to a fleet strategy that provides for long-term fleet renewal, simplification and disciplined growth. The fleet strategy is designed to support the strategic objectives of the Group's two strong complementary flying brands, whilst retaining significant flexibility to respond to changes in market conditions.

At 30 June 2012, the Qantas Group fleet comprised 308 aircraft. During the year, the Group acquired 37 owned aircraft (34 purchased, three purchased ex-lease) and five leased aircraft:

- Qantas – two A380s, 13 B737-800s, three Bombardier Q-400s, 10 F100s , three ex-leased B767-300s and two B717-200s
- Jetstar (including Jetstar Asia) – seven A320-200s, two A330-200s

The Group retired 14 aircraft during the year (five B747-400s, two B767-300s and seven B737-400s).

Review of Operations continued

FOR THE YEAR ENDED 30 JUNE 2012

Qantas

- Underlying EBIT $(21) million
- $404 million QFuture benefits
- Impact of industrial dispute and increase in fuel price
- Revenue and capacity growth
- Continued domestic strength
  - Improved domestic performance on last year
  - Superior on-time performance[22]
  - Domestic fleet renewal
  - High levels of customer satisfaction
  - Strategic growth of QantasLink
  - Expansion of fly-in fly-out business
- Qantas International Transformation on track

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	11,833	11,315	518	5
Seat Factor	%	80.5	81.0	(0.5) pts	(0.6)
Underlying EBIT	$M	(21)	228	(249)	>(100)

Qantas' Underlying EBIT was $(21) million for the year ended 30 June 2012, a decrease of $249 million on the prior year. The result was impacted by the $194 million financial impact of the industrial dispute and a 19 per cent increase in average USD fuel prices.

Qantas achieved $404 million of QFuture benefits in the year, culminating in a total $1.4 billion over three years.

Domestically, Qantas achieved a higher Underlying EBIT relative to 2010/2011. The result was achieved by building on the existing fundamental domestic network advantage and delivering the best average on-time performance of any major Australian domestic airline for the last three years.

Qantas aims to provide the world's best domestic travel experience. This is supported by continued investment in its award-winning product and service offering. Faster, smarter check-in technology has now been rolled out at all major capital city ports, a wide range of regional ports and for many trans-Tasman services.

The domestic fleet renewal program continues with the introduction of B737-800 NG (next generation) aircraft, new in-seat entertainment and the trial of Q-streaming on some domestic routes.

Domestic customer satisfaction is at its highest level in over three years. These results have been recognised by continued customer support. 48 new large-market corporate accounts have been signed, including nine won back as preferred airline, and 171 renewed during the year. Despite aggressive competition only four large-market corporate accounts have been lost.

QantasLink made a significant contribution to Qantas' domestic performance. Capacity growth of 7 per cent was supported by investment in new aircraft and enhanced scheduled network services. QantasLink was awarded 'Regional Airline of the Year' 2012 by Air Transport World magazine.

In addition there was investment in Network Aviation's fly-in fly-out business with the addition of 10 F100 aircraft to support Australia's resource sector.

Internationally, Qantas remains an iconic business operating the flagship aircraft of the Qantas fleet. The fleet renewal program was substantially completed during the year and Qantas continues to operate a modern international fleet with consistent award-winning product offerings.

Qantas' International Transformation program has been initiated to improve business economics and transform the cost base in order to develop a strong and viable business. This will be achieved by enhancing customer offerings to provide the best service for global travellers, building on existing partnerships and new alliances, and ongoing business improvement initiatives to reduce the cost base.

22 Source: June 2012 BITRE data, Qantas most on-time major domestic airline for jet operations greater than 10,000 sectors.

Review of Operations continued

FOR THE YEAR ENDED 30 JUNE 2012

Jetstar

— Record Underlying EBIT $203 million, up 20%
— Record Ancillary Revenue[23] up 27%
— Unit cost[24] down 2% to record lows
— Strong performance across domestic network
— Growth in Asia including launch of Jetstar Japan

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	3,076	2,613	463	18
Seat Factor	%	79.2	77.8	1.4 pts	1.8
Underlying EBIT	$M	203	169	34	20

Jetstar achieved a record Underlying EBIT result of $203 million for the year ended 30 June 2012, an increase of $34 million (20 per cent) on the prior year result of $169 million. This result was driven by an 18 per cent increase in total revenue and sustained improvements in unit cost offsetting increases in fuel prices.

Jetstar's strong domestic results highlight the benefits of the Qantas Group's two complementary flying brands and Jetstar's strong competitive position in the Australian market.

Despite challenging market conditions, Jetstar has been able to maintain growth in capacity and passengers in all markets. Jetstar grew overall capacity by 14 per cent compared to 2010/2011. This includes growth in domestic capacity of 7 per cent, international capacity of 12 per cent and Jetstar Asia capacity of 38 per cent. Overall, seat factors improved to 79.2 per cent, an increase of 1.4 points compared to 2010/2011. At the same time, Jetstar has been able to improve yields, most notably across domestic leisure markets in the second half.

Unit cost has improved to record lows with a 2 per cent reduction compared to prior year.

Jetstar achieved record ancillary revenue of $31 per passenger driven by the addition of new product streams and increased sales of fare bundles and pre-paid baggage.

During the year Jetstar completed the retrofit of 32 A320 aircraft with a new lightweight seat that provided an additional three seats per aircraft and improved fuel efficiency.

Jetstar is committed to growth in Asia and continues to strengthen its position as a pan-Asian carrier. Within Asia, there are now Jetstar branded franchises based in Singapore, Vietnam and Japan, with Hong Kong to be added in 2012/2013 subject to regulatory approval.

Jetstar Japan was successfully launched in July 2012, five months ahead of schedule, with strong local partners JAL, Mitsubishi Corporation and Century Tokyo Leasing Corporation. The airline has a fleet of four A320s flying to five destinations within Japan: Tokyo, Osaka, Sapporo, Fukuoka and Okinawa. Jetstar Japan is expected to grow to 13 aircraft by June 2013 with funding committed for a total of 24 aircraft. International services will commence in the second half of 2012/2013 subject to regulatory approval.

In addition, the Group has formed a strategic alliance with China Eastern Airlines for the establishment of a 50:50 joint venture in Jetstar Hong Kong. Jetstar Hong Kong will be the first ever foreign joint venture with a Chinese airline. Jetstar Hong Kong plans to commence services in late 2012/2013 (subject to regulatory approval).

Jetstar's international network will leverage the growth of these Jetstar branded airlines to provide traffic flow between Australia and Asia and reinforce the Group's strong competitive position in the leisure travel markets across Asia-Pacific.

Qantas Frequent Flyer

— Record Normalised EBIT of $231 million, up 14%
— Normalised EBIT CAGR[25] of 16% over the last four years
— 8.6 million members, up 9%
— Billings $1,187 million, up 14%
— 5.1 million awards redeemed, up 16%
— New Partnerships and Products

23 Ancillary revenue per passenger.
24 Unit cost – Jetstar unit cost is measured based on controllable unit cost. Controllable unit cost is calculated as total expenses excluding fuel per ASK.
25 CAGR – Compound Annual Growth Rate.

Review of Operations continued

FOR THE YEAR ENDED 30 JUNE 2012

Qantas Frequent Flyer continued

		June 2012	June 2011	Change	% Change
Members	M	8.6	7.9	0.7	9
Billings	$M	1,187	1,042	145	14
Underlying EBIT	$M	231	342	(111)	(32)
Normalisation Adjustment	$M	–	(140)	140	(100)
Normalised EBIT[26]	$M	231	202	29	14

Qantas Frequent Flyer's Normalised EBIT was $231 million for the year ended 30 June 2012. The result was a 14 per cent improvement compared to prior year Normalised EBIT. Membership has grown 9 per cent to 8.6 million, averaging more than 2,000 new members each day.

Qantas Frequent Flyer has developed into the premier loyalty business in Australia. The acquisition of Wishlist Holdings Ltd with over 100 loyalty programs has broadened the business into the employee reward and recognition market.

Program enhancements and alliances combined with continued growth in membership have allowed the business to generate billings growth of 14 per cent. Customer satisfaction measured through the Qantas Frequent Flyer Net Promoter Score is higher than levels recorded before the industrial dispute.

The Qantas Frequent Flyer program was further enhanced during the year through:

- Improved tier and cabin benefits
- The launch of "Platinum One" a level of recognition for the most valuable frequent flyers
- Improved access to classic award seats and upgrades
- Expanded Jetstar earn and redeem options
- A new look Qantas Frequent Flyer Store with over three thousand products, experiences and vouchers
- A simplified reward option where members can register to receive quarterly retail vouchers delivered to their home

Significant partner expansion was also achieved through the launch of Optus and new credit card partners Bankwest, Jetstar Mastercard and Qantas Staff Credit Union. The continued expansion of business to business partnerships includes the launch of GunzDental and Isuzu Trucks. Qantas Frequent Flyer has over 500 partners through which members can now earn points.

Qantas Freight

- Underlying EBIT $45 million, down $17 million
- Continued growth in Asia
- Weakness in worldwide airfreight markets

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	1,013	1,054	(41)	(4)
Underlying EBIT	$M	45	62	(17)	(27)
Load Factor	%	53.5	58.6	(5.1) pts	(9)

Qantas Freight's Underlying EBIT was $45 million for the year ended 30 June 2012, a decrease of $17 million on the prior year.

The downturn in global airfreight markets resulted in a 9 per cent reduction in load. Significant increases in fuel price and an unfavourable foreign exchange impact was partially offset by a 2 per cent improvement in yield.

Capacity in the Asian market is growing through Jetstar's international and the Jetstar branded franchises in Asia. Freighter operations to Chongqing commenced in April 2012.

Reconciliation of Underlying PBT to Statutory PBT

Statutory PBT has declined to a loss of $349 million for the year ended 30 June 2012 from a profit of $323 million in the prior year.

Underlying PBT

Underlying PBT is a non-statutory measure, and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Executive Committee and the Board of Directors. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of the Group.

Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 139: Financial Instruments: Recognition and Measurement (AASB 139) which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT.

26 Normalised EBIT is a non-statutory measure which creates a comparable basis for the presentation of results. It adjusts Qantas Frequent Flyer Underlying EBIT for the effect of change in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009. The effect of this difference was that revenue for the year ending 30 June 2011 was $140 million higher than it would have been had the deferred value per point been the same as that applied in the current period.

Review of Operations continued

FOR THE YEAR ENDED 30 JUNE 2012

Reconciliation of Underlying to Statutory PBT	June 2012 $M	June 2011 $M	$M Change	% Change
Underlying PBT	**95**	**552**	**(457)**	**(83)**
Items not included in Underlying PBT				
– AASB 139 mark-to-market movements relating to other reporting periods	**(46)**	**(122)**	**76**	**62**
Qantas International Transformation costs				
– Impairment of property, plant & equipment	(147)	–	(147)	>(100)
– Redundancies and restructuring	(198)	–	(198)	>(100)
– Impairment of goodwill	(18)	–	(18)	>(100)
– Write down of inventory	(13)	–	(13)	>(100)
	(376)	**–**	**(376)**	**>(100)**
Other Items				
– Redundancies and restructuring	(5)	(28)	23	82
– Net impairment of property, plant & equipment	–	(34)	34	100
– Net impairment and net losses on disposal of investments	(19)	(20)	1	5
– Legal provisions	2	(25)	27	>100
	(22)	**(107)**	**85**	**79**
Statutory PBT	**(349)**	**323**	**(672)**	**>(100)**

AASB 139 mark-to-market movements relating to other reporting periods

All derivative transactions undertaken by the Qantas Group represent economic hedges of underlying risk and exposures. The Qantas Group does not enter into speculative derivative transactions. Notwithstanding this, AASB 139 requires certain mark-to-market movements in derivatives which are classified as "ineffective" to be recognised immediately in the Consolidated Income Statement. The recognition of derivative valuation movements in reporting periods which differ from the designated transaction causes volatility in statutory profit that does not reflect the hedging nature of these derivatives.

Underlying PBT reports all hedge derivative gains and losses in the same reporting period as the underlying transaction by adjusting the reporting period's statutory profit for derivative mark-to-market movements that relate to underlying exposures in other reporting periods.

All derivative mark-to-market movements which have been excluded from Underlying PBT will be recognised through Underlying PBT in future periods when the underlying transaction occurs.

The International Accounting Standards Board are currently redrafting IAS 39 (international equivalent of AASB 139) to address anomalies in the accounting treatment of hedge transactions. Qantas has lobbied for this redraft and is actively pursuing an outcome that aligns with the principles and methodology applied by Qantas in calculating Underlying PBT.

Other items not included in Underlying PBT

Items which are identified by Management and reported to the chief operating decision-making bodies, 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 major transformational/restructuring initiatives, transactions involving investments and impairments of assets outside the ordinary course of business.

The key initiatives resulting in the Qantas International Transformation costs not included in Underlying PBT are discussed in detail on page 21.

ASIC GUIDANCE

In December 2011 ASIC issued Regulatory Guide 230. To comply with this Guide, Qantas is required to make a clear statement about whether information disclosed in documents other than the financial report has been audited or reviewed in accordance with Australian Auditing Standards.

In line with previous years and in accordance with the Corporations Act 2001, the Review of Operations is unaudited. Notwithstanding the Review of Operations contains disclosures which are extracted or derived from the Financial Report for the year ended 30 June 2012, which has been audited by the Group's Independent Auditor.

Corporate Governance Statement

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2012

OVERVIEW

Corporate governance is core to ensuring the creation, protection and enhancement of shareholder value. The Board maintains, and requires that Qantas 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, experience and expertise. The Board endorses the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments, 2nd Edition (ASX Principles).

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, including:

- promoting ethical and responsible decision-making
- monitoring compliance with all relevant laws, tax obligations, regulations, applicable accounting standards and significant corporate policies (including the Qantas Group Code of Conduct and Ethics)
- overseeing the Qantas Group, including its control and accountability systems
- approving the annual operating budget and monitoring the operating and financial performance of the Qantas Group
- approving and monitoring the capital management strategy, including major acquisitions and divestitures
- appointing and removing the Chief Executive Officer (CEO)
- monitoring the performance of the CEO and Executive Management, including the Chief Financial Officer (CFO)
- developing Board and Executive Management and succession planning
- ensuring a clear relationship between performance and executive remuneration
- monitoring the Qantas Group's system of risk management and internal compliance and control
- ensuring that the market and shareholders are fully informed of material developments

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 CEO's Executive Management team is listed in the Qantas Board section on the Qantas website.

Board Meetings

The Board holds seven formal meetings a year, one of which serves to review and approve the strategy and financial plan for the next financial year. Additional meetings are held as required. The Board also meets with Executive Management to consider matters of strategic importance.

Details of the Directors, their qualifications, skills and experience are set out on pages 12 to 15 and attendance at 2011/2012 Board and Committee Meetings is detailed on page 37.

Australian Provisions

The Qantas Constitution contains the following provisions required by the Qantas Sale Act to ensure the independence of the Qantas Board and to protect the airline's position as the Australian flag carrier:

- head office must be in Australia
- two-thirds of the Directors must be Australian citizens
- Chairman must be an Australian citizen
- quorum for a Directors' Meeting must include a majority of Directors who are Australian citizens
- maximum 49 per cent aggregate foreign ownership
- maximum 35 per cent aggregate foreign airline ownership
- maximum 25 per cent ownership by one foreign person

THE BOARD IS STRUCTURED TO ADD VALUE

Qantas currently has twelve Directors (see details on pages 12 to 15).

Eleven Directors are Independent Non-Executive Directors elected by shareholders. The Independent Non-Executive Directors and the year in which each was appointed to the Board are set out below.

Director	Year of Appointment
Leigh Clifford (Chairman)	2007
Peter Cosgrove	2005
Patricia Cross	2004
Richard Goodmanson	2008
Garry Hounsell	2005
William Meaney	2012
Corinne Namblard	2011
Paul Rayner	2008
John Schubert	2000
James Strong	2006
Barbara Ward	2008

Independence

Independent Directors are those who have the ability to exercise their duties unfettered by any business or other relationship and are willing to express their opinions at the Board table free of concern about their position or the position of any third party. The Board does not believe it is possible to draft a list of criteria which is appropriate to characterise, in all circumstances, whether a Non-Executive Director is independent. It is the approach and attitude of each Non-Executive Director which is critical and this must be considered in relation to each Director while taking into account all other relevant factors, which may include whether the Non-Executive Director:

- is a substantial shareholder (within the definition of section 9 of the Corporations Act) of Qantas or an officer of, or otherwise associated directly with, a substantial shareholder of Qantas
- has, within the last three years, been employed in an executive capacity by the Qantas Group
- has, within the last three years, been a principal of a material professional adviser or a material consultant to the Qantas Group or an employee materially associated with the service provided

Corporate Governance Statement continued

FOR THE YEAR ENDED 30 JUNE 2012

- is a material supplier or customer of the Qantas Group, or an officer of or otherwise associated directly or indirectly with, a material supplier or customer
- has any material contractual relationship with the Qantas Group other than as a Director
- has served on the Board for a period which could materially interfere with the Director's ability to act in the best interests of the Qantas Group (and it is neither possible nor appropriate to assign a fixed term to this criteria), or
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of Qantas

Each Director is required to immediately disclose to the Board if they have an interest or relationship which is likely to impact on their independence or if a Director believes he or she may no longer be independent.

All Independent Non-Executive Directors bring an independent view to the consideration of Board issues.

Qantas believes that the materiality thresholds set out below are relevant when considering the independence of Non-Executive Directors.

For Directors:

- a relationship which accounts for more than 10 per cent of their gross income (other than Directors' fees paid by Qantas), and
- when the relationship is with a firm, company or entity, in respect of which the Director (or any associate) has more than a 20 per cent shareholding if a private company or two per cent shareholding if a listed company

For Qantas:

- in respect of advisers or consultants – where fees paid exceed $2 million per annum
- in respect of suppliers – where goods or services purchased by the Qantas Group exceed 2 per cent of Qantas' annual consolidated gross revenue (other than banks, where materiality must be determined on a case-by-case basis), and
- in respect of customers – where goods or services supplied by the Qantas Group exceed 2 per cent of Qantas' annual consolidated gross revenue

Qantas, as the principal Australian airline, has commercial relationships with most, if not all, major entities in Australia. As such, in determining whether a Non-Executive Director is independent, simply being a non-executive director on the board of another entity is not, in itself, sufficient to affect independence. Nevertheless, any Director on the board of another entity is expected to excuse themselves during any meeting where that entity's commercial relationship with Qantas is to be directly or indirectly discussed.

Qantas currently has one Executive Director, Alan Joyce, who is not treated as independent.

Independent professional advice is available to the Directors if necessary, at the expense of Qantas.

At the 2000 Annual General Meeting, shareholders approved Qantas entering into Director Protection Deeds with each Director.

Nominations Committee

The Nominations Committee:

- has four Members who are Independent Non-Executive Directors
- is chaired by Leigh Clifford
- has a written Charter which is available in the Corporate Governance section on the Qantas website
- meets as required to assist the Board in fulfilling its corporate governance responsibilities in regard to:
  - Board appointments, re-elections and performance
  - diversity
  - Directors' induction and continuing development
  - Committee membership
  - succession of the CEO

The experience and qualifications of Members of the Nominations Committee are detailed on pages 12 to 15.

Membership of and attendance at 2011/2012 Nominations Committee Meetings are detailed on page 37.

Appointment and Re-Election of Directors

When appointing new Directors, the Board and its Nominations Committee look to ensure that an appropriate balance of skills, experience, expertise and diversity is maintained. External consultants are engaged to assist with the selection process as necessary and each Board Member has the opportunity to meet with the nominated Director.

Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Directors to be re-elected are reviewed by the Nominations Committee. Directors are re-elected in accordance with the Qantas Constitution and the ASX Listing Rules.

Diversity

Qantas takes a holistic approach to diversity and is committed to a diverse and inclusive workplace. A diverse workforce supports Qantas business objectives and delivers competitive advantages and benefits to customers. Diversity is promoted at Qantas through leadership, talent and development programs, flexible work arrangements and recruitment and selection processes. Qantas has established a Diversity Statement which is available in the Corporate Governance section on the Qantas website.

The following diversity-related measurable objectives, supporting gender diversity, have been endorsed by the Nominations Committee:

- Leadership – establish a Group Diversity Council, to be chaired by an Executive Committee member
- Management Representation – Senior Executives targets of:
  - 35 per cent women by 2015
  - 40 per cent women by 2018

Corporate Governance Statement continued

FOR THE YEAR ENDED 30 JUNE 2012

The progress against the objectives from the 2011/2012 annual review is detailed below:

- Qantas established a Diversity Council during 2012 which is chaired by the Chief Executive Officer – Qantas Domestic and has a membership of 10 Senior Executives. The Council meets monthly and has a strategic focus on achieving gender diversity targets and supporting the careers, engagement and experience of women at Qantas
- Senior Executive target of:

Targets	2011	2012
35% women by 2015	29.9%	31.5%

Qantas continues to report diversity statistics, including the following gender statistics, in the Sustainability Statistics and Notes on page 146:

- the percentage of women employees in the whole organisation
- the percentage of women in senior executive positions
- the percentage of women on the Board of Directors

Induction and Continuing Development of Directors

A formal induction program is available to new Directors to ensure they have a working knowledge of Qantas (including its culture and values) and the aviation industry. Directors have open access to all relevant information, including discussions with Management and subject matter experts, and visits to operations. Directors may meet independently with Management at any time to discuss areas of interest or concern.

Review of Board Performance

The Board undertakes an annual review of its performance, and that of its Committees, and periodically engages the assistance of external consultants to facilitate formal Board performance reviews.

During 2011/2012 the Board undertook an internal performance review, which included a series of interviews with Directors and a Board discussion.

The Board will undertake an external review in 2012/2013.

In addition, the Board continually assesses its performance and the Chairman discusses performance with each Director during the year.

THE BOARD PROMOTES ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board has a formal code of conduct, the Qantas Group Code of Conduct and Ethics, which sets out Qantas' expectations in a number of areas including:

- compliance with laws, regulations and ethical standards
- continuous disclosure
- share trading
- political donations and prohibited payments
- compliance with competition laws
- giving or receiving gifts
- conflicts of interest
- accounting records and retention of records
- dealing with auditors
- making public statements about the Qantas Group
- use of confidential information
- treating people with respect
- the whistleblower process
- privacy
- equal employment opportunity

The core elements of the Qantas Group Code of Conduct and Ethics are summarised in the Qantas Group Business Practices Document which is available in the Corporate Governance section on the Qantas website.

Qantas' Employee Share Trading Policy

The Qantas Group Employee Share Trading Policy sets out guidelines designed to protect the Qantas Group 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, Nominated Qantas Employees (including Key Management Personnel) are required to follow 'request to deal' procedures and are prohibited from dealing in Qantas shares between:

- 31 December and 24 hours after the release to the ASX of Qantas' half-year results
- 30 June and 24 hours after the release to the ASX of Qantas' full-year results

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 entity, where control of any sale process relating to those securities may be lost.

Whistleblower Policy

The Qantas Group Whistleblower Policy encourages employees to report concerns relating to illegal, unethical or improper conduct in circumstances where they may be apprehensive about raising their concern because of fear of possible adverse repercussions. The Qantas Group Whistleblower Committee has been established to manage investigations and report to the Board and Audit Committee. The Whistleblower Policy is available to all Qantas Group employees and is summarised in the Qantas Group Business Practices Document which is available in the Corporate Governance section on the Qantas website.

Other Policies

The Qantas Group also has formal policies and statements relating to its legal and other obligations to all legitimate stakeholders. These include areas such as safety, health, environment, security, employment practices and fair trading. Policies are supported by procedures for compliance and monitoring effectiveness. A summary of Qantas' core business principles, values and practices can be found in the Qantas Group Business Practices Document which is available in the Corporate Governance section on the Qantas website.

Corporate Governance Statement continued

FOR THE YEAR ENDED 30 JUNE 2012

THE BOARD SAFEGUARDS THE INTEGRITY OF FINANCIAL REPORTING

Audit Committee

The Board has an Audit Committee which:

- has four Members who are Independent Non-Executive Directors
- is chaired by Garry Hounsell, an Independent Non-Executive Director who is a Fellow of the Institute of Chartered Accountants in Australia and a Certified Practising Accountant
- has a written Charter which is available in the Corporate Governance section on the Qantas website
- includes Members who are all financially literate
- is responsible for assisting the Board in fulfilling its corporate governance responsibilities in relation to:
  - the integrity of the Qantas Group's financial reporting
  - compliance with legal and regulatory obligations
  - the effectiveness of the Qantas Group's enterprise-wide risk management and internal control framework
  - oversight of the independence of the external and internal auditors

The experience and qualifications of Members of the Audit Committee are detailed on pages 12 to 15. Membership of and attendance at 2011/2012 Audit Committee Meetings are detailed on page 37.

The Board and Audit Committee closely monitor the independence of the external auditor. Regular reviews occur of the independence safeguards put in place by the external auditor. As required by section 300(11D)(a) of the Corporations Act and the Audit Committee Charter, the Audit Committee has advised the Board that it is appropriate for the following statement to be included in the 2012 Directors' Report under the heading "Non-audit Services":

"The Directors are satisfied that:

a The non-audit services provided during the 2011/2012 financial year 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 the 2011/2012 financial year by KPMG as the external auditor did not compromise the 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 have 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."

Qantas rotates the lead external audit partner every five years and imposes restrictions on the employment of personnel previously employed by the external auditor.

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 quarterly 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 has an established process to ensure that it complies with its disclosure obligations under the ASX Listing Rules. This process includes a bi-annual confirmation by all Executive Management that their areas have complied with the Continuous Disclosure Policy, together with an ongoing obligation to advise the Company Secretary of any material non-public information arising in between confirmations.

The Qantas Group Continuous Disclosure Policy is summarised in the Qantas Group Business Practices Document which is available in the Corporate Governance section on the Qantas website.

THE BOARD RESPECTS THE RIGHTS OF SHAREHOLDERS

Qantas has a Shareholder Communications Policy which promotes effective communication with shareholders and encourages participation at general meetings. The Qantas Shareholder Communications Policy is summarised in the Qantas Group Business Practices Document which is available in the Corporate Governance section on the Qantas website.

Qantas makes all ASX announcements available on its website. In addition, shareholders who are registered receive email notification of announcements.

The 2012 Notice of Annual General Meeting will be provided to all shareholders and posted on the Qantas website, and the 2012 AGM proceedings will be available for viewing by live and archived webcast. For shareholders unable to attend, an AGM Question Form will accompany the Notice of Meeting, giving shareholders the opportunity to forward questions and comments to Qantas or the external auditor prior to the AGM.

Auditor at AGM

The external auditor attends the AGM and is available to answer shareholder questions on:

- the conduct of the audit
- the preparation and content of the Auditor's Report
- the accounting policies adopted by Qantas in relation to the preparation of the Financial Report
- the independence of the auditor in relation to the conduct of the audit

Corporate Governance Statement continued

FOR THE YEAR ENDED 30 JUNE 2012

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.

Qantas is a complex business and is exposed to a range of strategic, financial and operational risks that are inherent in operating in the aviation industry.

Risks that could affect results and performance include:

- impacts arising from a weakening global or Australian economy
- fluctuations in the price of aviation fuel
- increased competition from domestic and international airlines
- fluctuations in currency exchange rates
- performance of key aircraft and engine suppliers
- government regulations including national aviation regulators
- industrial relations
- natural disasters or the rapid spread of contagious illness, placing restrictions on aviation operations
- performance of technology in our operations
- a change in our credit rating
- a significant incident within the aviation industry
- performance of alliance partners or termination of a significant airline alliance

The Qantas Group Risk Management Framework (Framework) supports the proactive management of these and other risks facing Qantas.

The Qantas Group Risk Management Policy (Policy) sets out the minimum requirements, roles and responsibilities for managing risk across the Qantas Group. This Policy is summarised in the Qantas Group Business Practices Document available in the Corporate Governance section on the Qantas website.

The framework is aligned to the Australian/New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009) and the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework for evaluating internal controls.

The Qantas Management System (QMS), which has been implemented across the Qantas Group, provides a common standard for identifying, assessing and managing material business risks across the Qantas Group. The QMS provides guidance for business units regarding leadership, commitment and planning, process management, risk management, assurance and training and promotion.

Material risks and Management's responses to managing these risks are escalated to Executive Management, Board Committees and the Board as appropriate and are reported on as part of the risk reporting process bi-annually. Risk management is also integrated into key business decision-making and activities, including strategy development, projects and change initiatives.

Management self-assessments, audits and risk management reviews are undertaken to confirm that risks are being effectively managed and are reported to the Board through the Audit Committee. On a quarterly basis, Executive Management certifies that there is an effective risk management process in place within their respective areas of responsibility.

An independent review of the risk management framework is performed periodically to assure effectiveness and drive continuous improvement.

Further details about the Framework and governance structure are contained in the Qantas Investor Data Book available in the Investors section on the Qantas website.

Safety, Health, Environment and Security Committee

The Safety, Health, Environment and Security Committee:

- has six Members: the CEO and five Independent Non-Executive Directors
- is chaired by John Schubert, an Independent Non-Executive Director
- has a written Charter which is available in the Corporate Governance section on the Qantas website
- is responsible for assisting the Board in fulfilling its strategy, policy, systems oversight, monitoring and corporate governance responsibilities in regard to safety, health, environment and security matters including:
  - compliance with related legal and regulatory obligations
  - enterprise-wide risk management

The experience and qualifications of Members of the Safety, Health, Environment and Security Committee are detailed on pages 12 to 15. Membership of and attendance at 2011/2012 Safety, Health, Environment and Security Committee Meetings are detailed on page 37.

Internal Audit

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 through:

- maintaining and improving the risk management framework as approved by the Board
- bi-annual risk reporting to the Board
- performing audits and other advisory services to assure risk management throughout the Qantas Group

Group Audit and Risk adopts a risk-based approach in formulating its audit plan to align audit activities to the key risks across the Qantas Group. The audit plan is approved by the Audit Committee bi-annually and submitted to the Safety, Health, Environment and Security Committee

Corporate Governance Statement continued

FOR THE YEAR ENDED 30 JUNE 2012

for information and approval where appropriate.

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 or replacement 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.

In addition to Group Audit and Risk, operationally focussed business units within the Qantas Group have their own internal audit functions to provide assurance to accountable managers on the effectiveness of operational risk management and compliance. The findings from these audit activities, along with the status of audit management actions, are reported through operational safety governance structures and to the Safety, Health, Environment and Security Committee.

CEO/CFO Declaration

As required by section 295A of the Corporations Act, the CEO and CFO have declared that:

"In our opinion:

a the financial records of Qantas and its controlled entities (Qantas Group) for the financial year ended 30 June 2012 (Financial Period) have been properly maintained in accordance with section 286 of the Corporations Act;

b the financial statements and the notes referred to in section 295(3)(b) of the Corporations Act for the Financial Period comply with the accounting standards and other mandatory professional reporting requirements; and

c the financial statements and notes for the Financial Period give a true and fair view of the financial position and performance of the Qantas Group in accordance with section 297 of the Corporations Act."

In addition, in accordance with Recommendation 7.3 of the ASX Principles, the CEO and CFO stated to the Board that, in respect of the Qantas Group for the Financial Period:

a "the declaration given in accordance with section 295A is founded on a sound system of risk management and internal compliance and control and the system is operating effectively in all material respects in relation to financial reporting risks; and

b the statement given in accordance with Recommendation 7.3 (above) regarding the risk management and internal compliance and control system provide a reasonable, but not absolute level of assurance and does not imply a guarantee against adverse events or more volatile outcomes arising in the future."

To support the CEO and CFO in making the declaration under section 295A of the Corporations Act to the Board, Senior Management completes a bi-annual Financial and Corporate Governance Self Assessment Questionnaire (FCGSA Questionnaire). The FCGSA Questionnaire forms part of Qantas' corporate governance process which requires Senior Management to respond to questions relating to Qantas' finance and reporting, corporate governance and risk management.

THE BOARD REMUNERATES FAIRLY AND RESPONSIBLY

The Qantas executive remuneration objectives and approach is set out in full in the Directors' Report (from page 42).

Remuneration Committee

The Board has a Remuneration Committee which:

- has three members who are Independent Non-Executive Directors
- is chaired by James Strong, an Independent Non-Executive Director
- has a written Charter which is available in the Corporate Governance section on the Qantas website
- is responsible for assisting the Board in fulfilling its corporate governance responsibilities in regard to remuneration matters including:
  - the remuneration framework for Non-Executive Directors
  - the remuneration and incentive framework, including any proposed equity incentive awards for the CEO, any other Executive Directors, Executive Committee Members and Senior Executives
  - recommendations and decisions (as relevant) on remuneration and all incentive awards for the CEO, any other Executive Directors and Executive Committee Members
  - strategic human resources policies

The experience and qualifications of Members of the Remuneration Committee are detailed on pages 12 to 15. Membership of and attendance at 2011/2012 Remuneration Committee Meetings are detailed on page 37.

The remuneration of Executive Management is disclosed to the extent required in the Remuneration Report from page 42.

Qantas Directors are entitled to statutory superannuation and certain travel entitlements (accrued during service) which are reasonable and standard practice in the aviation industry (see page 61).

Review of Executive Management Performance

At least annually, the Remuneration Committee undertakes a review of the performance of Executive Management against their Key Performance Indicators (KPIs). The process for evaluating the performance of Executive Management is detailed from page 42. Executive Management's performance for the 2011/2012 year was assessed against individual KPIs in August 2012. The structure of Non-Executive Directors' remuneration is detailed on page 61.

Directors' Report
Financial Report

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2012

The Directors of Qantas Airways Limited (Qantas) present their Report together with the Financial Statements of the consolidated entity, being Qantas and its controlled entities (Qantas Group), for the year ended 30 June 2012 and the Independent Audit Report thereon.

DIRECTORS

The Directors of Qantas at any time during or since the end of the year are:

Leigh Clifford, AO
Alan Joyce
Peter Cosgrove, AC, MC
Patricia Cross
Richard Goodmanson
Garry Hounsell
William Meaney
Corinne Namblard
Paul Rayner
John Schubert, AO
James Strong, AO
Barbara Ward, AM

Details of Directors, their qualifications, experience and any special responsibilities, including Qantas Committee Memberships, are set out on pages 12 to 15.

PRINCIPAL ACTIVITIES

The principal activities of the Qantas Group during the course of 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

No final dividend will be paid in relation to the year ended 30 June 2012 (2011: nil final dividend). No interim dividend was paid during the year.

REVIEW OF OPERATIONS AND STATE OF AFFAIRS

A review of, and information about, the Qantas Group's operations, including the results of those operations and changes in the state of affairs of the Qantas Group during the year together with information about the Group's financial position appear on pages 6 to 25. 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.

EVENTS SUBSEQUENT TO BALANCE DATE

Refer to page 130 for events which occurred subsequent to balance date. Other than the matters disclosed on page 130, 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.

LIKELY DEVELOPMENTS

Further information about likely developments in the operations of the Qantas Group in future years and the expected results of those operations has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the Qantas Group. Further information about the Qantas Group's business strategies and its prospects for future years has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the Qantas Group.

DIRECTORS' MEETINGS

The number of Directors' Meetings held (including Meetings of Committees of Directors) during 2011/2012 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	Attended	Held	Attended	Held	Attended	Held
Leigh Clifford	7	7	7	7	3	3[4]	–	–	–	–	–	–	3	3
Alan Joyce	7	7	7	7	3	3[4]	–	–	5	5	–	–	–	–
Peter Cosgrove	7	7	7	7	–	–	–	–	5	5	–	–	–	–
Patricia Cross	7	7	7	7	–	–	5	5	–	–	7	7	–	–
Richard Goodmanson	7	7	6	7	–	–	–	–	5	5	7	7	–	–
Garry Hounsell	7	7	6	7	3	3[4]	5	5	–	–	–	–	3	3
William Meaney	3	3	3	3	–	–	–	–	–	–	–	–	–	–
Corinne Namblard	6	7	7	7	1	1[5]	–	–	–	–	–	–	–	–
Paul Rayner	7	7	6	7	1	1[5]	5	5	5	5	–	–	–	–
John Schubert	7	7	6	7	–	–	–	–	5	5	–	–	3	3
James Strong	6	7	7	7	–	–	–	–	–	–	7	7	3	3
Barbara Ward	7	7	7	7	1	1[5]	5	5	5	5	–	–	–	–

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 they are 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. Mr Meaney was appointed to the Qantas Board on 15 February 2012.
4 Number of meetings held and requiring attendance.
5 Number of meetings requiring attendance.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2012 – FOR THE PERIOD 1 JULY 2009 TO 30 JUNE 2012

Leigh Clifford	Qantas Airways Limited	– Current, appointed 9 August 2007
	Barclays Bank plc	– Ceased, appointed 1 October 2004 and ceased 30 September 2010
Alan Joyce	Qantas Airways Limited	– Current, appointed 28 July 2008
Peter Cosgrove	Qantas Airways Limited	– Current, appointed 6 July 2005
	Cardno Limited	– Current, appointed 26 March 2007
Patricia Cross	Qantas Airways Limited	– Current, appointed 1 January 2004
	National Australia Bank Limited	– Current, appointed 1 December 2005
	Wesfarmers Limited	– Ceased, appointed 11 February 2003 and ceased 24 March 2010
Richard Goodmanson	Qantas Airways Limited	– Current, appointed 19 June 2008
	Rio Tinto Limited	– Current, appointed 1 December 2004
	Rio Tinto plc	– Current, appointed 1 December 2004
Garry Hounsell	Qantas Airways Limited	– Current, appointed 1 January 2005
	DuluxGroup Limited	– Current, appointed 8 July 2010
	PanAust Limited	– Current, appointed 1 July 2008
	Nufarm Limited	– Current, appointed 1 October 2004
	Orica Limited	– Current, appointed 21 September 2004
	Mitchell Communication Group Limited	– Ceased, appointed 1 September 2006 and ceased 17 November 2010
William Meaney	Qantas Airways Limited	– Current, appointed 15 February 2012
Corinne Namblard	Qantas Airways Limited	– Current, appointed 16 June 2011
	Codan Limited	– Current, appointed 1 August 2011
Paul Rayner	Qantas Airways Limited	– Current, appointed 16 July 2008
	Treasury Wine Estates Limited	– Current, appointed 9 May 2011
	Boral Limited	– Current, appointed 5 September 2008
	Centrica plc	– Current, appointed 1 September 2004
John Schubert	Qantas Airways Limited	– Current, appointed 23 October 2000
	BHP Billiton plc	– Current, appointed 29 June 2001
	BHP Billiton Limited	– Current, appointed 1 June 2000
	Commonwealth Bank of Australia	– Ceased, appointed 8 October 1991 and ceased 10 February 2010
James Strong	Qantas Airways Limited	– Current, appointed 1 July 2006
	Kathmandu Holdings Limited	– Current, appointed 16 October 2009
	Woolworths Limited	– Current, appointed 10 March 2000
	IAG Finance (New Zealand) Limited	– Ceased, appointed 9 November 2004 and ceased 26 August 2010
	Insurance Australia Group Limited	– Ceased, appointed 10 August 2001 and ceased 26 August 2010
Barbara Ward	Qantas Airways Limited	– Current, appointed 19 June 2008
	Brookfield Funds Management Limited[1]	– Current, appointed 1 January 2010
	Brookfield Capital Management Limited[2]	– Current, appointed 1 January 2010
	Lion Nathan Limited	– Ceased, appointed 21 February 2003 and ceased 21 October 2009

1 As responsible entity for Multiplex SITES Trust which is a listed Australian registered managed investment scheme.
2 As responsible entity for a) Brookfield Prime Property Fund b) Multiplex European Property Fund and c) Brookfield Australia Opportunities Fund, each a listed Australian registered managed investment scheme.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF QANTAS

Taryn Morton – Company Secretary, BA, LLB

- Joined Qantas in August 2008
- Appointed as a Secretary of Qantas in December 2008 and as Company Secretary in October 2011
- 2007 to 2008 – Company Secretary at Babcock and Brown for Group Real Estate Companies
- 2000 to 2007 – various roles at Network Ten with legal and company secretariat responsibilities
- 1997 to 2000 – various roles at Blake Dawson Waldron including Assistant Manager of Company Administration Services
- Admitted as a solicitor of the Supreme Court of NSW in 2003

Nawal Silfani – Assistant Company Secretary, DipLaw, GDipLegPrac, LLM

- Joined Qantas in February 2012
- Appointed as Assistant Company Secretary of Qantas in June 2012
- 2009 to 2012 – Deputy Company Secretary at Downer EDI Limited
- 2000 to 2009 – various roles at Blake Dawson including lawyer advising on governance and transactional matters
- Admitted as a solicitor of the Supreme Court of NSW in 2006

DIRECTORS' INTERESTS AND BENEFITS

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

	Shares	
Directors	2012 Number	2011 Number
Leigh Clifford	251,622	51,622
Alan Joyce	2,531,188	721,255
Peter Cosgrove[1]	2,314	2,314
Patricia Cross	30,474	10,474
Richard Goodmanson	20,000	20,000
Garry Hounsell	80,000	43,449
William Meaney	–	–
Corinne Namblard	–	–
Paul Rayner	71,622	21,622
John Schubert	103,103	41,375
James Strong	30,670	30,670
Barbara Ward	47,597	17,597

1 Refer below for details of shares held by General Cosgrove under the Non-Executive Director Share Plan.

In addition to the interests shown, indirect interests in Qantas shares held in trust on behalf of General Cosgrove and Mr Joyce under Qantas Share Plans are as follows:

Peter Cosgrove		
Deferred shares held in trust under:		
Non-Executive Director Share Plan[1]	32,251	23,318

1 General Cosgrove acquired these shares by salary sacrificing part of his Director's fee.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Alan Joyce	2012 Number	2011 Number
Deferred shares held in trust under:		
2004 Performance Share Plan	–[1]	30,000
Alan Joyce Award (2005)	–[1]	25,000
2005 Performance Share Plan	–[1]	35,000
2006 Performance Share Plan	–[1]	34,000
2006 Retention Plan	–[1]	350,000
2007 Performance Share Plan	–[1]	23,500
2007 Retention Plan	–[1]	400,000
2008 Performance Share Plan	–[1]	100,000
2009 Performance Share Plan	–[1]	173,363
2009/10 Short Term Incentive Plan	–[2]	583,000
2010/11 Short Term Incentive Plan	375,014	–
	375,014	**1,753,863**
Rights granted under:		
2005 Performance Rights Plan	–[3]	6,350
2006 Performance Rights Plan	–[3]	49,720
2007 Performance Rights Plan	–[4]	65,000
2010–2012 Long Term Incentive Plan	–[4]	250,000
2011–2013 Long Term Incentive Plan	1,084,000[5]	1,084,000
2012–2014 Long Term Incentive Plan	1,675,000[6]	–
	2,759,000	**1,455,070**

1 The deferred shares were released from holding lock and transferred to Mr Joyce on 17 February 2012.
2 The deferred shares were released from holding lock and transferred to Mr Joyce on 13 August 2012.
3 6,350 and 49,720 vested rights were converted to Qantas shares on 17 February 2012.
4 As a result of performance hurdle testing conducted as at 30 June 2012, all unvested Rights (65,000 and 250,000 Rights) were lapsed subsequent to 30 June 2012.
5 Shareholders approved the award of these Rights on 29 October 2010. Performance hurdles will be tested as at 30 June 2013 to determine whether any rights vest to Mr Joyce.
6 Shareholders approved the award of these Rights on 28 October 2011. Performance hurdles will be tested as at 30 June 2014 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 54 to 56 for further details.

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

Performance Rights Reconciliation

	2012	2011
Rights outstanding as at 1 July	12,213,069	8,844,886
Rights granted	10,127,000	4,957,000
Rights forfeited	(1,110,560)	(1,246,681)
Rights lapsed	(2,481,256)	(108,114)
Rights exercised	(117,085)	(234,022)
Rights outstanding as at 30 June	**18,631,168[1]**	**12,213,069**

1 The movement of Rights outstanding as at 30 June 2012 to the date of this Report is explained in the footnotes on page 41.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

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.

The following Rights were outstanding at 30 June 2012:

				Number of Rights					
Name	Testing Period	Grant Date	Value at Grant Date	2012 Net Vested	2012 Unvested	2012 Total	2011 Net Vested	2011 Unvested	2011 Total
2004 Performance Rights Plan	30 Jun 07 – 30 Jun 09[1]	13 Jan 05	$2.47	23,590	–	23,590	26,271	–	26,271
2005 Performance Rights Plan	30 Jun 08 – 30 Jun 10[1]	17 Aug 05	$1.98	–	–	–	6,350	–	6,350
2005 Performance Rights Plan	30 Jun 08 – 30 Jun 10[1]	22 Nov 05	$2.67	64,580	–	64,580	83,779	–	83,779
2006 Performance Rights Plan	30 Jun 09 – 30 Jun 11[2]	22 Aug 06	$2.39	–	–	–	50,131	8,640	58,771
2006 Performance Rights Plan	30 Jun 09 – 30 Jun 11[2]	4 Oct 06	$2.95	203,197	–	203,197	235,117	64,216	299,333
2006 Performance Rights Plan	30 Jun 09 – 30 Jun 11[2]	19 Oct 06	$3.17	–	–	–	–	26,400	26,400
2007 Performance Rights Plan	30 Jun 10 – 30 Jun 12	12 Dec 07	$4.42	–	319,000[3]	319,000	–	351,000	351,000
2007 Performance Rights Plan	30 Jun 10 – 30 Jun 12	31 Mar 08	$2.75	–	902,500[3]	902,500	–	1,021,500	1,021,500
2008 Performance Rights Plan	30 Jun 11	4 May 09	$1.64	–	–	–	–	2,382,000[4]	2,382,000
2010–2012 Long Term Incentive Plan	30 Jun 12	9 Sep 09	$2.05	–	3,122,301[3]	3,122,301	–	3,275,665	3,275,665
2011–2013 Long Term Incentive Plan	30 Jun 13	12 Aug 10	$1.50	–	3,035,000	3,035,000	–	3,476,000	3,476,000
2011–2013 Long Term Incentive Plan	30 Jun 13	29 Oct 10	$1.76	–	1,147,000	1,147,000	–	1,206,000	1,206,000
2012–2014 Long Term Incentive Plan	30 Jun 14	23 Aug 11	$0.86	–	8,008,000	8,008,000	–	–	–
2012–2014 Long Term Incentive Plan	30 Jun 14	28 Oct 11	$0.82	–	1,806,000	1,806,000	–	–	–
Total				**291,367**	**18,339,801**	**18,631,168**	**401,648**	**11,811,421**	**12,213,069**

1 These Rights convert to Qantas shares on the 10th anniversary of the date of award, however Executives may call for the Rights to be converted sooner at their request.
2 While these Rights may convert to Qantas shares on the 10th anniversary of the date of award, Executives may call for the Rights to be converted to the extent performance hurdles have been achieved upon testing, which commenced 30 June 2009. As a result of performance hurdle testing conducted as at 30 June 2011, all unvested Rights were lapsed in 2011/2012.
3 As a result of performance hurdle testing conducted as at 30 June 2012, all unvested Rights were lapsed subsequent to 30 June 2012.
4 As a result of performance hurdle testing conducted as at 30 June 2011, all unvested Rights were lapsed in 2011/2012.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Cover letter to the Remuneration Report

Dear Shareholder,

Qantas is pleased to present its Remuneration Report for 2011/2012, which sets out remuneration information for Non-Executive Directors, the Chief Executive Officer (CEO) and Executive Committee.

This year we have added a brief introduction to the Remuneration Report. This introduction provides a summary of the Executive Remuneration Framework at Qantas.

As the Remuneration Report discussion regularly focuses on the CEO's pay, the introduction also summarises remuneration for the CEO in 2011/2012. It outlines the remuneration decisions as they relate to the CEO and highlights the clear link between the CEO's pay outcomes and Qantas' performance. Details of the CEO's remuneration for 2011/2012 include:

- Based on performance against the measures under the annual incentive, Mr Joyce was entitled to an award of $792,000, however, Mr Joyce declined this award, and no award was made
- The three-year company performance measures tested as at 30 June 2012 for the long term incentive plan were not met and therefore rights lapsed and no shares were awarded
- Mr Joyce also chose not to participate in the 2012 base pay review and his base pay will remain unchanged in 2012/2013

There was no increase to Board or Committee fees paid to Non-Executive Directors in 2011/2012 and there will be no increase to these fees for 2012/2013.

This has been an extremely challenging year for Qantas and for Qantas' shareholders. The impact of industrial action, our significant transformation agenda, fuel prices and the unstable European economy is evidenced in our financial results. This is also reflected in the pay outcomes for the CEO and the Executive team.

As Chairman of our Remuneration Committee, I will continue to review the Qantas Remuneration Framework to ensure it meets the requirements of our shareholders while also motivating and rewarding our employees.

James Strong

James Strong
Chairman, Remuneration Committee

Remuneration Report (Audited)

INTRODUCTION

OVERVIEW OF THE EXECUTIVE REMUNERATION FRAMEWORK

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 at an appropriate level and by linking remuneration outcomes to Qantas' performance.

The Qantas Executive Remuneration Framework contains three elements:

- **Base pay** – referred to as Fixed Annual Remuneration (FAR)
- **An annual incentive** – referred to as the Short Term Incentive Plan (STIP)
- **A long term incentive** – referred to as the Long Term Incentive Plan (LTIP)

During 2011/2012, the Remuneration Committee reviewed each element of the Remuneration Framework and elected to retain the overall structure of the Framework.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Base Pay

Each year, the Remuneration Committee reviews the base pay for the CEO and each member of the Executive Committee.

Base pay is set with reference to external benchmark data against comparable roles in companies listed on the ASX and international airlines.

A more detailed description of base pay and how it is set is provided on page 50.

Annual Incentive

The annual incentive plan for the CEO and Executive Committee at Qantas is known as the STIP.

Each year Executives 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.

As part of its annual review of the Executive Remuneration Framework, the Remuneration Committee performed a detailed review of the STIP, including:

— Assessing alternative approaches to short term incentive plan design
— Reviewing the criteria used to assess both company and individual performance under the STIP, ensuring STIP outcomes are aligned with performance

The outcome of the review was that the Remuneration Committee chose to:

— Retain the current structure of the STIP
— Explicitly align the STIP performance measures to the execution of the Qantas Group strategy

Following this review, the Board set the following scorecard of performance conditions for the 2011/12 STIP:

Strategic Objective	Performance Measures	Scorecard Weighting
1. Delivering sustainable returns to shareholders	Underlying Profit Before Tax (50% weighting) Unit cost (7.5% weighting) Operating cash flow to net debt (7.5% weighting)	65%
2. Safety is always our first priority	People safety	10%
3. Building on the strong domestic business	Domestic market share Frequent Flyer membership numbers Punctuality: Qantas domestic and Jetstar domestic Customer Experience – Net Promoter Score (NPS) for Qantas domestic and Jetstar domestic	12.5%
4. Transforming Qantas International	Strengthen Asia: networks, partnerships and ventures Execution of the transformation agenda in Maintenance and Catering Punctuality: Qantas international Customer Experience – NPS: Qantas international	7.5%
5. Growing Jetstar in Asia	Launch Jetstar Japan Restructuring of Jetstar in Vietnam Punctuality: Jetstar international and Jetstar Asia Customer Experience – NPS: Jetstar international and Jetstar Asia	5%
	Total	**100%**

The STIP is described in more detail on pages 50 to 54. The 2011/12 STIP outcome is detailed on page 53.

Long Term Incentive

The long term incentive plan at Qantas is known as the LTIP. It involves the granting of Rights over Qantas shares and participation is limited to Senior Executives of the Qantas Group.

If performance conditions over a three year period are achieved, the Rights vest and convert to Qantas shares on a one-for-one basis. If performance conditions are not met, the Rights lapse.

For the 2012-2014 LTIP the performance conditions are:

— The relative Total Shareholder Return (TSR) of Qantas compared to the S&P/ASX100 Index
— The relative TSR of Qantas compared to an airline peer group

The LTIP is described in more detail on pages 54 to 56.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

REMUNERATION DECISIONS AND OUTCOMES FOR THE CEO IN 2011/2012

Mr Joyce's total remuneration outcome for 2011/2012 as disclosed in the table below was $2.280 million[1] (44 per cent lower than for 2010/2011), reflecting:

- Base pay of $2.109 million
- No award under the annual incentive
- No vesting of the long term incentive
- $0.171 million of other benefits

Based on performance against the measures under the annual incentive, Mr Joyce would have been entitled to a $792,000 award, however, Mr Joyce declined this award, and no award was made.

The following table outlines the remuneration outcomes for the CEO for 2011/2012.

Non-statutory Remuneration Table – CEO[1]	2012 $'000	2011 $'000	% Change	At Target Pay $'000
Base pay (Cash FAR)[2]	2,109	2,045	3	2,125
STIP	–	1,779	(100)	2,550
LTIP	–	–	–	1,700
Other[3]	171	247	(31)	–
Total	**2,280**	**4,071**	**(44)**	**6,375**

1 Detail of non-statutory remuneration methodology is explained on page 60.
2 Reported Cash FAR is FAR of $2,125,000 (2011: $2,060,000) less superannuation contributions of $15,775 (2011: $15,199).
3 Includes non-cash benefits (such as travel), annual leave accruals, post employment and other benefits plus superannuation contributions of $15,775 (2011: $15,199).

The remuneration decisions and outcomes detailed in this table are particularly useful in assessing the CEO's pay in 2011/2012 and its alignment with Qantas' performance. That is, this table reflects that:

- No annual incentive was awarded to the CEO during 2011/2012
- The long term incentive (under the 2010-2012 LTIP) did not vest based on the three year performance period to 30 June 2012

The CEO's pay is clearly linked to Qantas' performance. This is demonstrated via the performance measures under both the annual incentive and the long term incentive. This resulted in his 2011/2012 total remuneration outcome as disclosed in the table[1] above being:

- 44 per cent lower than his 2010/2011 remuneration outcome
- 64 per cent lower than his 'At Target' pay

Base Pay – Cash FAR

At the start of the 2011/2012 year, the CEO received a three per cent increase in FAR from $2,060,000 to $2,125,000.

Mr Joyce chose not to participate in the 2012 base pay review and his base pay will remain unchanged for 2012/2013.

Cash FAR (or Base Pay) is FAR less superannuation contributions (of $15,775).

Annual Incentive – 2011/12 STIP Outcome

One of the key remuneration decisions made by the Board each year is determining the outcome under the STIP. Based on performance against the financial, safety and other key business measures that make up the STIP scorecard, the CEO would have been entitled to receive a $792,000 award.

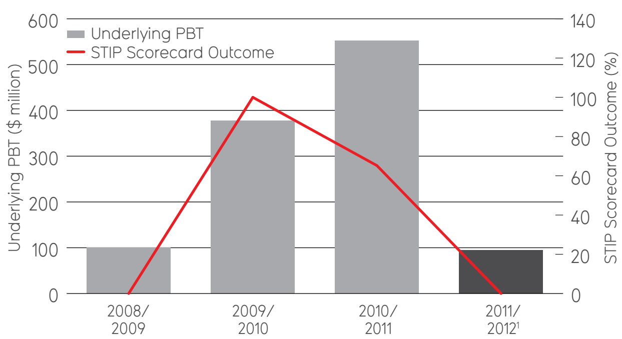
The CEO declined this award, and no award was made.

Therefore, the remuneration outcome for the CEO for 2011/2012 under the short term incentive was nil.

The graph highlights the annual incentive outcomes for the CEO versus the Qantas Group's Underlying PBT performance over the period of Mr Joyce's tenure as CEO.

More detail on the 2011/2012 STIP scorecard outcomes is provided on page 53.

CEO Incentive Plan Outcome vs Qantas Profit Performance



1 STIP Scorecard result of nil is shown for 2011/2012, reflecting the nil STIP award to the CEO.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Long Term Incentive – LTIP Outcome

The 2010-2012 LTIP was tested against the TSR and Earnings Per Share (EPS) performance hurdles as at 30 June 2012 and did not vest.

All Rights in this grant lapsed and the CEO did not receive any shares or payment under this plan.

Therefore, the CEO's remuneration outcome for 2011/2012 under the long term incentive was nil.

STATUTORY REMUNERATION DISCLOSURES FOR THE CEO

The statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards (AASBs) and differ significantly from the outcomes for the CEO resulting from performance in 2011/2012 outlined on page 44.

These differences arise due to the accounting treatment of share-based payments (such as the STIP and LTIP). The statutory disclosures include an accounting remuneration value for:

- **Prior years' STIP awards**

  Accounting standards require STIP remuneration to be expensed (and therefore included as remuneration) in financial years which differ from the year of scorecard performance. This creates a disconnect between statutory remuneration and the remuneration earned from the corresponding years' financial and non-financial scorecard performance.

  In both 2009/2010 and 2010/2011 the Board made considered decisions to not pay a cash bonus and instead awarded entirely deferred STIP awards. Deferred shares granted under the STIP have a future service period, during which the recipient must remain employed by the Group for the awards to vest. As a result, part of the value of these prior year awards is accounted for in 2011/2012.

  Therefore, the statutory remuneration includes a value for prior year STIP awards of $2.163 million even though the CEO did not receive an award under the 2011/12 STIP.

- **LTIP awards that have not vested**

  Accounting standards require LTIP awards be expensed (and therefore included as remuneration) notwithstanding that the Rights have not met the performance hurdles and have lapsed.

  No LTIP awards vested during 2011/2012 and the performance against target for all remaining LTIP plans are below the level required for vesting. However, a value is still required by accounting standards to be included as statutory remuneration. Additionally, LTIP awards that will be assessed for vesting in future years are expensed over the three year testing period. Therefore, the statutory remuneration table includes an accounting value for part of the 2011-2013 and the 2012-2014 LTIP awards. Testing will be undertaken as at 30 June 2013 and 30 June 2014 to determine whether Mr Joyce receives any shares under these awards.

  As a result, LTIP of $1.134 million is included in the statutory remuneration table even though no LTIP awards vested during 2011/2012.

The following is a summary of the statutory remuneration disclosures for the CEO (the full statutory table is provided on page 49).

Statutory Remuneration Table – CEO	2012 $'000	2011 $'000	At Target Pay $'000
Base Pay (Cash FAR)[1]	2,109	2,045	2,125
STIP	2,163	2,049	2,550
LTIP	1,134	542	1,700
PSP[2]	n/a	125	n/a
Other[3]	171	247	n/a
Total	**5,577**	**5,008**	**6,375**

1 Reported Cash FAR is FAR of $2,125,000 (2011: $2,060,000) less superannuation contributions of $15,775 (2011: $15,199).
2 The Performance Share Plan (PSP) is a legacy equity plan, which was discontinued in 2009.
3 Includes non-cash benefits (such as travel), annual leave accruals, post employment and other benefits plus superannuation contributions of $15,775 (2011: $15,199).

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2012

The Remuneration Report sets out remuneration information for Non-Executive Directors, the CEO and Executive Committee. The Key Management Personnel (KMP) for the 2011/2012 financial year includes some members of the Executive Committee.

1) 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 it faces as a major international airline based in Australia
- Link remuneration to performance

To achieve this, Executive remuneration is set with regard to the size and nature of the role (with reference to market benchmarks) and the performance of the individual in the role. In addition, remuneration includes "at risk" or performance related elements for which the objectives are to:

- Link Executive reward with Qantas' business objectives and financial performance
- Align the interests of Executives with shareholders
- Support a culture of employee share ownership
- Support the retention of participating Executives

2) ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee (a Committee of the Board, whose members are detailed on pages 12 to 15) has the role of reviewing and making recommendations to the Board on specific Executive remuneration matters at Qantas and ensuring remuneration decisions are appropriate from the perspectives of business performance, governance, disclosure, reward levels and market conditions.

In fulfilling its role, the Remuneration Committee is specifically concerned with ensuring that its approach will:

- Motivate the CEO, Executive Committee and 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 "at risk" remuneration, reflecting the short and long-term performance objectives of Qantas
- Differentiate between higher and lower performers through the use of a performance management framework

The Remuneration Committee appointed PricewaterhouseCoopers (PwC) as its primary remuneration consultant for 2011/2012. It also appointed JWS Consulting (JWSC) to provide remuneration advice where this advice may be linked to specific legal and regulatory requirements.

Before appointing PwC and JWSC, the Remuneration Committee considered the nature and quantum of work to be provided by these companies to the Qantas Group and also established protocols to ensure that it would be confident that the companies could fulfil their role as independent advisors to the Remuneration Committee. These protocols also ensure compliance in respect to the appointment and use of remuneration consultants under the Corporations Act 2001.

During 2011/2012, the Remuneration Committee directly engaged PwC in accordance with its protocols to perform a review of the STIP and recommend the design of a STIP model, performance measures and targets. The total fee for this engagement was $82,500. PwC completed the review, reported directly to the Remuneration Committee and did not provide their report to any member of management. PwC has declared to the Remuneration Committee that their report was not unduly influenced by any Qantas KMP throughout the course of the engagement and outlined the process they followed to form their recommendation in their report. As the agreed protocols were followed, the Board is satisfied that the remuneration recommendation was made free from undue influence of the KMP.

The Remuneration Committee also engaged PwC to provide general and technical remuneration advice, review committee papers, attend committee meetings and provide information on market practice for which fees amounted to $224,125.

PwC has provided a range of other consulting services (advisory, risk, internal audit, tax and legal services) to the Qantas Group in 2011/2012 for fees totalling $6.2 million.

Total fees payable to PwC for services provided during 2011/2012 amounted to $6.5 million.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

3) EXECUTIVE REMUNERATION FRAMEWORK

The Executive Remuneration Framework as it applies to the CEO and the Executive Committee contains three elements:

— **Base pay** – referred to as Fixed Annual Remuneration (FAR)

— **An annual incentive** – referred to as the Short Term Incentive Plan (STIP)

— **A long term incentive** – referred to as the Long Term Incentive Plan (LTIP)

The "at target" pay for the CEO and Executive KMP is set with reference to external benchmark market data including comparable roles in other listed Australian companies and international airlines. The primary benchmark is a revenue based peer group of other S&P/ASX companies. The Board believes this is the appropriate benchmark, as it is the comparator group whose roles best mirror the complexity and challenges in managing Qantas' businesses and is also the peer group with whom Qantas competes for Executive talent.

4) REMUNERATION DECISIONS AND OUTCOMES FOR THE YEAR ENDED 30 JUNE 2012

The remuneration decisions and outcomes at Qantas are clearly linked to Qantas' performance via the STIP and LTIP performance measures.

The CEO declined his award under the 2011/12 STIP, and no award was made. For other Executives, the 2011/12 STIP outcomes were well below target and significantly lower than the 2010/2011 outcomes. Results under the 2011/12 STIP are detailed on page 53.

LTIP awards did not vest during 2011/2012. The 2010-2012 LTIP was tested as at 30 June 2012. As performance hurdles were not achieved, all Rights under this plan lapsed and Executives did not receive any shares or payment under this plan. Therefore, the remuneration outcome for 2011/2012 under the LTIP was nil. The LTIP is detailed on pages 54 to 56.

The following table summarises the remuneration decisions and outcomes for the CEO and Executive KMP for the year ended 30 June 2012.

The remuneration detailed in this table is aligned to the current performance periods and therefore is particularly useful in assessing current year pay and its alignment with current year performance.

Non-statutory Table – CEO and Executive KMP[1]

			STIP Outcomes[3]		LTIP Outcomes[4]				
$'000		Base Pay – Cash FAR[2]	Cash Bonus	Deferred Award	Rights Vested	Sub-total	Other Benefits[5]	Termination Payments	Total
Alan Joyce Chief Executive Officer	2012	2,109	–	–	–	2,109	171	–	2,280
	2011	2,045	–	1,779	–	3,824	247	–	4,071
Gareth Evans Chief Financial Officer	2012	906	–	220	–	1,126	117	–	1,243
	2011	861	–	529	–	1,390	94	–	1,484
Bruce Buchanan CEO Jetstar	2012	849	–	159	–	1,008	(46)	–	962
	2011	810	–	489	–	1,299	42	–	1,341
Rob Gurney Group Executive Qantas Airlines Commercial	2012	778	154	–	–	932	311	840	2,083
	2011	703	–	387	–	1,090	202	–	1,292
Simon Hickey CEO Qantas Loyalty	2012	770	–	173	–	943	131	–	1,074
	2011	723	–	517	–	1,240	152	–	1,392
Jayne Hrdlicka[6] Group Executive Strategy & Technology	2012	759	–	176	–	935	77	–	1,012
	2011	306	–	169	–	475	55	–	530
Lyell Strambi Group Executive Qantas Airlines Operations	2012	909	–	210	–	1,119	141	–	1,260
	2011	865	–	472	–	1,337	166	–	1,503
Total	**2012**	**7,080**	**154**	**938**	**–**	**8,172**	**902**	**840**	**9,914**
	2011	**6,313**	**–**	**4,342**	**–**	**10,655**	**958**	**–**	**11,613**

1 Detail of non-statutory remuneration methodology is explained on page 60.
2 Base pay, paid to each Executive during the year.
3 The full value of STIP awards made to each Executive during each of the 2011/2012 and 2010/2011 financial years. In both these years the Board deferred the payment of bonuses under the STIP.
4 LTIP awards did not vest in either 2011/2012 or 2010/2011, therefore nil value shown.
5 Other Benefits include non-cash benefits, annual leave accrual, post-employment benefits and other long-term benefit.
6 2010/2011 remuneration for Ms Hrdlicka reflects the period of time in a key management role (1 February 2011 to 30 June 2011).

Refer to section 6 of the Remuneration Report on pages 50 to 58 for detail of the Executive Remuneration Structure, a description of FAR, STIP and LTIP and analysis of the 2011/2012 outcomes for the STIP and LTIP.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

5) STATUTORY REMUNERATION DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2012

The statutory remuneration disclosures for the year ended 30 June 2012 are detailed below and are prepared in accordance with Australian Accounting Standards (AASBs) and differ significantly from the 2011/2012 remuneration decisions and outcomes outlined on page 47.

These differences arise due to the accounting treatment of share-based payments (such as the STIP and LTIP). The statutory disclosures include an accounting remuneration value for:

– **Prior years' STIP awards**

  Accounting standards require STIP remuneration to be expensed (and therefore included as remuneration) in financial years which differ from the year of scorecard performance. This creates a disconnect between reported remuneration and the corresponding years' financial and non-financial scorecard performance.

  In both 2009/2010 and 2010/2011 the Board made considered decisions to not pay a cash bonus and instead awarded entirely deferred STIP awards.

  Deferred shares granted under the STIP have a future service period, during which the recipient must remain employed by the Group for the awards to vest. The consequence of these decisions is that the 2011/2012 remuneration disclosures include a value of part of prior year awards. These values are significantly higher than the 2011/12 STIP outcome as outlined on page 47. In the case of the CEO, the statutory remuneration include a value for prior years STIP awards of $2.163 million, even though the CEO did not receive an award under the 2011/12 STIP.

– **LTIP awards that have not vested**

  Accounting standards require LTIP remuneration to be expensed (and therefore included as remuneration) notwithstanding that the Rights have not met the performance hurdles and have lapsed.

  No LTIP awards vested during 2011/2012 and the performance against target for all remaining LTIP plans are below the level required for vesting, however, an accounting value is still required by accounting standards to be included in these disclosures. Additionally, LTIP awards that will be assessed for vesting in future years are expensed over the three year testing period. Therefore, the statutory disclosures include an accounting value for part of the 2011–2013 and the 2012–2014 LTIP awards, even though no LTIP awards vested during 2011/2012.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Statutory Table – CEO and Executive KMP

$'000				Incentive Plan - Accounting Accrual				Other Items					
				Share-based Payments Accounting Accrual[2]									
		BasePay-Cash FAR[1]	STIP Cash Bonus	STIP	LTIP	PSP	Sub-total	Non-Cash Benefits and Annual Leave Accrual[1]	Post-employment Benefits[3]	Other Long-Term Benefits	Termination Benefits	Other Sub-total	Total[4]
Alan Joyce Chief Executive Officer	2012	2,109	–	2,163	1,134	–	5,406	45	58	68	–	171	5,577
	2011	2,045	–	2,049	542	125	4,761	142	40	65	–	247	5,008
Gareth Evans Chief Financial Officer	2012	906	–	543	194	–	1,643	46	39	32	–	117	1,760
	2011	861	–	313	69	20	1,263	27	43	24	–	94	1,357
Bruce Buchanan CEO Jetstar	2012	849	–	571	202	–	1,622	36	36	(118)	–	(46)	1,576
	2011	810	–	455	69	37	1,371	(31)	40	33	–	42	1,413
Rob Gurney[5 6 7] Group Executive Qantas Airlines Commercial	2012	778	154	499	(13)	–	1,418	122	111	78	840	1,151	2,569
	2011	703	–	418	57	25	1,203	53	113	36	–	202	1,405
Simon Hickey CEO Qantas Loyalty	2012	770	–	574	138	–	1,482	50	51	30	–	131	1,613
	2011	723	–	427	66	38	1,254	54	75	23	–	152	1,406
Jayne Hrdlicka[8] Group Executive Strategy & Technology	2012	759	–	141	48	–	948	38	36	3	–	77	1,025
	2011	306	–	–	–	–	306	24	31	–	–	55	361
Lyell Strambi Group Executive Qantas Airlines Operations	2012	909	–	579	215	–	1,703	91	36	14	–	141	1,844
	2011	865	–	532	74	58	1,529	119	40	7	–	166	1,695
Total	**2012**	**7,080**	**154**	**5,070**	**1,918**	**–**	**14,222**	**428**	**367**	**107**	**840**	**1,742**	**15,964**
	2011	**6,313**	**–**	**4,194**	**877**	**303**	**11,687**	**388**	**382**	**188**	**–**	**958**	**12,645**

1 Short-term employee benefits include base pay (cash FAR), non-cash benefits, annual leave accrual and STIP cash bonus.
2 A breakdown of Share-based Payments is provided on page 60.
3 Post-employment Benefits include superannuation and an accrual for post-employment travel of $42,080 for Mr Joyce and $20,540 for each other Executive (2011: $24,600 for all Executives).
4 Directors' and Officers' liability insurance has not been included in the remuneration since it is not possible to determine an appropriate allocation basis.
5 Superannuation benefits are provided through a defined benefit superannuation plan. The amount disclosed has been measured in accordance with AASB 119 Employee Benefits.
6 Mr Gurney's 2011/12 STIP award was paid in cash following cessation of his employment on 30 June 2012.
7 Includes contractual payments paid upon cessation of Mr Gurney's employment.
8 2010/2011 remuneration for Ms Hrdlicka reflects the period of time in a key management role (1 February 2011 to 30 June 2011).

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

6) EXECUTIVE REMUNERATION STRUCTURE

Base Pay also referred to as Fixed Annual Remuneration or FAR	**What is FAR?** FAR is a guaranteed salary level, inclusive of superannuation. FAR is reviewed annually under normal circumstances and the opportunity for an annual review is included in the employment contracts of Executives at Qantas. An individual's FAR, being a guaranteed salary level, is not related to Qantas' performance in a specific year. Cash FAR, as disclosed in the remuneration tables, excludes superannuation (which is disclosed as Post-employment Benefits) and includes salary sacrifice components such as motor vehicles. Movements in the value of annual leave balances during the year are disclosed as Annual Leave Accrual with other non-cash benefits. **How is FAR set and what was the outcome of the 2011/2012 FAR review?** In performing a FAR review, the Board makes reference to external benchmark market data including comparable roles in other listed Australian companies and international airlines. The primary benchmark is a revenue based peer group of other S&P/ASX companies. The Board believes this is the appropriate benchmark, as it is the comparator group whose roles best mirror the complexity and challenges in managing Qantas' businesses and is also the peer group with whom Qantas competes for Executive talent. The Board performed a general FAR review effective 1 July 2011. As part of this review, Mr Joyce's FAR was increased by three per cent to $2,125,000. Mr Joyce chose not to participate in the 2012 FAR review and his FAR will remain unchanged for 2012/2013. The FAR for Mr Joyce and each Executive KMP are outlined on page 57.
Annual Incentive also referred to as the Short Term Incentive Plan or STIP	**What is the STIP?** The STIP is the annual "at risk" incentive plan for Qantas Executive Committee Members. Each year these Executives may receive an award that is a combination of cash and restricted shares to the extent the plan's performance conditions are achieved. **How are the STIP performance conditions chosen and how is performance assessed?** The Board set a "scorecard" of performance conditions for the 2011/12 STIP, explicitly aligning the performance measures 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. The Board sets targets for each scorecard measure and at the end of the year the Board assesses performance against each scorecard measure and determines the overall STIP scorecard outcome. A detailed description of the STIP scorecard is provided on pages 51 and 52. The Board retains absolute discretion over all awards made under incentive plans at Qantas, including the STIP. For example, circumstances may occur where scorecard measures have been achieved or exceeded, but in the view of the Board it is inappropriate to make a cash award under the STIP. The Board may determine that either no award will be made, or that any award will be entirely deferred and/or delivered in Qantas shares. On the other hand, there may be circumstances where performance is below an agreed target, however, the Board determines that it is appropriate to pay some STIP award. **How are STIP awards delivered?** If the performance conditions are achieved, two-thirds of the STIP reward is paid immediately as a cash bonus, with the remaining one third deferred into Qantas shares. These shares are transferred to the Executive after a period of up to an additional two years after the end of the performance period. Board discretion applies to the grant of STIP awards and in the three years the STIP has operated all awards have been deferred and immediate cash bonuses have not been paid.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Annual Incentive also referred to as the Short Term Incentive Plan or STIP (continued)

How are STIP awards disclosed in the remuneration tables?

Non-statutory Remuneration Table

The full value of any current year STIP award is disclosed in the table on page 47.

Statutory Remuneration Table

Disclosure of STIP awards in the statutory remuneration table on page 49 is more complicated. In the statutory remuneration table, STIP awards are disclosed as either:

- A "cash incentive" for any cash bonus paid or
- As a "share-based payment" for any component awarded either in deferred shares or deferred cash which is exposed to share price movements during the restriction period

Where STIP awards involve deferral over multiple reporting periods, they are reported against each period in accordance with accounting standards.

What were the STIP measures for the year ended 30 June 2012?

Strategic Objective	Performance Measures	Scorecard Weighting	Comment
Delivering sustainable returns to shareholders	— Underlying Profit Before Tax — Underlying Unit Cost (per Available Seat Kilometre – ASK) — Operating cash flow to net debt	65%	The STIP scorecard is heavily weighted to financial performance. Underlying PBT is the key budgetary and financial performance measure for the Qantas Group and therefore it is selected as the primary performance measure under the STIP scorecard. 50 per cent of the total STIP scorecard outcome is determined based on Underlying PBT performance.
Safety is always our first priority	— People safety	10%	The objective of the people safety target is to reduce employee injuries.
Building on the strong domestic business	— Domestic market share — Frequent Flyer membership numbers — Punctuality: Qantas domestic and Jetstar domestic — Customer Experience – Net Promoter Score (NPS) for Qantas domestic and Jetstar domestic	12.5%	To support the strategic initiative of "building on the strong domestic business", STIP targets were set for key measures of operational performance across both the Qantas and Jetstar domestic businesses.
Transforming Qantas International	— Strengthen networks, partnerships and ventures — Execution of the transformation agenda in Engineering and Catering — Punctuality: Qantas international — Customer Experience – NPS: Qantas international	7.5%	To support the strategic initiative of "Transforming Qantas International", targets were set across key measures of operational performance in the Qantas international business as well as progress of key strategic initiatives. These initiatives included strengthening our airline partnerships and alliances as well as transformation projects in Engineering and Catering.
Growing Jetstar in Asia	— Launch Jetstar Japan — Restructure of Jetstar in Vietnam — Punctuality: Jetstar international and Jetstar Asia — Customer Experience – NPS: Jetstar international and Jetstar Asia	5%	To support the strategic initiative of "Growing Jetstar in Asia", targets were set across key measures of operational performance in the Jetstar international and Jetstar Asia businesses as well as progressing key ventures in Asia.
Total		100%	

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Annual Incentive also referred to as the Short Term Incentive Plan or STIP (continued)

With safety as the first priority, 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. Any such decision would be made in light of the specific circumstances and following the recommendation of the Safety, Health, Environment and Security Committee.

Additional descriptions of STIP scorecard measures

Underlying PBT

The Underlying PBT target is based on the annual financial budget. Underlying PBT is the primary reporting measure used by the Board of Directors and Executive Committee 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 the Group. For reasons of commercial sensitivity the annual target is not disclosed.

Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 139: Financial Instruments: Recognition and Measurement which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT. Items not included in Underlying PBT primarily result from major transformational/restructuring initiatives, transactions involving investments and impairment of assets outside the ordinary course of business.

Underlying Unit Cost

Underlying Unit Cost remains an area of focus across the business and as a result, the STIP scorecard includes a unit cost target (based on the annual financial budget).

Underlying Unit Cost performance is calculated as net underlying expenditure (excluding fuel and Frequent Flyer change in accounting estimate) divided by the Group's ASKs. Net underlying expenditure is derived from total passenger revenue less Underlying PBT. To ensure the measure focuses on the underlying operating activities and efficiencies, the measure excludes the impact of fuel price changes and restructuring charges.

Operating Cash Flow to Net Debt

The inclusion of the operating cash flow to net debt measure reflects the Group's goal of maintaining the competitive advantage provided by an investment grade credit rating. The measure is calculated as the Group's operating cash flow divided by the Group's net debt. The Group's net debt includes interest bearing liabilities net of cash and off balance sheet non-cancellable operating leases.

People Safety

The targets at a Group level involve reducing the Total Recorded Injury Frequency Rate by 10 per cent on the 2010/2011 result and also reducing the Lost Work Case Frequency Rate by eight per cent of our employees.

Punctuality

Punctuality is measured against on-time departures and arrivals targets. Individual punctuality targets are set for Qantas domestic, Qantas international, Jetstar domestic, Jetstar international and Jetstar Asia.

Customer Service – NPS

Customer Service is measured against NPS targets. This is a survey based measure of the willingness of customers to promote the services of the company (Qantas and Jetstar in this case) in preference to its direct competitors. Individual NPS targets are set for Qantas domestic, Qantas international, Jetstar domestic, Jetstar international and Jetstar Asia.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Annual Incentive

also referred to as the Short Term Incentive Plan or STIP (continued)

What was the STIP scorecard outcome for the year ended 30 June 2012?

The Board assessed performance against each of the performance measures and assessed overall performance under the scorecard at 27 per cent of target.

Strategic Objective	Scorecard Outcome	Comment
1. Delivering sustainable returns to shareholders		The Underlying PBT result was below the threshold for payment and therefore there was no contribution under this measure.
		A three per cent improvement in comparable unit cost and an above threshold operating cash flow to net debt result was achieved. Therefore, there was a partial contribution under this measure.
2. Safety is always our first priority		The targeted 10 per cent reduction in the Total Recorded Injury Frequency Rate and the eight per cent reduction in the Lost Work Case Frequency Rate were not achieved and therefore there was no contribution under this measure.
3. Building on the strong domestic business		The domestic businesses (Qantas domestic, QantasLink and Jetstar domestic) maintained their profit maximising 65 per cent market share position during 2011/2012. Qantas beat Virgin Australia in on-time departures in eight of the 12 months in 2011/2012 (with three of the other months being those months most impacted by industrial action). Qantas also achieved its highest level of domestic customer satisfaction in over three years with high satisfaction scores achieved across the customer experience (check-in, cabin service and baggage delivery). Qantas Frequent Flyer has continued to grow profitably, with more than 750,000 new members joining the Qantas Frequent Flyer program during 2011/2012.
4. Transforming Qantas International		Significant progress was made against transformation projects in Engineering and Catering. Achievement of key milestones in negotiating and implementing commercial arrangements with key alliance partners. Targets for Qantas international punctuality were achieved. Customer satisfaction results were impacted by the industrial action, however, improved in the second half of 2011/2012.
5. Growing Jetstar in Asia		Successful operational launch of Jetstar Japan, ahead of schedule. Jetstar Hong Kong strategic alliance with China Eastern Airlines announced, bringing the Jetstar low-cost airline model to China. Jetstar international and Jetstar Asia also achieved improved punctuality performance in 2011/2012.

Key:
- Full contribution to STIP scorecard
- Partial contribution to STIP scorecard
- No contribution to STIP scorecard

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Annual Incentive

also referred to as the Short Term Incentive Plan or STIP (continued)

What was the STIP award for the CEO for the year ended 30 June 2012 and how was it calculated?

Mr Joyce would have been entitled to receive an award under the 2011/12 STIP of $792,000, however he declined this award, and no award was made. The award entitlement was calculated as follows:

Value of the STIP Award declined by the CEO	=	FAR	x	"At Target" Opportunity	x	Scorecard Result	x	Individual Performance Factor (IPF)
$792,000	=	$2,125,000	x	120%	x	27%	x	1.15
As Mr Joyce declined this STIP award, his actual 2011/12 STIP outcome was $0.		Mr Joyce's FAR for 2011/2012.		Mr Joyce's 'at target' reward under the STIP, expressed as a percentage of FAR.		Performance against the STIP scorecard (expressed as a percentage).		The Board determined the IPF for Mr Joyce based on an assessment of his performance against his KPIs and objectives (including an assessment of his behaviours / how he went about achieving his objectives).

How were 2011/2012 STIP awards delivered?

The Board has again taken the decision to defer the payment of all bonuses to Executives under the STIP (other than for the CEO who did not receive a STIP award). The Board considers this treatment to be appropriate in view of the reduced Underlying PBT result and the challenging trading conditions that Qantas continues to face.

The component of the STIP award that would normally be awarded in cash and paid immediately (two-thirds of the STIP award) will be deferred until the end of February 2013. As part of the deferral, the awards (calculated in August 2012 based on the approved STIP outcome) will be linked to the Qantas share price up until the end of the deferral period.

The component of the STIP award that would normally be awarded in deferred shares (one-third of the STIP award) will still be awarded as deferred shares, with a two-year restriction period.

This decision to defer both elements of the STIP award is also intended as a retention initiative through this period of considerable challenge and change as during the restriction period awards are forfeited if the Executive resigns.

Awards linked to share price in this way are classified for accounting purposes as share-based payments and accounting standards require that such payments are expensed over the required service period. Accordingly, a portion of the value of the 2011/12 STIP awards does not appear in the statutory remuneration table for the current year and will be disclosed as a share-based payment in the statutory disclosures of future periods. Similarly, a portion of the value of deferred awards under the 2009/10 STIP and the 2010/11 STIP are required to be reported in this year's statutory remuneration table as a share-based payment.

What is the maximum outcome under the STIP?

In previous years, the STIP scorecard has had a hypothetical maximum outcome of 172 per cent of "at target", which could only be achieved if the maximum overdrive level of performance is achieved on every STIP performance measure. Given the challenging trading conditions Qantas faced during 2011/2012, the STIP scorecard did not consider the possibility of a scorecard outcome above the "at target" amount. The minimum outcome is nil, which would occur if the threshold level of performance is missed on each STIP measure.

Long Term Incentive Plan

also referred to as the LTIP

What is the LTIP?

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

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Long Term Incentive Plan

also referred to as the LTIP (continued)

What are the LTIP performance conditions and how is performance assessed?

For the 2011-2013 LTIP and the 2012-2014 LTIP the performance conditions are:

- The relative TSR of Qantas compared to the S&P/ASX100 Index, and
- The relative TSR of Qantas compared to an airline peer group (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 S&P/ASX100 Index and the basket of Global Listed Airlines.

These performance hurdles were chosen to provide a comparison of relative shareholder returns that is relevant to most Qantas investors:

- The S&P/ASX100 Index was chosen for relevance to investors with a primary interest in the equity market for major Australian listed companies, of which Qantas is one, and
- The basket of Global Listed Airlines was chosen for relevance to investors including investors based outside Australia, whose focus is on the aviation industry sector

The vesting scale for each measure is:

Companies with Ordinary Shares included in the S&P/ASX100 Index

Up to one-half of the total number of Rights granted may vest based on the relative TSR performance of Qantas in comparison to the S&P/ASX100 Index as follows:

Qantas TSR Performance compared to the S&P/ASX100 Index	Vesting Scale
Below 50th percentile	Nil vesting
Between 50th to 75th percentile	Linear scale: 50% to 99% vesting
At or above 75th percentile	100% vesting

Basket of Global Listed Airlines

Up to one-half of the total number of Rights granted may vest based on the relative TSR performance of Qantas in comparison to the basket of Global Listed Airlines selected by the Board as follows:

Qantas TSR Performance compared to the Airline Basket	Vesting Scale
Below 50th percentile	Nil vesting
Between 50th to 75th percentile	Linear scale: 50% to 99% vesting
At or above 75th percentile	100% vesting

The basket of Global Listed Airlines has been selected with regard to financial standing, level of government involvement and its representation of Qantas' key competitor markets. The basket of Global Listed Airlines contains the following full-service and value-based airlines: Air France/KLM, Air New Zealand, American Airlines (AMR Corporation), British Airways/Iberia (International Airlines Group), Cathay Pacific, Delta Airlines, Easyjet, Lufthansa, Ryanair, Singapore Airlines, Southwest Airlines, Tiger Airways, Virgin Australia. Air Asia was also included in the basket of Global Listed Airlines for awards made under the 2012-2014 LTIP.

How are Rights treated on termination?

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

In limited circumstances (for example, retirement, redundancy, 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:

- Part of the performance period that the Executive served prior to termination, and
- The actual level of vesting that is ultimately achieved at the end of the performance period

The Board retains discretion to determine otherwise in appropriate circumstances which may include leaving some or all of the LTIP Rights on "foot", or for some or all of the LTIP Rights to vest on cessation of employment having regard to the portion of the performance period that has elapsed and the degree to which the performance conditions have been achieved.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Long Term Incentive Plan

also referred to as the LTIP (continued)

What are the performance hurdles for other LTIP awards made in earlier years?

The performance hurdles for the 2010-2012 LTIP award were:

— The relative TSR of Qantas compared to the S&P/ASX100 Index, using the same vesting scale detailed on page 55 and

— An EPS target, using the vesting scale detailed below

One-half of the total number of LTIP Rights awarded under the 2010-2012 LTIP were tested against the following scale:

EPS Performance (for the year ended 30 June 2012)	Vesting Scale
EPS Result below threshold of $0.367	Nil vesting
EPS Result below threshold of $0.367 and stretch target of $0.404	Linear scale: 50% to 99% vesting
EPS Result at or above stretch target of $0.404	100% vesting

What was the LTIP outcome for the year ended 30 June 2012?

LTIP awards under the 2010-2012 LTIP were tested as at 30 June 2012 and the performance hurdles were not achieved. Therefore, 2010-2012 LTIP Rights did not vest and all Rights lapsed.

How are LTIP Rights treated if a change of control occurs?

In the event of a change of control, and to the extent that Rights have not already lapsed, the Board determines whether the LTIP Rights vest or otherwise.

What happens if companies in the comparator groups de-list?

Companies that de-list due to business failure are assigned a TSR of minus 100 per cent fairly representing the negative outcome for shareholders in those companies. Comparator companies that are acquired and the continuing entity is a listed company (for which TSR is available) will have their TSR measured to the date of acquisition and then it is assumed the proceeds are re-invested in the continuing listed entity. This approach also ensures that shareholder outcomes are fairly reflected in the LTIP results.

Other Benefits

Non-cash benefits

Non-cash benefits, as disclosed in the remuneration tables, include travel entitlements while employed and other 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, i.e. subject to considerable restrictions and limits on availability. It includes specified direct family members or parties.

In addition to this and consistent with practice in the airline industry, Directors and KMP 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 through retirement or redundancy. The CEO and Executive KMP and their eligible beneficiaries are entitled to a number of free trips for personal purposes. An estimated present value of these entitlements is accrued 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 the expense to the company of defined benefit superannuation entitlements. Superannuation is disclosed as a post-employment benefit.

Other long-term benefits

The accrual of long service leave is included in other long-term benefits.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Summary of Key Contract Terms as at 30 June 2012

Contract Details	Alan Joyce	Gareth Evans	Bruce Buchanan[1]	Rob Gurney[1]	Simon Hickey	Jayne Hrdlicka	Lyell Strambi
FAR	$2,125,000	$925,000	$865,000	$840,000	$800,000	$775,000	$925,000
STIP "at target" Opportunity	120% of FAR	80% of FAR	80% of FAR	80% of FAR	80% of FAR	80% of FAR	80% of FAR
LTIP "at target" Opportunity	80% of FAR	50% of FAR	50% of FAR	50% of FAR	25% of FAR	25% of FAR	50% of FAR
Travel Entitlements	An annual benefit of trips for these Executives and eligible beneficiaries during employment, at no cost to the individual, as follows:						
	4 International	2 International	2 International	2 International	2 International	2 International	2 International
	12 Domestic	6 Domestic	6 Domestic	6 Domestic	6 Domestic	6 Domestic	6 Domestic
	The same benefit is provided for use post employment, based on the period of service in a senior Executive role within the Qantas Group.						
Notice by Qantas	12 months	12 months[2]	12 months	12 months	12 months	12 months[2]	12 months
Notice by Executive	12 months	6 months	6 months	6 months	6 months	6 months	6 months

1 In May 2012 a restructure of the Executive team was announced. As a consequence of the revised structure, Rob Gurney ceased employment with the Qantas Group on 30 June 2012. Mr Buchanan will also leave the Qantas Group – it is currently proposed that he will remain at Jetstar until 31 January 2013 to assist with the transition of his responsibilities to Ms Hrdlicka.
2 For Mr Evans and Ms Hrdlicka, notice by Qantas of 12 months is made up of six months' written notice plus six months' severance pay.

Remuneration Mix

The FAR and "at target" STIP and LTIP opportunities for each Executive are set with reference to external benchmark market data including comparable roles in other listed Australian companies and international airlines.

The "at target" STIP opportunity is set at 120 per cent of FAR for Mr Joyce and 80 per cent of FAR for Executive KMP.

The "at target" LTIP award is valued at 80 per cent of FAR for Mr Joyce, with Shareholder approval sought each year prior to making the award. The annual "at target" LTIP award for the four largest KMP roles (being Mr Evans, Mr Buchanan, Mr Gurney and Mr Strambi) is valued at 50 per cent of FAR. The annual "at target" LTIP award for other KMP roles is valued at 25 per cent of FAR.

At Qantas, the "at target" STIP and LTIP awards are normally expressed as a percentage of FAR, however, for the purpose of the following remuneration mix tables FAR, STIP and LTIP opportunities are expressed as a percentage of total pay.

The target remuneration mix does not match the actual remuneration mix for 2011/2012, as:

— No cash-based incentives were paid in 2010/2011 or 2011/2012 for continuing Executives
— An increased level of share-based awards against the target mix reflecting the decision to award restricted shares instead of cash bonuses in both years
— Actual reward mix is calculated on an accrual basis in accordance with accounting standards, so each year's remuneration includes a portion of the value of share-based payments awarded in previous years

Target Remuneration Mix	FAR %	STIP %	LTIP %
Alan Joyce	33	40	27
Gareth Evans	43	35	22
Bruce Buchanan	43	35	22
Rob Gurney	43	35	22
Simon Hickey	49	39	12
Jayne Hrdlicka	49	39	12
Lyell Strambi	43	35	22

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

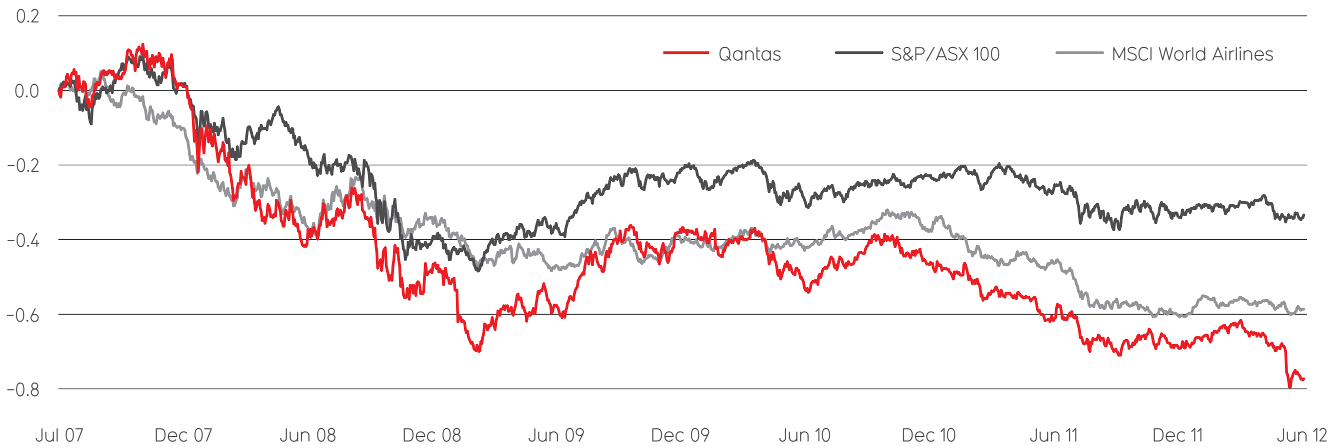
Remuneration Report (Audited) continued

Statutory Remuneration Mix	FAR & Other %	Performance Related Remuneration: Cash-Based – Cash Incentives %	STIP – Cash-settled %	STIP – Equity-settled %	LTIP – Rights Awards %
Alan Joyce	41	–	22	17	20
Gareth Evans	58	–	20	11	11
Bruce Buchanan	51	–	21	15	13
Rob Gurney	75	6	10	9	–
Simon Hickey	56	–	22	14	8
Jayne Hrdlicka	82	–	11	2	5
Lyell Strambi	57	–	17	14	12

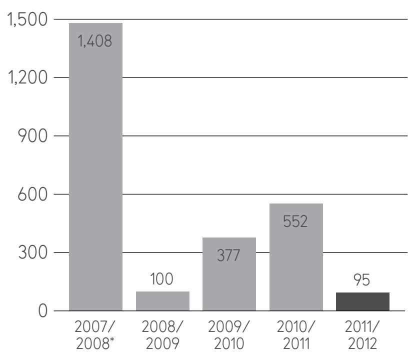
Qantas Financial Performance History

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

Qantas TSR Performance v Peer Groups (%)

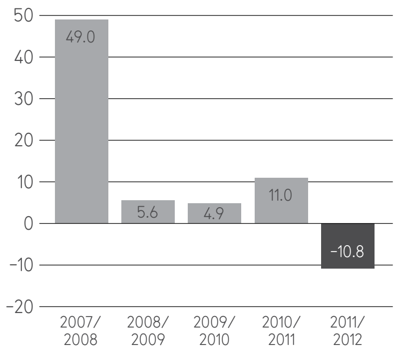


Underlying Profit Before Tax ($M)

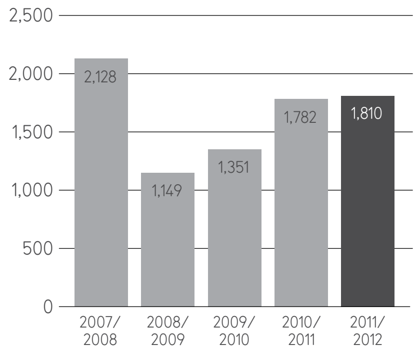


* Figures for 2007/2008 are based on Statutory PBT.

Earning Per Share (cents)



Operating Cash Flow ($M)



Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

7) PERFORMANCE RELATED REMUNERATION

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.

Executives	2013 $'000	2014 $'000	2015 $'000
Alan Joyce	1,480	545	–
Bruce Buchanan	380	160	4
Gareth Evans	443	177	5
Rob Gurney[1]	–	–	–
Simon Hickey	320	92	4
Jayne Hrdlicka	217	85	4
Lyell Strambi	434	175	5

1 Mr Gurney ceased employment with the Qantas Group on 30 June 2012.

STIP Awards – Vesting and Forfeiture

2009/10 STIP awards (granted on 12 August 2010) were delivered entirely to participants in deferred shares that are subject to a one-year restriction period for 50 per cent of any award and a two-year restriction period for the remaining 50 per cent of the award. 50 per cent of awards under the 2009/10 STIP vested during 2011/2012.

One-third of the 2010/11 STIP awards (granted on 31 August 2011) were delivered to participants in deferred shares that are subject to a two-year restriction period. Two-thirds of the 2010/11 STIP awards (granted on 31 August 2011) as cash-settled share-based payments vested during 2011/2012.

LTIP Awards – Vesting and Forfeiture

Awards of Rights under the LTIP may vest and convert to Qantas shares subject to the achievement of long-term performance hurdles. Any Rights that do not achieve the performance hurdles will lapse.

In 2011/2012 there was nil vesting and nil forfeiture under the 2010–2012 LTIP (granted on 9 September 2009), the 2011–2013 LTIP (granted on 12 August 2010 and on 29 October 2010) and the 2012–2014 LTIP (granted on 23 August 2011 and 28 October 2011), other than for Mr Gurney. 100 per cent of Rights under the 2010–2012 LTIP lapsed following the testing of performance hurdle tested as at 30 June 2012.

100 per cent of Rights awarded to Mr Gurney under the 2011–2013 LTIP and the 2012–2014 LTIP were forfeited on termination of employment. Consistent with the approach to LTIP awards on termination of employment outlined on page 55, Mr Gurney may become eligible for a deferred cash payment to be made at the end of the respective performance periods for the 2011–2013 LTIP and the 2012–2014 LTIP awards. Any payment would have regard to:

- The value of the LTIP Rights which would have vested had they not lapsed
- The part of the performance periods that Mr Gurney served prior to termination
- The actual level of vesting that is ultimately achieved at the end of the performance periods

Number of Rights Awarded, Vested and Exercised in 2011/2012

Executives	Awarded[1]	Vested	Exercised[2]
Alan Joyce	1,675,000	–	56,070
Bruce Buchanan	426,000	–	–
Gareth Evans	456,000	–	–
Rob Gurney	414,000	–	1,540
Simon Hickey	197,000	–	–
Jayne Hrdlicka	191,000	–	–
Lyell Strambi	456,000	–	–

1 1,675,000 Rights for Mr Joyce were granted on 28 October 2011 under the 2012–2014 LTIP with a fair value of $0.815 per Right. 2,140,000 Rights for other Executives were granted on 23 August 2011 with a fair value of $0.86 per Right.
2 The number of Rights exercised represents the number of vested Rights called for by the Executive during the year.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Additional Information – Share-Based Payments

The following table provides a more detailed breakdown of the accounting expense of share-based payments to disclosed Executives.

($000)		STIP Cash-settled Share-based Payment	STIP Equity-settled Share-based Payment	LTIP Equity-settled Share-based Payment	PSP[1] Equity-settled Share-based Payment	Total
Alan Joyce	2012	1,201	962	1,134	–	3,297
Chief Executive Officer	2011	–	2,049	542	125	2,716
Gareth Evans	2012	358	185	194	–	737
Chief Financial Officer	2011	–	313	69	20	402
Bruce Buchanan	2012	330	241	202	–	773
CEO Jetstar	2011	–	455	69	37	561
Rob Gurney	2012	261	238	(13)	–	486
Group Executive Qantas Airlines Commercial	2011	–	418	57	25	500
Simon Hickey	2012	349	225	138	–	712
CEO Qantas Loyalty	2011	–	427	66	38	531
Jayne Hrdlicka	2012	115	26	48	–	189
Group Executive Strategy & Technology	2011	–	–	–	–	–
Lyell Strambi	2012	319	260	215	–	794
Group Executive Qantas Airlines Operations	2011	–	532	74	58	664
Total	**2012**	**2,933**	**2,137**	**1,918**	**–**	**6,988**
	2011	**–**	**4,194**	**877**	**303**	**5,374**

1 The Performance Share Plan (PSP) was discontinued in 2009. It was a medium-term deferred share incentive plan that operated as follows:
- At the start of Year 1, the Qantas Board set performance targets for each Balanced Scorecard measure
- At the conclusion of Year 1, the Board assessed performance against each target and awarded deferred shares to Executives if targets were achieved
- Any deferred shares awarded are subject to a vesting period which expires at the end of Year 2 in relation to one-half of the shares and the end of Year 3 in relation to the other half of the shares.

Additional Information – Non-statutory Remuneration Methodology

Base pay (cash FAR) and other remuneration in non-statutory remuneration tables on pages 44 and 47 are the same as those reported in the statutory remuneration tables on pages 45 and 49.

The STIP amount shown in the non-statutory remuneration tables is the full value of the STIP awarded for the corresponding year calculated as a product of FAR, AT Target Opportunity, STIP Scorecard Result and Individual Performance Factor (rather than amortising the accounting value over the relevant performance and service period as per the accounting standards).

The LTIP amount shown in the non-statutory remuneration tables is equal to the number of Rights vested during the year multiplied by the fair value of the Right at grant date (rather than amortising the accounting value over the relevant performance and service period as per the accounting standards).

Risk Management

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 maximums defined for scorecard outcomes under the STIP and a challenging vesting scale under the LTIP
- Diversity in the timeframes in which performance is measured, with performance under the STIP being measured over one year and performance under the LTIP being measured over three years
- Deferral of a portion of awards under the STIP with a restriction period of up to two years. This creates an alignment with shareholder interests and also provides a clawback mechanism in that the Board may forfeit restricted STIP awards if they were later found to have been awarded as a result of material financial misstatement

While formal management shareholding requirements are not imposed, the CEO has a material holding in Qantas shares, currently valued at around 1.5 times FAR. The potential equity awards under the STIP and the LTIP will assist Executives in maintaining shareholdings in Qantas.

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Employee Share Trading Policy

The Qantas Code of Conduct and Ethics contains Qantas' Employee Share Trading 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 blackout 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 blackout periods
- Prohibited from hedging or entering into any margin lending arrangement, or entering other encumbrances over the securities of Qantas (or the securities of any Qantas Group listed entity) at any time

8) 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 $2.5 million (excluding industry standard travel entitlements received) was approved by shareholders at the 2004 AGM.

Total Non-Executive Directors' remuneration (excluding industry standard travel entitlements received) for the year ended 30 June 2012 was $2.465 million (2011: $2.278 million), which is within the approved annual fee pool.

Non-Executive Directors' remuneration reflects the responsibilities of Non-Executive Directors and is determined based on the advice of independent remuneration consultants. There was no increase to Board or Committee fees in 2011/2012 and there will be no increase to these fees for 2012/2013.

	Board		Committees[1]	
	Chairman[2]	Member	Chairman	Member
Board Fees	$560,000	$140,000	$56,000	$28,000

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 six 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 four international trips and 12 domestic trips each calendar year and all other Non-Executive Directors are entitled to two international trips and six domestic trips each calendar year. These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement relates.

Post employment, the Chairman is entitled to two international trips and six domestic trips for each year of service and all other Non-Executive Directors are entitled to one international trip and three domestic 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).

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

Remuneration Report (Audited) continued

Remuneration for the Year Ended 30 June 2012 – Non-Executive Directors

$'000		Short-Term Employee Benefits Cash FAR	Short-Term Employee Benefits Non-Cash Benefits	Short-Term Employee Benefits Sub-total	Post-Employment Benefits Super-annuation	Post-Employment Benefits Travel	Post-Employment Benefits Sub-total	Total[1]
Leigh Clifford Chairman	2012	510	30	540	50	21	71	611
	2011	510	50	560	50	25	75	635
Peter Cosgrove[2 3] Non-Executive Director	2012	180	35	215	16	10	26	241
	2011	181	41	222	15	12	27	249
Patricia Cross Non-Executive Director	2012	180	98	278	16	10	26	304
	2011	181	63	244	15	12	27	271
Richard Goodmanson[4] Non-Executive Director	2012	241	21	262	–	10	10	272
	2011	256	42	298	–	12	12	310
Garry Hounsell Non-Executive Director	2012	208	28	236	16	10	26	262
	2011	209	73	282	15	12	27	309
William Meaney[4] Non-Executive Director (15 Feb 12 – 30 Jun 12)	2012	68	6	74	–	10	10	84
	2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Corinne Namblard[5] Non-Executive Director	2012	140	56	196	–	10	10	206
	2011	6	–	6	–	12	12	18
Paul Rayner Non-Executive Director	2012	180	37	217	16	10	26	243
	2011	163	45	208	33	12	45	253
John Schubert Non-Executive Director	2012	208	31	239	16	10	26	265
	2011	209	28	237	15	12	27	264
James Strong Non-Executive Director	2012	208	19	227	16	10	26	253
	2011	209	51	260	15	12	27	287
Barbara Ward Non-Executive Director	2012	180	34	214	16	10	26	240
	2011	181	37	218	15	12	27	245
Total	**2012**	**2,303**	**395**	**2,698**	**162**	**121**	**283**	**2,981**
	2011	**2,105**	**430**	**2,535**	**173**	**133**	**306**	**2,841**

1 Directors' and Officers' liability insurance has not been included in the remuneration since it is not possible to determine an appropriate allocation basis.
2 The Non-Executive Director Share Plan allows Non-Executive Directors to purchase shares at no discount to market price on a salary sacrifice basis and operates under the DSP Terms and Conditions. General Cosgrove participated in this plan from July 2008 to May 2012. The value of shares is included above as Cash FAR.
3 General Cosgrove received payments for services rendered as a Director of Qantas Superannuation Limited.
4 Mr Goodmanson and Mr Meaney received travel allowances of $45,000 and $15,000, respectively during 2011/2012 (2011: $60,000 for Mr Goodmanson). These amounts were included in Cash FAR.
5 2010/2011 remuneration reflects the period served by Ms Namblard as a Non-Executive Director (16 June 2011 to 30 June 2011).

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

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.

The Directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the year which are material in nature.

INDEMNITIES AND INSURANCE

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

The Directors listed on page 37, the Company Secretary and Assistant Company Secretary listed on page 39 and certain individuals, who formerly held any one of these positions, have the benefit of the indemnity in the Qantas Constitution. Members of the Qantas Executive Committee and certain former members of the Executive Committee have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board. In respect to non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2011/2012 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 such disclosure is prohibited under the terms of the contracts.

NON-AUDIT SERVICES

During the year KPMG, Qantas' auditor, has performed certain other services in addition to its statutory duties.

The Directors are satisfied that:

a The non-audit services provided during the 2011/2012 financial year 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 the 2011/2012 financial year 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 have 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 64.

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

Directors' Report continued

FOR THE YEAR ENDED 30 JUNE 2012

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 2012, there have been:

i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit

ii) no contraventions of any applicable code of professional conduct in relation to the audit

KPMG
Sydney
14 September 2012

Duncan McLennan
Partner

Rounding

Qantas is a company of a kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998. In accordance with the Class Order, 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
14 September 2012

Alan Joyce
Chief Executive Officer
14 September 2012

Consolidated Income Statement

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Qantas Group 2012 $M	2011 $M
REVENUE AND OTHER INCOME			
Net passenger revenue		12,494	12,042
Net freight revenue		784	842
Other	3	2,446	2,010
Revenue and other income		**15,724**	**14,894**
EXPENDITURE			
Manpower and staff related		3,774	3,695
Fuel		4,220	3,627
Aircraft operating variable		2,980	2,768
Depreciation and amortisation		1,384	1,249
Non-cancellable aircraft operating lease rentals		549	566
Ineffective and non-designated derivatives	25	165	120
Share of net profit of associates and jointly controlled entities	15	(3)	(22)
Other	3	2,828	2,455
Expenditure		**15,897**	**14,458**
Statutory (loss)/profit before income tax expense and net finance costs		**(173)**	**436**
Finance income	5	181	192
Finance costs	5	(357)	(305)
Net finance costs	5	**(176)**	**(113)**
Statutory (loss)/profit before income tax expense		**(349)**	**323**
Income tax benefit/(expense)	6	105	(74)
Statutory (loss)/profit for the year		**(244)**	**249**
Attributable to:			
Members of Qantas		(245)	250
Non-controlling interests		1	(1)
Statutory (loss)/profit for the year		**(244)**	**249**
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic/diluted (loss)/earnings per share (cents)	8	(10.8)	11.0

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 2012

	Qantas Group	
	2012 $M	2011 $M
Statutory (loss)/profit for the year	**(244)**	**249**
Effective portion of changes in fair value of cash flow hedges, net of tax	(42)	(67)
Transfer of hedge reserve to the Income Statement, net of tax[1]	(89)	(82)
Recognition of effective cash flow hedges on capitalised assets, net of tax	92	142
Foreign currency translation of controlled entities	3	(15)
Foreign currency translation of associates	4	(13)
Hedge reserve movement of associates, net of tax	–	2
Other comprehensive income for the year	**(32)**	**(33)**
Total comprehensive income for the year	**(276)**	**216**
Total comprehensive income attributable to:		
Members of Qantas	(277)	217
Non-controlling interests	1	(1)
Total comprehensive income for the year	**(276)**	**216**

1 These amounts were allocated to revenue of ($13) million (2011: $50 million), fuel expenditure of ($116) million (2011: ($171) million), finance costs of $3 million (2011: $3 million) and income tax expense of $37 million (2011: income tax expense of $36 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 2012

	Notes	Qantas Group 2012 $M	Qantas Group 2011 $M
CURRENT ASSETS			
Cash and cash equivalents	10	3,398	3,496
Receivables	11	1,111	1,027
Other financial assets	25	88	318
Inventories	12	376	372
Assets classified as held for sale	13	73	20
Other	14	414	408
Total current assets		**5,460**	**5,641**
NON-CURRENT ASSETS			
Receivables	11	472	423
Other financial assets	25	17	70
Investments accounted for using the equity method	15	457	476
Property, plant and equipment	16	14,139	13,652
Intangible assets	17	610	593
Other		23	3
Total non-current assets		**15,718**	**15,217**
Total assets		**21,178**	**20,858**
CURRENT LIABILITIES			
Payables	19	1,876	1,738
Revenue received in advance	20	3,172	3,067
Interest-bearing liabilities	21	1,119	577
Other financial liabilities	25	369	397
Provisions	22	570	456
Liabilities classified as held for sale	13	12	–
Total current liabilities		**7,118**	**6,235**
NON-CURRENT LIABILITIES			
Revenue received in advance	20	1,136	1,111
Interest-bearing liabilities	21	5,430	5,454
Other financial liabilities	25	224	493
Provisions	22	737	647
Deferred tax liabilities	18	644	767
Total non-current liabilities		**8,171**	**8,472**
Total liabilities		**15,289**	**14,707**
Net assets		**5,889**	**6,151**
EQUITY			
Issued capital	23	4,729	4,729
Treasury shares		(42)	(72)
Reserves	23	36	85
Retained earnings		1,162	1,405
Equity attributable to the members of Qantas		5,885	6,147
Non-controlling interests		4	4
Total equity		**5,889**	**6,151**

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 2012

Qantas Group $M	Issued Capital	Treasury Shares	Employee Compen-sation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2011	**4,729**	**(72)**	**65**	**80**	**(60)**	**1,405**	**4**	**6,151**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR								
Statutory loss for the year	–	–	–	–	–	(245)	1	(244)
Other comprehensive income								
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(42)	–	–	–	(42)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(89)	–	–	–	(89)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	92	–	–	–	92
Foreign currency translation of controlled entities	–	–	–	–	3	–	–	3
Foreign currency translation of associates	–	–	–	–	4	–	–	4
Total other comprehensive income	**–**	**–**	**–**	**(39)**	**7**	**–**	**–**	**(32)**
Total comprehensive income for the year	**–**	**–**	**–**	**(39)**	**7**	**(245)**	**1**	**(276)**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Contributions by and distributions to owners								
Own shares acquired	–	(16)	–	–	–	–	–	(16)
Share-based payments	–	–	31	–	–	–	–	31
Shares vested and transferred to employees	–	46	(46)	–	–	–	–	–
Shares unvested and lapsed	–	–	(2)	–	–	2	–	–
Dividends declared	–	–	–	–	–	–	(1)	(1)
Total contributions by and distributions to owners	**–**	**30**	**(17)**	**–**	**–**	**2**	**(1)**	**14**
Total transactions with owners	**–**	**30**	**(17)**	**–**	**–**	**2**	**(1)**	**14**
Balance as at 30 June 2012	**4,729**	**(42)**	**48**	**41**	**(53)**	**1,162**	**4**	**5,889**

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 2012

Qantas Group $M	Issued Capital	Treasury Shares	Employee Compen-sation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2010	**4,729**	**(54)**	**53**	**85**	**(29)**	**1,155**	**42**	**5,981**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR								
Statutory profit for the year	–	–	–	–	–	250	(1)	249
Other comprehensive income								
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(67)	–	–	–	(67)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(82)	–	–	–	(82)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	142	–	–	–	142
Foreign currency translation of controlled entities	–	–	–	–	(15)	–	–	(15)
Foreign currency translation of associates	–	–	–	–	(13)	–	–	(13)
Hedge reserve movement of associates, net of tax	–	–	–	2	–	–	–	2
Total other comprehensive income	**–**	**–**	**–**	**(5)**	**(28)**	**–**	**–**	**(33)**
Total comprehensive income for the year	**–**	**–**	**–**	**(5)**	**(28)**	**250**	**(1)**	**216**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Contributions by and distributions to owners								
Own shares acquired	–	(65)	–	–	–	–	–	(65)
Share-based payments	–	–	59	–	–	–	–	59
Shares vested and transferred to employees	–	47	(47)	–	–	–	–	–
Dividends declared	–	–	–	–	–	–	(1)	(1)
Total contributions by and distributions to owners	**–**	**(18)**	**12**	**–**	**–**	**–**	**(1)**	**(7)**
Change in ownership interests in subsidiaries								
Deconsolidation of controlled entity	–	–	–	–	–	–	(36)	(36)
Disposal of controlled entity	–	–	–	–	(3)	–	–	(3)
Total change in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**(3)**	**–**	**(36)**	**(39)**
Total transactions with owners	**–**	**(18)**	**12**	**–**	**(3)**	**–**	**(37)**	**(46)**
Balance as at 30 June 2011	**4,729**	**(72)**	**65**	**80**	**(60)**	**1,405**	**4**	**6,151**

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 2012

		Qantas Group	
	Notes	2012 $M	2011 $M
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		16,699	15,545
Cash payments in the course of operations		(14,795)	(13,727)
Interest received		170	180
Interest paid		(285)	(239)
Dividends received from associates and jointly controlled entities	15	22	21
Income tax (paid)/refunded		(1)	2
Net cash from operating activities	26	**1,810**	**1,782**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		(2,129)	(2,407)
Payments for aircraft assigned to associates[1]		(92)	–
Interest paid and capitalised on qualifying assets		(83)	(90)
Proceeds from disposal of property, plant and equipment		54	86
Proceeds from sale and operating leaseback of non-current assets		12	30
Deconsolidation of controlled entity		–	(100)
Proceeds from disposal of controlled entity, net of cash disposed		–	19
Proceeds from disposal of jointly controlled entity		–	5
Payment for controlled entity, net of cash acquired	27(A)	(11)	(21)
Payments for investments in associates and jointly controlled entity		(33)	–
Net cash used in investing activities		**(2,282)**	**(2,478)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		688	1,359
Repayments of borrowings		(566)	(784)
Proceeds from sale and leaseback on finance lease		283	–
Payments for treasury shares		(16)	(65)
Net payments for aircraft security deposits and swaps		(18)	(1)
Dividends paid to non-controlling interests		(1)	(1)
Net cash from financing activities		**370**	**508**
Net decrease in cash and cash equivalents held		**(102)**	**(188)**
Cash and cash equivalents at the beginning of the year		3,496	3,704
Effects of exchange rate changes on cash and cash equivalents		4	(20)
Cash and cash equivalents at the end of the year	10	**3,398**	**3,496**

1 Net payments for aircraft assigned to Jetstar Japan Co., Ltd.

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 2012

1. Statement of Significant Accounting Policies

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 as described in the Corporate Governance Statement.

The Consolidated Financial Statements for the year ended 30 June 2012 comprise Qantas and its controlled entities (together referred to as the Qantas Group) and the Qantas Group's interest in associates and jointly controlled entities.

The Financial Statements of Qantas for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the Directors on 14 September 2012.

(A) 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 and the Corporations Act 2001. The Consolidated Financial Statements also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

(B) BASIS OF PREPARATION

The Consolidated Financial Statements are presented in Australian dollars, which is the functional currency of the Group, and have been prepared on the basis of historical cost except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Qantas is a company of the kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998. In accordance with that Class Order, all financial information presented has been rounded to the nearest million dollars, unless otherwise stated.

The accounting policies set out in Note 1 have been consistently applied to all periods presented in the Consolidated Financial Statements.

(C) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Consolidated Financial Statements in conformity with AASBs 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 Financial Statements and estimates with a significant risk of material adjustment in future periods are highlighted below.

Change in accounting estimates – Discount Rates

Qantas has changed its estimate of the discount rates used to calculate the present value of provisions and employee benefits in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and AASB 119: Employee Benefits respectively.

AASB 137 requires that where the effect of the time value of money is material, provisions should be discounted to their present value at the end of the reporting period using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. AASB 119 requires employee benefit provisions to be discounted to their present value using a discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market for such bonds, the market yields at the end of the reporting period for government bonds shall be used.

The discount rates were re-estimated due to changes in market yields and the Group's assessment of the time value of money and risk in accordance with AASB 137 and AASB 119. In addition, when discounting using government bond yields in accordance with AASB 119, Qantas now uses the State Government Bond yields rather than Federal Government Bond yields.

The changes in discount rates resulted in a decrease in the Workers' Compensation provision of $15 million (2011: decrease of $1 million) and an increase in the long service leave provision of $45 million (2011: decrease of $4 million). No other provisions were materially impacted by a change in the estimate of discount rates.

The net effect of these changes was a $30 million increase in provisions as at 30 June 2012 (2011: decrease in provisions of $5 million).

Change in accounting estimates – Qantas Frequent Flyer

Qantas Frequent Flyer changed the accounting estimates of the fair value of points and breakage expectation effective 1 January 2009. The effect of this change was applied prospectively from 1 January 2009 for new points issued. Unredeemed points as at 1 January 2009 remained deferred at the previous estimate and were redeemed at this value until the points were extinguished.

The unredeemed points as at 1 January 2009 were extinguished during the year (April 2011 for the Qantas Frequent Flyer segment) on a first-in-first-out basis. As a result, the revenue was recognised at a lower average value per point redeemed compared to the year ended 30 June 2011.

The effect of this difference was that revenue was $5 million (2011: $172 million) higher than it would have been had the 1 January 2009 unredeemed points been redeemed at the weighted average value per point prevailing at the time of redemption.

(D) PRINCIPLES OF CONSOLIDATION

Controlled Entities

Controlled entities are entities controlled by Qantas. Control exists when Qantas has the power, directly or indirectly,

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

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.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the Consolidated Financial Statements.

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.

Associates and Jointly Controlled Entities

Associates are those entities in which the Qantas Group has significant influence, but not control or joint control, over the financial and operating policies.

Jointly controlled entities are those entities over whose activities the Qantas Group has joint control, established by contractual agreement.

Investments in associates and jointly controlled entities are accounted for using the equity accounting method. The investments are carried at the lower of the equity accounted amount and the recoverable amount.

The Qantas Group's share of the associates' and jointly controlled entities' post-acquisition profit or loss is recognised in the Consolidated Income Statement from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Qantas Group's share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. Dividends reduce the carrying amount of the equity accounted investment.

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

(E) FOREIGN CURRENCY

Transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the rates of exchange prevailing at the date of each transaction except where hedge accounting is applied. At balance date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rates of exchange prevailing at that date. Resulting exchange differences are brought to account as exchange gains or losses in the Consolidated Income Statement in the year in which the exchange rates change. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates prevailing at the dates the fair value was determined.

Translation of Foreign Operations

Assets and liabilities of foreign operations, including controlled entities and investments in associates and jointly controlled entities, are translated to the functional currency at the rates of exchange prevailing at balance date. The income statements of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates prevailing at the dates of the transactions. Exchange differences arising on translation are recognised in other comprehensive income and are presented within equity in the foreign currency translation reserve. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the Consolidated Income Statement as part of the gain or loss on disposal. When the Group disposes of only part of its interest in an associate or jointly controlled entity that includes a foreign operation, while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Consolidated Income Statement.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are recognised in other comprehensive income and are presented within equity in the foreign currency translation reserve.

(F) DERIVATIVE FINANCIAL INSTRUMENTS

The Qantas Group is subject to foreign currency, interest rate, fuel price and credit risks. Derivative and non-derivative financial instruments are used to hedge these risks. It is the Qantas Group's policy not to enter into, issue or hold derivative financial instruments for speculative trading purposes.

Derivative financial instruments are recognised at fair value both initially and on an ongoing basis. Transaction costs attributable to the derivative are recognised in the Consolidated Income Statement when incurred. The method of recognising gains and losses resulting from movements in market prices depends on whether the derivative is a designated hedging instrument and, if so, the nature of the risk being hedged. The Qantas Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or hedges of highly probable forecast transactions (cash flow hedges). Gains and losses on derivative financial instruments qualifying for hedge accounting are recognised in the same category in the Consolidated Income

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

Statement as the underlying hedged item. Changes in underlying market conditions or hedging strategies could result in recognition in the Consolidated Income Statement of changes in fair value of derivative financial instruments designated as 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.

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 that are attributable to the hedged risk.

Cash Flow Hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in other comprehensive income and are presented within equity in the hedge reserve. The cumulative gain or loss in the hedge reserve is recognised in the Consolidated Income Statement in the periods when the hedged item will affect profit or loss (i.e. when the underlying income or expense is recognised). Where the hedged item is of a capital nature, the cumulative gain or loss recognised in the hedge reserve is transferred to the carrying amount of the asset or liability when the asset or liability is recognised.

When a hedging instrument expires or is sold, terminated or exercised, or the Qantas Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedge reserve and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the hedge reserve with respect to the hedging instrument is recognised immediately in the Consolidated Income Statement.

Ineffective and Non-designated Derivatives

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.

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 are 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.

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 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.

(G) REVENUE RECOGNITION

Passenger, Freight and Tours and Travel Revenue

Passenger and freight revenue is measured at the fair value of the consideration received, net of sales discount, passenger and freight interline/IATA commission and Goods and Services Tax. Other sales commissions paid by the Qantas Group are included in expenditure. Tours and travel revenue is measured at the net amount of commission retained by the Qantas Group.

Passenger, freight and tours and travel revenue is recognised when passengers or freight are uplifted or when tours and travel air tickets and land content are utilised. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket.

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

Frequent Flyer Revenue

Redemption Revenue

Revenue received for the issuance of points is deferred as a liability (revenue received in advance) until the points are redeemed or the passenger is uplifted, in the case of Qantas Group flight redemptions.

Redemption revenue is measured based on management's estimate of the fair value of the expected awards for which the points will be redeemed. The fair value of the awards is reduced to take into account the proportion of points that are expected to expire (breakage).

Marketing Revenue

Marketing revenue associated with the issuance of points is recognised when the service is performed (typically on the issuance of the point).

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

Marketing revenue is measured as the difference between the cash received on issuance of a point and the redemption revenue.

Membership Fee Revenue
Membership fee revenue results from the initial joining fee charged to members. Revenue is recognised on expiry of any refund period.

Contract Work Revenue

Contract work revenue results from the rendering of services associated with contracts.

Where services performed are in accordance with contractually agreed terms over a short period and are task specific, revenue is recognised when the services have been performed or when the resulting ownership of the goods passes to the customer.

Revenue on long-term contracts to provide goods or services is recognised in proportion to the stage of completion of the contract when the stage of contract completion can be reliably measured or otherwise on completion of the contract.

Other Revenue/Income

Income resulting from claims for liquidated damages is recognised as other income when all performance obligations are met, including when a contractual entitlement exists, when it can be reliably measured and when it is probable that the economic benefits will accrue to the Qantas Group.

Revenue from aircraft charter and leases, ancillary passenger revenue, passenger service fees, Qantas Club membership fees, freight terminal fees, retail/advertising and other property revenue and other miscellaneous income is recognised as other revenue/income at the time service is provided.

Asset Disposals

Gains or losses on the disposal of assets are recognised at the date the significant risks and rewards of ownership of the asset passes to the buyer, usually when the purchaser takes delivery of the asset. The gain or loss is determined by comparing the proceeds on disposal with the carrying amount of the asset.

Aircraft Financing Fees

Fees relating to linked transactions involving the legal form of a lease are recognised as revenue only when there are no significant obligations to perform or refrain from performing, significant activities and management determines there are no significant limitations on use of the underlying asset and the possibility of reimbursement is considered remote. Where these criteria are not met, fees are brought to account as revenue or expenditure over the period of the respective lease or on a basis which is representative of the pattern of benefits derived from the leasing transactions, with the unamortised balance being held in lease and hire purchase liabilities.

Dividend Revenue

Dividends are recognised as revenue when the right to receive payment is established. Dividends from foreign entities are recognised net of withholding tax.

(H) 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.

Cash flows are included in the Consolidated Cash Flow Statement on a gross basis. 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.

(I) 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.

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 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, and 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. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Qantas provides for income tax in both Australia and overseas jurisdictions where a liability exists.

(J) 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.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

(K) RECEIVABLES

Current receivables are recognised and carried at original invoice amount less impairment losses. Bad debts are written off as incurred. Non-current receivables are carried at the present value of future net cash inflows expected to be received.

(L) CONTRACT WORK IN PROGRESS

Contract work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date, in accordance with Note 1(G), less an allowance for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Qantas Group's contract activities based on normal operating capacity.

Contract work in progress is presented as part of trade and other receivables in the Consolidated Balance Sheet for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as revenue received in advance in the Consolidated Balance Sheet.

(M) INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The costs of engineering expendables, consumable stores and work in progress are assigned to the individual items of inventories on the basis of weighted average costs.

(N) IMPAIRMENT

Non-financial Assets

The carrying amounts of non-financial assets (other than inventories and deferred tax assets) are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. For goodwill and intangible assets with indefinite lives, the recoverable amount is estimated each year.

The recoverable amount of assets is the greater of their 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 flows 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 asset.

An appropriate impairment charge is made if the carrying amount of an asset or CGU exceeds its recoverable amount. The impairment is expensed in the year in which it occurs. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss with respect to goodwill is not reversed.

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.

(O) ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continued use are classified as held for sale. Immediately before classification as held for sale, the measurement of the assets or components of a disposal group is remeasured in accordance with the Qantas Group's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro-rata basis except that no loss is allocated to inventories, financial assets or deferred tax assets, which continue to be measured in accordance with the Qantas Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the Consolidated Income Statement.

(P) PROPERTY, PLANT AND EQUIPMENT

Owned Assets

Items of property, plant and equipment are stated at cost or deemed 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 and during the period of use, when relevant, 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 charge. The cost also may include transfers from 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 1(F).

Borrowing costs associated with the acquisition of qualifying assets, such as aircraft and the acquisition, construction or production of significant items of other property, plant and equipment, are capitalised as part of the cost of the asset to which they relate.

Depreciation

Depreciation is provided on a straight-line basis on all items of property, plant and equipment except for freehold land

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

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 completed and 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	3 – 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.

Depreciation rates 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.

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.

Linked transactions involving the legal form of a lease are accounted for as one transaction when a series of transactions are negotiated as one or take place concurrently or in sequence and cannot be understood economically alone.

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 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.

The interest element is charged to the Consolidated Income Statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

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.

Leases are deemed to be non-cancellable if significant financial penalties associated with termination are anticipated.

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.

Any gains and losses arising under sale and leaseback arrangements where the sale price is at fair value are recognised in the Consolidated Income Statement as incurred. Where the sale price is below fair value, any gains and losses are immediately recognised in the Consolidated Income Statement, except where the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. Where the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

With respect to any premises rented under long-term operating leases, which are subject to sub-tenancy agreements, 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.

Maintenance and Overhaul Costs

An element of the cost of an acquired aircraft (owned and finance leased aircraft) 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 or the remaining life of the asset or remaining lease term.

The costs of subsequent major cyclical maintenance checks for owned and leased aircraft (including operating leases) are capitalised and depreciated over the shorter of the scheduled usage period to the next major inspection event or the remaining life of the aircraft or lease term (as appropriate).

Maintenance checks, which are covered by the 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 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). Manpower costs in relation to employees who are dedicated to major modifications to aircraft are capitalised as part of the cost of the modification to which they relate.

With respect to operating lease agreements, where the Qantas Group is required to return the aircraft with adherence to certain maintenance conditions, provision

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

is made during the lease term. This provision is based on the present value of the expected future cost of meeting the maintenance return condition, having regard to the current fleet plan and long-term maintenance schedules. The present value of non-maintenance return conditions is provided for at the inception of the lease.

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 as deferred credits.

Capital Projects

Capital projects are disclosed within the categories to which they relate and are stated at cost. When the asset is ready for its intended use, it is capitalised and depreciated.

(Q) INTANGIBLE ASSETS

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill acquired before transition to IFRS is carried at deemed cost.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is tested annually for impairment. With respect to associates and jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the investment in the associate or the jointly controlled entity.

Negative goodwill arising on an acquisition is recognised directly in the Consolidated Income Statement.

Airport Landing Slots

Airport landing slots are stated at cost less any accumulated impairment losses. Airport landing slots are allocated to the relevant CGU and are not amortised as they are considered to have an indefinite useful life and are tested annually for impairment.

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. Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful life of three to 10 years.

Brand Names and Trademarks

Brand names and trademarks are carried at cost less any accumulated impairment losses. Brand names and trademarks are allocated to the relevant CGU and are not amortised as they are considered to have an indefinite useful life and are tested annually for impairment.

Customer Contracts/Relationships

Customer contracts/relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the estimated timing of benefits expected to be received from those assets, which ranges from five to 10 years.

(R) PAYABLES

Liabilities for trade creditors and other amounts payable are carried at cost.

(S) EMPLOYEE BENEFITS

Wages, Salaries, Annual Leave and Sick Leave

Liabilities for wages, salaries, annual leave (including leave loading) and sick 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.

Employee Share Plans

The fair value of equity-based entitlements settled in equity instruments is recognised as an employee expense with a corresponding increase in equity. The fair value is estimated at grant date and recognised over the period during which the employees become unconditionally entitled to the equity instrument. The amount recognised as an expense is adjusted to reflect the actual number of entitlements that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

The fair value of equity-based entitlements settled in cash is recognised as an employee expense and a corresponding liability is recognised over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. 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 the State Government Bonds rates which most closely match the terms to maturity of the provision. The unwinding of the discount is treated as a finance charge.

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.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

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 discount rate used is the yields at balance sheet date on State Government Bonds which have maturity dates approximating the terms of Qantas' obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

In calculating the Qantas Group's obligation with respect to a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the Consolidated Income Statement over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in plan assets exceeding plan liabilities, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Various actuarial assumptions underpin the determination of the Qantas Group's defined benefit obligation and are discussed in Note 30.

Employee Termination Benefits

Provisions for termination benefits are only recognised when there is a detailed formal plan for the termination and where there is no realistic possibility of withdrawal.

(T) 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 charge.

Dividends

A provision for dividends is recognised in the financial year in which the dividends are declared, for the entire amount, regardless of the extent to which the dividend will be paid in cash.

Workers' Compensation Insurance

The Qantas Group is a licensed self-insurer under the New South Wales Workers' Compensation Act, the Victorian Accident Compensation Act and the Queensland Workers' Compensation and Rehabilitation Act. Qantas has made 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 have maturity dates approximating the terms of Qantas' obligations. Workers' compensation for all remaining employees is commercially insured.

(U) EARNINGS PER SHARE

Basic earnings per share is determined by dividing the Qantas Group's net profit attributable to members of the Qantas Group by the weighted average number of shares on issue during the year.

Diluted earnings per share is calculated after taking into account the number of ordinary shares to be issued for no consideration in relation to dilutive potential ordinary shares.

(V) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include 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.

(W) 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, gains and losses on mark-to-market movement in fair value hedges.

Finance income is recognised in the Consolidated Income Statement as it accrues, using the effective interest method.

Finance cost is 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.

(X) INTEREST-BEARING LIABILITIES

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost, with any difference between cost and redemption value being recognised in the Consolidated

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

Income Statement over the period of the borrowings on an effective interest basis. Interest-bearing liabilities that are designated as hedged items are subject to measurement under the hedge accounting requirements.

(Y) SHARE CAPITAL

Ordinary Shares

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

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.

Treasury Shares

Shares held by the Qantas sponsored employee share plan trust are recognised as treasury shares and deducted from equity.

(Z) COMPARATIVES

Various comparative balances have been reclassified to align with current year presentation. These amendments have no material impact on the Financial Statements.

(AA) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been identified as those which may impact the Qantas Group in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing these Financial Statements.

- AASB 9 Financial Instruments and consequential amendments in AASB 2009-11 Amendments to Australian Accounting Standards and AASB 2010-7 Amendments to Australian Accounting Standards (December 2010), includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities. Retrospective application is required. The Qantas Group has not yet determined the effect of the amendments to AASB 9, which will become mandatory for the Qantas Group's 30 June 2013 Financial Statements. In December 2011, the IASB deferred the effective date of IFRS 9 to 1 January 2015. The AASB is also in the process of deferring the effective date for its endorsed equivalent, AASB 9.
- AASB 119 Employee Benefits (September 2011), and AASB 2011-10 Amendments to Australian Accounting Standards, have eliminated the use of the 'corridor approach' and instead mandated immediate recognition of all re-measurements of a defined benefit liability (asset) including gains and losses in other comprehensive income. The amendments, which are generally to be applied retrospectively, will become mandatory for the Qantas Group's 30 June 2014 Financial Statements. The Qantas Group's accounting policy utilises the 'corridor approach' to account for actuarial gains and losses with respect to defined benefit superannuation plans. Upon adoption of the amended AASB 119 for the 30 June 2014 Financial Statements, the opening balance sheet (30 June 2012) will be restated to a defined benefit liability instead of a defined benefit asset as a result of the immediate recognition of the unrecognised actuarial losses through retained earnings. Subsequent actuarial gains and losses will be recognised through other comprehensive income. Refer to Note 30 for details of defined benefit balances as at 30 June 2012.
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income, makes a number of changes to the presentation of other comprehensive income including presenting separately those items that would be reclassified to profit or loss in the future and those that would never be reclassified to profit or loss and the impact of tax on those items. The amendments are generally to be applied retrospectively. The amendments, along with consequential amendments in AASB 2011-9 Amendments to Australian Accounting Standards, which become mandatory for the Qantas Group's 30 June 2013 Financial Statements, will only impact the presentation of other comprehensive income in the Consolidated Statement of Comprehensive Income.
- AASB 10 Consolidated Financial Statements, introduces a new approach in determining which investees should be consolidated. AASB 11 Joint Arrangements, requires a joint arrangement to be partially consolidated when the parties have rights and obligations for underlying assets and liabilities. Otherwise, the joint arrangement is considered a joint venture and the equity method must be used to account for the interest in the joint venture. AASB 12 Disclosures of Interests in Other Entities, contains revised disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. AASB 127 Separate Financial Statements, carries forward the existing accounting and disclosure requirement for separate financial statements with some minor clarifications. AASB 128 Investments in Associates, makes limited amendments on how to account for changes in interests in joint ventures and associates. The above amendments, and consequential amendments in AASB 2011-7 Amendments to Australian Accounting Standards, which become mandatory for the Qantas Group's 30 June 2014 Financial Statements, are not expected to have a material impact on the Financial Statements.
- AASB 13 Fair Value Measurement, explains how to measure fair value when required to by other accounting standards. The amendments are generally to be applied prospectively. This amendment, along with AASB 2011-8 Amendments to Australian Accounting Standards, become mandatory for the Qantas Group's 30 June 2014 Financial Statements, but are not expected to have any impact on the Financial Statements.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of Significant Accounting Policies continued

— IFRS 7 Disclosures Offsetting Financial Assets and Financial Liabilities and consequential amendments in AASB 2012-2 Amendments to Australian Accounting Standards, introduces increased disclosures about offset positions. This amendment will become mandatory for the Qantas Group's 30 June 2014 Financial Statements, however, it is not expected to have a material impact on the Financial Statements.

2. Underlying PBT and Operating Segments

(A) UNDERLYING PBT

Underlying PBT is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Executive Committee and the Board of Directors, for the purpose of assessing the performance of the Group.

The primary reporting measure of the Qantas, Jetstar, Qantas Frequent Flyer and Qantas Freight operating segments is Underlying EBIT. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT as net finance costs are managed centrally and are not allocated to Qantas, Jetstar, Qantas Frequent Flyer and Qantas Freight operating segments.

Refer to Note 2(e) for a detailed description of Underlying PBT and a reconciliation of Underlying PBT to Statutory (loss)/profit before tax.

(B) DESCRIPTION OF OPERATING SEGMENTS

The Qantas Group comprises the following main operating segments:

1 Qantas – representing the Qantas passenger flying businesses and related businesses
2 Jetstar – representing the Jetstar passenger flying businesses and related businesses
3 Qantas Frequent Flyer – representing the Qantas Frequent Flyer customer loyalty program
4 Qantas Freight – representing the air cargo and express freight businesses

Costs associated with the centralised management and governance of the Qantas Group, together with certain items which are not allocated to business segments, are reported as Corporate/Unallocated.

Fuel and foreign exchange hedge gains/losses are allocated to segments based on the timing of underlying transactions.

Intersegment revenue has been determined on an arm's length basis or a cost plus margin basis depending on the nature of the revenue.

On 22 May 2012 the Qantas Group announced that from 1 July 2012, the Qantas segment will be structured as two separate operating segments – Qantas Domestic and Qantas International. As this decision is effective from 1 July 2012, the segment structure below reflects the operating segments for the current reporting period with Qantas being reported as a single operating segment.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

2. Underlying PBT and Operating Segments continued

(C) ANALYSIS BY OPERATING SEGMENT

2012 $M	Qantas	Jetstar	Qantas Frequent Flyer	Qantas Freight	Corporate/ Unallocated[2]	Eliminations	Consolidated Underlying
REVENUE AND OTHER INCOME							
External segment revenue	10,682	2,915	1,058	1,004	61	4	15,724
Intersegment revenue	1,151	161	99	9	(55)	(1,365)	–
Total segment revenue and other income	**11,833**	**3,076**	**1,157**	**1,013**	**6**	**(1,361)**	**15,724**
Share of net profit/(loss) of associates and jointly controlled entities	6	(19)	–	16	–	–	3
EBITDAR[1]	**1,503**	**574**	**234**	**67**	**(178)**	**(2)**	**2,198**
Non-cancellable operating lease rentals	(262)	(283)	–	(4)	–	–	(549)
Depreciation and amortisation	(1,262)	(88)	(3)	(18)	(13)	–	(1,384)
Underlying EBIT	**(21)**	**203**	**231**	**45**	**(191)**	**(2)**	**265**
Underlying net finance costs					(170)		(170)
Underlying PBT[2]					**(361)**		**95**

1 EBITDAR (Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable operating lease rentals and net finance costs) includes the impact of the change in accounting estimates for discount rates of $30 million (Qantas $30 million), and Frequent Flyer accounting (Eliminations $5 million) as described in Note 1(c).
2 The Corporate segment is the only operating segment with Underlying PBT as the primary reporting measure. The primary reporting measure of other segments is Underlying EBIT.

2011 $M	Qantas	Jetstar	Qantas Frequent Flyer	Qantas Freight	Other businesses[1]	Corporate/ Unallocated[3]	Eliminations	Consolidated Underlying
REVENUE AND OTHER INCOME								
External segment revenue	10,265	2,446	1,060	1,048	28	13	34	14,894
Intersegment revenue	1,050	167	88	6	6	5	(1,322)	–
Total segment revenue and other income	**11,315**	**2,613**	**1,148**	**1,054**	**34**	**18**	**(1,288)**	**14,894**
Share of net (loss)/profit of associates and jointly controlled entities	10	(6)	–	18	–	–	–	22
EBITDAR[2]	**1,650**	**508**	**345**	**80**	**5**	**(159)**	**30**	**2,459**
Non-cancellable operating lease rentals	(298)	(268)	–	(2)	–	2	–	(566)
Depreciation and amortisation	(1,124)	(71)	(3)	(16)	(2)	(32)	(1)	(1,249)
Underlying EBIT	**228**	**169**	**342**	**62**	**3**	**(189)**	**29**	**644**
Underlying net finance costs						(92)		(92)
Underlying PBT[3]						**(281)**		**552**

1 As a result of the merger of Jetset Travelworld Group with Stella Travel Services, Jetset Travelworld Group is no longer an operating segment as of 1 October 2010. Consequently, the results of the Jetset Travelworld Group segment for the year ended 30 June 2011 represent the results for the period from 1 July 2010 to 30 September 2010. From 1 October 2010, the equity accounted result of the Group's investment in Jetset Travelworld Group is included in the Qantas segment.
2 EBITDAR (Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable operating lease rentals and net finance costs) includes the impact of the Frequent Flyer accounting estimate of $172 million (Qantas Frequent Flyer $140 million and Eliminations $32 million) as described in Note 1(c).
3 The Corporate segment is the only operating segment with Underlying PBT as the primary reporting measure. The primary reporting measure of other segments is Underlying EBIT.

(D) UNDERLYING PBT PER SHARE

	Qantas Group	
	2012 cents	2011 cents
Basic/diluted Underlying PBT per share	4.2	24.4

Refer to Note 8 for the weighted average number of shares used in the calculation of Underlying PBT per share.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

2. Underlying PBT and Operating Segments continued

(E) DESCRIPTION OF UNDERLYING PBT AND RECONCILIATION TO STATUTORY (LOSS)/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, being the Executive Committee and the Board of Directors. 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 Group.

Underlying PBT is derived by adjusting Statutory (Loss)/Profit for impacts of AASB 139: Financial Instruments: Recognition and Measurement (AASB 139) which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT.

(i) Adjusting for impacts of AASB 139 which relate to other reporting periods

All derivative transactions undertaken by the Qantas Group represent economic hedges of underlying risk and exposures. The Qantas Group does not enter into speculative derivative transactions. Notwithstanding this, AASB 139 requires certain mark-to-market movements in derivatives which are classified as "ineffective" to be recognised immediately in the Consolidated Income Statement. The recognition of derivative valuation movements in reporting periods which differ from the designated transaction causes volatility in statutory profit that does not reflect the hedging nature of these derivatives.

Underlying PBT reports all hedge derivative gains and losses in the same reporting period as the underlying transaction by adjusting the reporting period's statutory profit for derivative mark-to-market movements that relate to underlying exposures in other reporting periods.

This adjustment is calculated as follows:

- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with current year exposures remain included in Underlying PBT
- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with underlying exposures which will occur in future reporting periods are excluded from Underlying PBT
- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with capital expenditure are excluded from Underlying PBT and subsequently included in Underlying PBT as an implied adjustment to depreciation expense for the related assets commencing when the assets are available for use
- Derivative mark-to-market movements recognised in previous reporting periods statutory profit that are associated with underlying exposures which occurred in the current year are included in Underlying PBT
- Ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs are excluded from Underlying PBT

All derivative mark-to-market movements which have been excluded from Underlying PBT will be recognised through Underlying PBT in future periods when the underlying transaction occurs.

(ii) Other items not included in Underlying PBT

Items which are identified by Management and reported to the chief operating decision-making bodies, 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 major transformational/restructuring initiatives, transactions involving investments and impairments of assets outside the ordinary course of business.

(iii) Underlying EBIT

Underlying EBIT is calculated using a consistent methodology as outlined above but excluding the impact of statutory net finance costs and ineffective and non-designated derivatives relating to other reporting periods affecting net finance costs.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

2. Underlying PBT and Operating Segments continued

The reconciliation of Underlying PBT to Statutory (loss)/profit before tax is detailed in the table below.

	Qantas Group 2012 $M	Qantas Group 2011 $M
Underlying PBT	**95**	**552**
Ineffectiveness and non-designated derivatives relating to other reporting periods		
Include current year derivative mark-to-market movements relating to underlying exposures in future years	(86)	(47)
Include current year derivative mark-to-market movements relating to capital expenditure	(9)	(75)
Exclude prior years' derivative mark-to-market movements relating to underlying exposures in the current year	51	19
Exclude adjustment to depreciation expense relating to excluded capital expenditure mark-to-market movements	4	2
Include ineffective and non-designated derivatives relating to other reporting periods affecting net finance costs	(6)	(21)
	(46)	**(122)**
Other items not included in Underlying PBT		
Qantas International Transformation		
Net impairment of property, plant and equipment[1]	(147)	–
Redundancies and restructuring[2]	(198)	–
Impairment of goodwill[3]	(18)	–
Write down of inventory	(13)	–
	(376)	**–**
Other		
Redundancies and restructuring	(5)	(28)
Net impairment of property, plant and equipment[1]	–	(34)
Net loss on disposal of investments and other transaction costs[4]	–	(20)
Impairment of investments	(19)	–
Legal provisions[5]	2	(25)
	(22)	**(107)**
	(398)	**(107)**
Statutory (loss)/profit before income tax expense	**(349)**	**323**

1 As disclosed in Note 3, net impairment of property, plant and equipment for the year ended 30 June 2012 was $157 million (2011: $44 million), of which $147 million (2011: $34 million) is presented as an item not included in Underlying PBT.
2 As disclosed in Note 3, redundancies and restructuring for the year ended 30 June 2012 was $206 million (2011: $44 million), of which $203 million (2011: $28 million) is presented as other items not included in Underlying PBT.
3 As disclosed in Note 3, net impairment of goodwill and intangible assets for the year ended 30 June 2012 was $20 million (2011: $nil), of which $18 million (2011: $nil) is presented as other items not included in Underlying PBT.
4 During the year ended 30 June 2011 the Qantas Group disposed of its investments in Harvey Holidays Pty Ltd and DPEX Group, resulting in a gain of $9 million. Additionally, the Group deconsolidated Jetset Travelworld Group as a result of the merger of Jetset Travelworld Group with Stella Travel Services, resulting in a loss of $29 million.
5 Legal provisions represent provisions for freight regulatory fines and third party class actions.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

2. Underlying PBT and Operating Segments continued

(F) ANALYSIS BY GEOGRAPHICAL AREAS

Passenger and freight revenue is attributed to a geographic region based on the point of sale. Other revenue/income is not allocated to a geographic region as it is impractical to do so.

Revenue and other income by geographic areas

		Qantas Group	
	Notes	2012 $M	2011 $M
Net passenger and freight revenue			
Australia		9,540	9,049
Overseas		3,738	3,835
Total net passenger and freight revenue		**13,278**	**12,884**
Other revenue/income	3	2,446	2,010
Total revenue and other income		**15,724**	**14,894**

Non-current assets by geographic areas

Non-current assets which consist principally of aircraft supporting the Groups' global operations are primarily located in Australia.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

3. Other Revenue and Expenditure

	Qantas Group 2012 $M	Qantas Group 2011 $M
OTHER REVENUE		
Contract work revenue	380	347
Passenger service fees	397	341
Ancillary passenger revenue[1]	346	90
Frequent Flyer store and other redemption revenue[2]	245	204
Frequent Flyer marketing revenue[3]	226	193
Frequent Flyer membership fees and other revenue	9	10
Lease revenue	215	186
Rolls-Royce settlement revenue	–	95
Liquidated damages	28	–
Tours and travel revenue	48	84
Qantas Club membership fees	85	84
Freight terminal fee revenue	77	73
Retail, advertising and other property revenue	54	54
Charter revenue	89	36
Other	247	213
Total other revenue	**2,446**	**2,010**
OTHER EXPENDITURE		
Selling and marketing	635	626
Computer and communication	437	409
Property	429	398
Redundancies and restructuring	206	44
Capacity hire	266	258
Airport security charges	131	135
Contract work material	79	74
Net impairment of property, plant and equipment	157	44
Net impairment of goodwill and intangible assets	20	–
Net impairment of investments	19	–
Other	449	467
Total other expenditure	**2,828**	**2,455**

1 In May 2011, Jetstar introduced a product unbundling model. From that date, revenue from options over the base ticket cost (e.g. baggage allowance, exit seating, in-flight entertainment and meals), which may have previously been sold as a bundled ticket and disclosed as passenger revenue are now disclosed as ancillary passenger revenue.
2 Total Frequent Flyer redemption revenue less redemptions on Qantas Group's flights which are reported as net passenger revenue in the Consolidated Income Statement.
3 Net of intra-group marketing revenue within the Qantas Group.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

4. Statutory (Loss)/Profit Before Income Tax Expense and Net Finance Costs

The following are included in statutory (loss)/profit before income tax expense and net finance costs:

	Qantas Group	
	2012 $M	2011 $M
OTHER ITEMS REQUIRING DISCLOSURE		
Changes in estimate of discount rates[1]	(30)	5
Legal provisions[2]	2	(25)
Net loss on disposal of investments and related transaction costs[3]	–	(20)
Net loss on disposal of property, plant and equipment	(4)	(1)
Net foreign currency gain/(losses)	5	(29)
Non-aircraft operating lease rentals	(212)	(196)

1 During the year ended 30 June 2012 the Qantas Group changed its estimate of the discount rates used to calculate the present value of provisions and employee benefits resulting in an increase in net expenses. (Refer to Note 1(C)).
2 Legal provisions represent provisions for freight regulatory fines and third party class action.
3 During the year ended 30 June 2011 the Qantas Group disposed of its investments in DPEX Group and Harvey Holidays Pty Ltd. Additionally, the Group deconsolidated Jetset Travelworld Group as a result of the merger of Jetset Travelworld Group with Stella Travel Services. These transactions resulted in a net loss of $20 million after transaction costs. Refer to Note 27(B) for further details.

5. Net Finance Costs

	Qantas Group	
	2012 $M	2011 $M
FINANCE INCOME		
Interest income on financial assets measured at amortised cost	156	166
Interest income from jointly controlled entity	10	10
Unwind of discount on receivables	15	16
Total finance income	**181**	**192**
FINANCE COSTS		
Interest expense on financial liabilities measured at amortised cost	414	351
Fair value hedges		
Fair value adjustments on hedged items	(58)	(242)
Fair value adjustments on derivatives designated in a fair value hedge	53	260
Less: capitalised interest[1]	(83)	(90)
Total finance costs on financial liabilities	**326**	**279**
Unwind of discount on provisions and other liabilities		
Employee benefits	20	18
Other provisions and other liabilities	11	8
Total finance costs	**357**	**305**
Net finance costs	**(176)**	**(113)**

1 The borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities being 7.2 per cent (2011: 6.8 per cent).

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

6. Income Tax

	Qantas Group	
	2012 $M	2011 $M
RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT		
Current income tax expense		
Current year	–	–
Adjustments for prior year	1	3
	1	**3**
Deferred income tax expense		
Origination and reversal of temporary differences	24	161
Benefit of tax losses recognised	(130)	(90)
	(106)	**71**
Total income tax (benefit)/expense in the Consolidated Income Statement	**(105)**	**74**
RECONCILIATION BETWEEN INCOME TAX EXPENSE AND STATUTORY (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE		
Statutory (loss)/profit before income tax expense	**(349)**	**323**
Income tax (benefit)/expense using the domestic corporate tax rate of 30 per cent	(105)	97
Add/(less) adjustments for non-deductible expenditure/(non-assessable income):		
Non-deductible/(non-assessable) share of net loss/(profit) of associates and jointly controlled entities	3	(7)
Utilisation and recognition of previously unrecognised foreign tax losses	(2)	(9)
Utilisation and recognition of previously unrecognised capital losses	(8)	–
Other items	10	2
Over provision in prior year	(3)	(9)
Income tax (benefit)/expense	**(105)**	**74**
RECOGNISED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Cash flow hedges	(16)	(3)
Income tax benefit recognised directly in the Consolidated Statement of Comprehensive Income	**(16)**	**(3)**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

7. Auditor's Remuneration

	Qantas Group	
	2012 $000	**2011 $000**
AUDIT SERVICES		
Auditors of Qantas – KPMG Australia		
– Audit and review of Financial Report	2,952	2,787
– Other regulatory audit services	36	27
Overseas KPMG firms		
– Audit and review of Financial Report	325	310
Total audit services	**3,313**	**3,124**
OTHER SERVICES		
Audit related services		
Auditors of Qantas – KPMG Australia		
– Due diligence service	61	180
– Other audit related services	1,196	705
Total audit related services	**1,257**	**885**
Taxation services		
Auditors of Qantas – KPMG Australia		
– Taxation services	410	318
Overseas KPMG firms		
– Taxation services	201	166
Total taxation services	**611**	**484**
Other non-audit services		
Auditors of Qantas – KPMG Australia		
– Other non-audit services	435	165
Overseas KPMG firms		
– Other non-audit services	36	10
Total other non-audit services	**471**	**175**
Total other services	**2,339**	**1,544**
Total auditor's remuneration	**5,652**	**4,668**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

8. (Loss)/Earnings per Share

	Qantas Group	
	2012 Cents	2011 Cents
Basic/diluted (loss)/earnings per share	**(10.8)**	**11.0**
	$M	$M
Statutory (loss)/profit attributable to members of Qantas	**(245)**	**250**
	Number M	Number M
WEIGHTED AVERAGE NUMBER OF SHARES		
Issued shares as at 1 July	2,265	2,265
Issued shares as at 30 June	2,265	2,265
Weighted average number of shares (basic and diluted) as at 30 June	**2,265**	**2,265**

9. Dividends

(A) DIVIDENDS DECLARED AND PAID

No dividends were declared or paid in the current year by Qantas.

No final dividend will be paid in relation to the year ended 30 June 2012.

For the year ended 30 June 2012, $1 million dividends (2011: $1 million) were declared to non-controlling interest shareholders by non-wholly owned controlled entities.

(B) FRANKING ACCOUNT

	Qantas Group	
	2012 $M	2011 $M
Total franking account balance at 30 per cent	**25**	**17**

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.

10. Cash and Cash Equivalents

	Qantas Group	
	2012 $M	2011 $M
Cash balances	343	305
Cash at call	245	184
Short-term money market securities and term deposits	2,810	3,007
Total cash and cash equivalents	**3,398**	**3,496**

Short-term money market securities of $97 million (2011: $225 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.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

11. Receivables

	Qantas Group 2012 $M	Qantas Group 2011 $M
CURRENT		
Trade debtors		
Trade Debtors	798	842
Less: provision for impairment losses	4	3
	794	**839**
Sundry debtors	317	188
Total current receivables	**1,111**	**1,027**
NON-CURRENT		
Other loans from jointly controlled entity – interest-bearing	128	128
Sundry debtors	344	295
Total non-current receivables	**472**	**423**
The ageing of trade debtors, net of provision for impairment losses, at 30 June was:		
Not past due	691	692
Past due 1–30 days	40	66
Past due 31–120 days	16	30
Past due 121 days or more	47	51
Total trade debtors	**794**	**839**

There are no significant other receivables that have been recognised that would otherwise, without renegotiation, have been past due or impaired.

The movement in the provision for impairment losses in respect of trade debtors was as follows:

Balance as at 1 July	3	6
Impairment loss recognised	1	–
Bad debts written off	–	(3)
Reversal of provision	–	–
Provision for impairment losses as at 30 June	**4**	**3**

Sundry debtors of the Qantas Group include $257 million (2011: $243 million), representing the present value of liquidated damages resulting from the delay in delivery of aircraft.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

12. Inventories

	Qantas Group 2012 $M	Qantas Group 2011 $M
Engineering expendables	315	310
Consumable stores	52	53
Work in progress	9	9
Total inventories	**376**	**372**

13. Assets and Liabilities Classified as Held for Sale

	Qantas Group 2012 $M	Qantas Group 2011 $M
Assets		
Property, plant and equipment	45	20
Assets of Cairns and Riverside catering disposal group	28	–
Total assets classified as held for sale	**73**	**20**
Liabilities		
Liabilities of Cairns and Riverside catering disposal group	12	–
Total liabilities classified as held for sale	**12**	**–**

In February 2012, the Qantas Group announced a plan to sell the Cairns and Riverside catering facilities. The assets of the Cairns and Riverside disposal group represent land and buildings of $18 million, other property, plant and equipment of $2 million and working capital assets of $8 million. The liabilities of the Cairns and Riverside disposal group represent payables of $6 million and employee provisions of $6 million. The agreement was finalised in July 2012.

14. Other Current Assets

	Qantas Group 2012 $M	Qantas Group 2011 $M
Superannuation prepayment (refer to Note 30)	293	258
Prepayments	107	148
Other	14	2
Total other current assets	**414**	**408**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

15. Investments Accounted for Using the Equity Method

	Qantas Group	
	2012 $M	2011 $M
Share of net (loss)/profit of associates and jointly controlled entities		
Associates	(10)	5
Jointly controlled entities	13	17
Total share of net profit of associates and jointly controlled entities	**3**	**22**
Investments accounted for using the equity method		
Associates		
– Jetset Travelworld Limited	114	114
– Other	49	51
Total investments in associates	**163**	**165**
Jointly controlled entities		
– AUX Investment Pty Limited	294	292
– Other	–	19
Total investments in jointly controlled entities	**294**	**311**
Total investments accounted for using the equity method	**457**	**476**

(A) INVESTMENTS IN ASSOCIATES

Details of interests in associates are as follows:

				Qantas Group Ownership Interest	
	Principal Activity	Country of Incorporation	Balance Date	2012 %	2011 %
Air Pacific Limited[1]	Air transport	Fiji	31 Mar	–	46
Fiji Resorts Limited	Resort accommodation	Fiji	31 Dec	21	21
Hallmark Aviation Services L.P.	Passenger handling services	United States of America	31 Dec	49	49
HT & T Travel Philippines, Inc.	Tours and travel	Philippines	30 Jun	28	28
Holiday Tours and Travel (Thailand) Ltd	Tours and travel	Thailand	31 Dec	37	37
Holiday Tours & Travel Vietnam Co. Ltd	Tours and travel	Vietnam	30 Jun	37	37
Jetset Travelworld Limited[2]	Travel products and services	Australia	30 Jun	29	29
Jetstar Japan Co., Ltd.[3]	Air transport	Japan	30 Jun	33	–
Jetstar Pacific Airlines Aviation Joint Stock Company[4]	Air transport	Vietnam	31 Dec	30	27
PT Holidays Tours & Travel	Tours and travel	Indonesia	31 Dec	37	37
Tour East (T.E.T) Ltd	Tours and travel	Thailand	31 Dec	37	37

1 Legislative changes in Fiji culminated on 29 May 2012 with the Qantas Group removing its director representatives from the Board of Air Pacific Limited (Air Pacific). As a result, Air Pacific ceased to be an associate as the Qantas Group no longer has significant influence. The Qantas Group continues to hold a 46 per cent ownership interest in Air Pacific.
2 Jetset Travelworld Limited is a company whose shares are traded on the ASX. As at 30 June 2012 the fair value based on a quoted price of Qantas' investment is $47 million. Qantas' share of the net assets of Jetset Travelworld Limited is $122 million as at 30 June 2012.
3 Jetstar Japan Co., Ltd., is a venture between Qantas, Japan Airlines Co., Ltd., Century Tokyo Leasing Corporation and Mitsubishi Corporation, which was incorporated on 5 September 2011.
4 The Qantas Group acquired an additional 3 per cent of Jetstar Pacific Airlines Aviation Joint Stock Company on 29 February 2012.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

15. Investments Accounted for Using the Equity Method continued

	Qantas Group	
	2012 $M	2011 $M
RESULTS OF ASSOCIATES		
Revenues	597	1,185
Expenditure	(611)	(1,162)
(Loss)/profit before income tax expense	**(14)**	**23**
Income tax expense	(10)	(13)
Net (loss)/profit of associates	**(24)**	**10**
Qantas Group's share of net (loss)/profit of associates	**(10)**	**5**
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENTS IN ASSOCIATES		
Carrying amount of investments in associates as at 1 July	165	65
Additional investment in associates	32	–
Reclassification from controlled entity	–	109
Share of net (loss)/profit of associates	(10)	5
Dividends received from associates	(8)	(3)
Transfer to external investments	(20)	–
Share of foreign currency translation reserve movements	4	(13)
Share of hedge reserve movement	–	2
Carrying amount of investments in associates as at 30 June	**163**	**165**
SUMMARY FINANCIAL POSITION OF ASSOCIATES		
The aggregate assets and liabilities of associates is as follows:		
Current assets	392	457
Non-current assets	552	596
Total assets	**944**	**1,053**
Current liabilities	396	451
Non-current liabilities	65	80
Total liabilities	**461**	**531**
Net assets	**483**	**522**
Qantas Group's share of net assets of associates	141	158
Adjustment arising from equity accounting		
– Goodwill	30	30
– Accumulated impairment	–	(12)
– Discount on acquisition	(8)	(11)
Investments in associates accounted for using the equity method	**163**	**165**
CONTINGENT LIABILITIES		
Qantas Group's share of associates' contingent liabilities	**–**	**9**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

15. Investments Accounted for Using the Equity Method continued

(B) INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Details of interests in jointly controlled entities are as follows:

				Qantas Group Ownership Interest	
	Principal Activity	Country of Incorporation	Balance Date	2012 %	2011 %
AUX Investment Pty Limited	Investment holding company	Australia	30 Jun	50	50
LTQ Engineering Pty Limited	Maintenance services	Australia	30 Jun	50	50

	Qantas Group	
	2012 $M	2011 $M
RESULTS OF JOINTLY CONTROLLED ENTITIES		
Revenues	1,354	791
Expenditure	(1,325)	(740)
Profit before income tax expense	**29**	**51**
Income tax expense	(3)	(17)
Net profit of jointly controlled entities	**26**	**34**
Qantas Group's share of net profit of jointly controlled entities	**13**	**17**
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENTS IN JOINTLY CONTROLLED ENTITIES		
Carrying amount of investments in jointly controlled entities as at 1 July	311	313
Additional investment in jointly controlled entity	3	–
Share of net profit of jointly controlled entities	13	17
Dividends received from jointly controlled entities	(14)	(18)
Disposal of jointly controlled entity	–	(1)
Impairment of investment in jointly controlled entity	(19)	–
Carrying amount of investments in jointly controlled entities as at 30 June	**294**	**311**
SUMMARY FINANCIAL POSITION OF JOINTLY CONTROLLED ENTITIES		
The aggregate assets and liabilities of jointly controlled entities is as follows:		
Current assets	205	209
Non-current assets	867	853
Total assets	**1,072**	**1,062**
Current liabilities	170	160
Non-current liabilities	276	281
Total liabilities	**446**	**441**
Net assets	**626**	**621**
Qantas Group's share of net assets of jointly controlled entities	313	311
Adjustment arising from equity accounting		
– Accumulated impairment	(19)	–
Investments in jointly controlled entities accounted for using the equity method	**294**	**311**
COMMITMENTS		
Share of jointly controlled entities' contracted capital expenditure commitments	6	12
Share of jointly controlled entities' contracted non-capital expenditure commitments	439	494
Qantas Group's share of jointly controlled entities' commitments	**445**	**506**
CONTINGENT LIABILITIES		
Qantas Group's share of jointly controlled entities' contingent liabilities	**24**	**35**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

16. Property, Plant and Equipment

	Qantas Group 2012 $M	Qantas Group 2011 $M
Freehold land – owned		
At cost	50	66
Total freehold land	**50**	**66**
Buildings – owned		
At cost	266	284
Less: accumulated depreciation	144	145
	122	**139**
Buildings – leased		
At cost	51	51
Less: accumulated depreciation	47	46
	4	**5**
Total buildings		
At cost	317	335
Less: accumulated depreciation	191	191
Total buildings at net book value	**126**	**144**
Leasehold improvements		
At cost	1,619	1,590
Less: accumulated depreciation	1,030	985
Total leasehold improvements at net book value	**589**	**605**
Plant and equipment		
At cost	1,421	1,355
Less: accumulated depreciation	898	851
Total plant and equipment at net book value	**523**	**504**
Aircraft and engines – owned		
At cost	12,047	11,504
Less: accumulated depreciation	4,764	4,841
	7,283	**6,663**
Aircraft and engines – finance leased and hire purchased		
At cost	5,079	4,947
Less: accumulated depreciation	1,969	1,788
	3,110	**3,159**
Aircraft and engines – maintenance		
At cost	1,673	1,392
Less: accumulated depreciation	788	752
	885	**640**
Total aircraft and engines		
At cost	18,799	17,843
Less: accumulated depreciation	7,521	7,381
Total aircraft and engines at net book value	**11,278**	**10,462**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

16. Property, Plant and Equipment continued

	Qantas Group 2012 $M	Qantas Group 2011 $M
Aircraft spare parts – owned		
At cost	852	870
Less: accumulated depreciation	414	408
	438	**462**
Aircraft spare parts – leased		
At cost	23	23
Less: accumulated depreciation	19	17
	4	**6**
Total aircraft spare parts		
At cost	875	893
Less: accumulated depreciation	433	425
Total aircraft spare parts at net book value	**442**	**468**
Aircraft deposits		
At cost	1,131	1,403
Total aircraft deposits	**1,131**	**1,403**
Total property, plant and equipment		
At cost	24,212	23,485
Less: accumulated depreciation	10,073	9,833
Total property, plant and equipment at net book value	**14,139**	**13,652**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

16. Property, Plant and Equipment continued

Qantas Group 2012 $M	Opening Net Book Value	Additions[1]	Acquisition of Controlled Entity	Disposals	Disposal of Controlled Entity[2]	Transfers	Transferred to Assets Classified as Held for Sale	Depreciation	Other[3]	Closing Net Book Value
Reconciliations										
Freehold land	66	–	–	(1)	–	–	(15)	–	–	50
Buildings	144	–	–	–	–	2	(2)	(13)	(5)	126
Leasehold improvements	605	88	–	(2)	–	(53)	(1)	(53)	5	589
Plant and equipment	504	56	–	(9)	–	52	(2)	(82)	4	523
Aircraft and engines	10,462	618	–	(1)	–	1,498	(47)	(1,123)	(129)	11,278
Aircraft spare parts	468	65	–	(21)	–	1	(2)	(54)	(15)	442
Aircraft deposits	1,403	1,411	–	(12)	–	(1,671)	–	–	–	1,131
Total property, plant and equipment	**13,652**	**2,238**	**–**	**(46)**	**–**	**(171)**	**(69)**	**(1,325)**	**(140)**	**14,139**

2011 $M	Opening Net Book Value	Additions[1]	Acquisition of Controlled Entity	Disposals	Disposal of Controlled Entity[2]	Transfers	Transferred to Assets Classified as Held for Sale	Depreciation	Other[3]	Closing Net Book Value
Reconciliations										
Freehold land	66	–	–	–	–	–	–	–	–	66
Buildings	158	–	–	–	–	–	–	(15)	1	144
Leasehold improvements	565	112	6	(2)	–	(26)	–	(56)	6	605
Plant and equipment	489	73	1	(12)	(1)	27	–	(81)	8	504
Aircraft and engines	9,380	542	19	(63)	–	1,541	(20)	(996)	59	10,462
Aircraft spare parts	490	55	–	(17)	–	(7)	–	(49)	(4)	468
Aircraft deposits	1,368	1,600	–	(23)	–	(1,538)	–	–	(4)	1,403
Total property, plant and equipment	**12,516**	**2,382**	**26**	**(117)**	**(1)**	**(3)**	**(20)**	**(1,197)**	**66**	**13,652**

1 Additions include capitalised interest of $82 million (2011: $85 million).
2 Disposal of Controlled Entity includes controlled entity reclassified to associate.
3 Other includes foreign exchange movements, non-cash additions and net impairment of property, plant and equipment.

SECURED ASSETS

Certain aircraft and engines act as security against related financings. 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 $7,676 million (2011: $6,653 million).

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

17. Intangible Assets

	Qantas Group	
	2012 $M	2011 $M
Goodwill		
At cost	146	164
Total goodwill	**146**	**164**
Airport landing slots		
At cost	35	35
Total airport landing slots	**35**	**35**
Software		
At cost	854	770
Less: accumulated amortisation	449	396
Total software at net book value	**405**	**374**
Brand names and trademarks		
At cost	20	20
Total brand names and trademarks	**20**	**20**
Customer contracts/relationships		
At cost	5	–
Less: accumulated amortisation	1	–
Total customer contracts/relationships at net book value	**4**	**–**
Total intangible assets	**610**	**593**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

17. Intangible Assets continued

Qantas Group 2012 $M	Opening Net Book Value	Additions[1]	Acquisition of Controlled Entity	Disposal of Controlled Entity[2]	Transfers	Transferred to Assets Classified as Held for Sale	Amortisation	Other[3]	Closing Net Book Value
Reconciliations									
Goodwill	164	–	5	–	(5)	–	–	(18)	146
Airport landing slots	35	–	–	–	–	–	–	–	35
Software	374	84	6	–	–	–	(57)	(2)	405
Brand names and trademarks	20	–	–	–	–	–	–	–	20
Customer contracts/relationships	–	–	2	–	4	–	(2)	–	4
Total intangible assets	**593**	**84**	**13**	**–**	**(1)**	**–**	**(59)**	**(20)**	**610**

2011 $M	Opening Net Book Value	Additions[1]	Acquisition of Controlled Entity	Disposal of Controlled Entity[2]	Transfers	Transferred to Assets Classified as Held for Sale	Amortisation	Other[3]	Closing Net Book Value
Reconciliations									
Goodwill	219	–	12	(66)	–	–	–	(1)	164
Airport landing slots	35	–	–	–	–	–	–	–	35
Software	328	94	–	–	3	–	(51)	–	374
Brand names and trademarks	30	–	–	(9)	–	–	–	(1)	20
Customer contracts/relationships	56	–	–	(55)	–	–	(1)	–	–
Total intangible assets	**668**	**94**	**12**	**(130)**	**3**	**–**	**(52)**	**(2)**	**593**

1 Additions include capitalised interest of $1 million (2011: $5 million).
2 Disposal of Controlled Entity includes controlled entity reclassified to associate.
3 Other includes foreign exchange movements and impairment.

IMPAIRMENT TESTS FOR CASH GENERATING UNITS (CGUs) CONTAINING GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

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

	Qantas Group 2012 $M	Qantas Group 2011 $M
Goodwill		
Qantas[1]	17	35
Jetstar	129	129
	146	**164**
Airport landing slots		
Qantas	35	35
	35	**35**
Brand names and trademarks		
Jetstar	20	20
	20	**20**

1 The Qantas CGU includes Qantas, Qantas Freight and Qantas Frequent Flyer. As all of these businesses are largely dependent on the Qantas Fleet to generate their revenue, the Qantas Fleet assets are tested at the Qantas CGU level including the cash flows and assets of these segments.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

17. Intangible Assets continued

The recoverable amounts of CGUs were based on their value in use calculations. Those calculations were determined by discounting the future cash flows generated from the continuing use of the units and were based on the following assumptions:

Assumption	How determined
Cash Flows	Cash flows were projected based on the Financial Plan covering a three-year period. Cash flows after the third year or terminal year 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 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 10.5 per cent per annum has been used in discounting the projected cash flows of Qantas and Jetstar CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2011: 10.5 per cent per annum for Qantas and Jetstar). The discount rates are based on the risk-free rate for the ten-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.
Market Share	Qantas Group's domestic market share is expected to remain at 65 per cent (2011: between 64 and 65 per cent) and international market share remains at around 26 per cent (2011: between 27 and 28 per cent). These figures were estimated having regard to the Qantas Group's committed fleet plans and those of its existing competitors.
Fuel	The fuel into-plane price is assumed to be US$129 per barrel (2011: between US$124 and US$136) and was set with regard to the forward fuel curve and commodity analyst expectations.
Currency	The US$:A$ exchange rate is assumed to be $0.97 (2011: between $1.01 and $1.06).

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

18. Deferred Tax Liabilities

	Qantas Group 2012 $M	Qantas Group 2011 $M
Deferred tax liabilities	644	767
Total deferred tax liabilities	**644**	**767**

Qantas Group 2012 $M	Opening Balance	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Acquisition of Controlled Entity	Disposal of Controlled Entity[1]	Closing Balance
Reconciliations						
Inventories	(16)	1	–	–	–	(15)
Property, plant and equipment and intangible assets	(1,723)	(74)	–	–	–	(1,797)
Payables	59	(11)	–	–	–	48
Revenue received in advance	597	22	–	–	–	619
Interest-bearing liabilities	(99)	17	–	–	–	(82)
Other financial assets/liabilities	(30)	(21)	16	–	–	(35)
Provisions	279	73	–	–	–	352
Other items	(181)	(30)	–	–	–	(211)
Tax value of recognised tax losses	347	130	–	–	–	477
Total deferred tax liabilities	**(767)**	**107**	**16**	**–**	**–**	**(644)**

2011 $M	Opening Balance	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Acquisition of Controlled Entity	Disposal of Controlled Entity[1]	Closing Balance
Reconciliations						
Inventories	(12)	(4)	–	–	–	(16)
Property, plant and equipment and intangible assets	(1,532)	(190)	–	(1)	–	(1,723)
Payables	47	12	–	–	–	59
Revenue received in advance	621	(24)	–	–	–	597
Interest-bearing liabilities	(19)	(80)	–	–	–	(99)
Other financial assets/liabilities	(150)	97	3	–	20	(30)
Provisions	251	28	–	–	–	279
Other items	(178)	–	–	–	(3)	(181)
Tax value of recognised tax losses	257	90	–	–	–	347
Total deferred tax liabilities	**(715)**	**(71)**	**3**	**(1)**	**17**	**(767)**

1 Disposal of Controlled Entity includes controlled entity reclassified to associate.

At 30 June 2012 there is no recognised or unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Qantas Group's controlled entities, associates and jointly controlled entities (2011: nil).

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

18. Deferred Tax Liabilities continued

UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised with respect to the following items because it is not probable that future taxable profit will be available against which the Qantas Group can utilise these benefits:

	Qantas Group	
	2012 $M	2011 $M
Tax losses – New Zealand operations	13	17
Tax losses – Singapore operations	8	10
Tax losses – Hong Kong operations	5	–
Total unrecognised deferred tax assets – tax losses	**26**	**27**

19. Payables

	Qantas Group	
	2012 $M	2011 $M
Trade creditors	645	597
Other creditors and accruals	1,231	1,141
Total payables	**1,876**	**1,738**

20. Revenue Received in Advance

	Qantas Group	
	2012 $M	2011 $M
CURRENT		
Unavailed passenger revenue	2,370	2,320
Unredeemed Frequent Flyer revenue	802	747
Total current revenue received in advance	**3,172**	**3,067**
NON-CURRENT		
Unredeemed Frequent Flyer revenue	1,136	1,111
Total non-current revenue received in advance	**1,136**	**1,111**

21. Interest-bearing Liabilities

	Qantas Group	
	2012 $M	2011 $M
CURRENT		
Bank loans – secured	519	446
Other loans – unsecured	527	80
Lease and hire purchase liabilities – secured (refer to Note 28)	73	51
Total current interest-bearing liabilities	**1,119**	**577**
NON-CURRENT		
Bank loans – secured	3,214	3,131
Bank loans – unsecured	877	874
Other loans – unsecured	689	1,042
Lease and hire purchase liabilities – secured (refer to Note 28)	650	407
Total non-current interest-bearing liabilities	**5,430**	**5,454**

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 16).

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

22. Provisions

	Qantas Group 2012 $M	Qantas Group 2011 $M
CURRENT		
Employee benefits		
– Annual leave	319	319
– Long service leave	49	43
– Redundancies, restructuring and other employee benefits	168	58
Onerous contracts	7	2
Make good on leased assets	2	3
Insurance, legal and other	25	31
Total current provisions	**570**	**456**
NON-CURRENT		
Employee benefits		
– Long service leave	371	318
Onerous contracts	7	5
Make good on leased assets	183	139
Insurance, legal and other	176	185
Total non-current provisions	**737**	**647**

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

Qantas Group 2012 $M	Opening Balance	Provisions Made	Provisions Utilised	Unwind of Discount	Other[1]	Closing Balance	Current	Non-Current	Total
Reconciliations									
Onerous contracts	7	14	(10)	–	3	14	7	7	14
Make good on leased assets	142	52	(13)	3	1	185	2	183	185
Insurance, legal and other	216	9	(37)	8	5	201	25	176	201
Total	**365**	**75**	**(60)**	**11**	**9**	**400**	**34**	**366**	**400**

2011 $M	Opening Balance	Provisions Made	Provisions Utilised	Unwind of Discount	Other[1]	Closing Balance	Current	Non-Current	Total
Reconciliations									
Onerous contracts	9	2	(4)	–	–	7	2	5	7
Make good on leased assets	118	23	(10)	2	9	142	3	139	142
Insurance, legal and other	208	61	(96)	6	37	216	31	185	216
Total	**335**	**86**	**(110)**	**8**	**46**	**365**	**36**	**329**	**365**

1 Other includes transfers from other balance sheet accounts.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

22. Provisions continued

NATURE AND PURPOSE OF PROVISIONS

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. The Qantas Group has raised this provision in respect of operating leases on premises.

Make Good on Leased Assets

The Qantas Group has leases that require the asset to be returned to the lessor in a certain condition. A provision has been raised for the present value of the future expected cost at lease expiry.

Insurance, Legal and Other

The Qantas Group self-insures for risks associated with workers' compensation. An outstanding claim is recognised when an incident occurs that may give rise to a claim and is measured at the present value of the cost that the entity expects to incur in settling the claim. Legal provisions include estimates of the likely penalties to be incurred in relation to investigations into alleged price fixing in the air cargo market.

23. Capital and Reserves

	Qantas Group	
	2012 $M	2011 $M
ISSUED CAPITAL		
Issued and paid-up capital: 2,265,123,620 (2011: 2,265,123,620) ordinary shares, fully paid	4,729	4,729

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.

Treasury shares consist of shares held in trust for Qantas employees in relation to equity compensation plans. As at 30 June 2012, 16,629,559 (2011: 23,861,937) shares were held in trust and classified as treasury shares.

	2012 $M	2011 $M
RESERVES		
Employee compensation reserve	48	65
Hedge reserve (refer to Note 25(B))	41	80
Foreign currency translation reserve	(53)	(60)
Total reserves	**36**	**85**

NATURE AND PURPOSE OF RESERVES

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. No gain or loss is recognised in the Consolidated Income Statement on the purchase, sale, issue or cancellation of Qantas' own equity instruments.

Hedge Reserve

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

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 associates, as well as from the translation of liabilities that form part of the Qantas Group's net investment in a foreign controlled entity.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

24. Share-based Payments

The Deferred Share Plan (DSP) Terms and Conditions were approved by shareholders at the 2002 AGM. The DSP governed equity benefits to Executives within the Qantas Group made prior to 30 June 2010. There have been no modifications to the DSP Terms and Conditions during the year.

Equity benefits to Executives made after 1 July 2010 are governed by the Employee Share Plan (ESP) Trust Deed, the Short Term Incentive Plan (STIP) Terms and Conditions and the Long Term Incentive Plan (LTIP) Terms and Conditions which were approved by the Qantas Remuneration Committee Chairman under Board Delegation on 12 August 2010.

Further details regarding the operation of equity plans for Executives are outlined in the Directors' Report from pages 42 to 62.

The total equity settled share-based payment expense for the year was $31 million (2011: $59 million). The total cash settled share-based payment expense for the year was $4 million (2011: nil).

(A) LONG TERM INCENTIVE PLAN (LTIP)

The LTIP is specifically targeted to Senior Executives 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.

	Number of Rights	
Performance Rights Reconciliation	**2012**	**2011**
Rights outstanding as at 1 July	12,213,069	8,844,886
Rights granted	10,127,000	4,957,000
Rights forfeited	(1,110,560)	(1,246,681)
Rights lapsed	(2,481,256)	(108,114)
Rights exercised	(117,085)	(234,022)
Rights outstanding as at 30 June	**18,631,168**	**12,213,069**
Rights exercisable as at 30 June	**291,367**	**401,648**

During the year, 10,127,000 Rights were granted, of which 8,277,000 Rights were granted on 23 August 2011 and 1,850,000 Rights were granted on 28 October 2011 (2011: 3,751,000 Rights were granted on 12 August 2010 and 1,206,000 Rights were granted on 29 October 2010). No amount has been paid, or is payable, by the Executive in relation to these Rights. Performance hurdles in relation to the outstanding Rights at 30 June 2012 were tested as at 30 June 2012. As a result, 1,221,500 Rights will lapse from the 2007/2008 award and 3,122,301 Rights will lapse from the 2009/2010 award in 2011/2012 (2011: 99,256 Rights from the 2006/2007 award and 2,382,000 Rights from the 2008/2009 award lapsed in 2010/2011).

During the year 117,085 Rights were exercised (2011: 234,022).

At 30 June 2012, 23,590 Rights are available to be exercised at the request of the Executive under the 2004/2005 award, 64,580 Rights under the 2005/2006 award and a further 203,197 Rights under the 2006/2007 award (2011: 26,271 Rights under the 2004/2005 award, 90,129 Rights under 2005/2006 award and 285,248 Rights under the 2006/2007 award). For more information on the operation of the LTIP, see pages 54 to 56.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

24. Share-based Payments continued

FAIR VALUE CALCULATION

The estimated value of Rights granted with the Total Shareholder Return (TSR) performance hurdle component was determined at grant date using a Monte Carlo model.

A Black Scholes model was used to value the Rights with the Earnings Per Share (EPS) performance hurdle. The weighted average fair value of Rights granted during the year was $0.85 (2011: $1.56).

	2012		2011	
Inputs into the Models	28 October 2011	23 August 2011	29 October 2010	12 August 2010
Weighted average share value	$1.53	$1.51	$2.84	$2.48
Expected volatility	35%	35%	30%	30%
Dividend yield	1.8%	2.4%	3.7%	4.3%
Risk-free interest rate	3.9%	3.7%	4.9%	4.5%

The expected volatility for the 2011/2012 award was determined having regard to the historical one year 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 life of the plan. 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)

The following awards were made under the STIP during the year ended 30 June 2012:

	2012		2011	
Shares Granted	Number of Shares	Weighted Average Fair Value $	Number of Shares	Weighted Average Fair Value $
Performance shares granted – 31 August 2011	5,781,457	1.58	–	–
Performance shares granted – 12 August 2010	–	–	25,471,518	2.56

Shares are valued based on the volume weighted average price of Qantas shares as traded on the ASX for the seven calendar days up to and including the date of allocation. Expected dividends are not specifically taken into account when calculating the fair value but are implicit in the weighted average price of Qantas shares. Shares are issued or purchased on-market and are held subject to a restriction period. For further detail on the operation of the STIP, see pages 50 to 54.

(C) MANAGEMENT INCENTIVE PLAN (MIP)

The following awards were made under the MIP during the year ended 30 June 2012:

	2012		2011	
Shares Granted	Number of Shares	Weighted Average Fair Value $	Number of Shares	Weighted Average Fair Value $
Performance shares granted – 31 August 2011	4,923,441	1.58	–	–

Shares are valued based on the volume weighted average price of Qantas shares as traded on the ASX for the seven calendar days up to and including the date of allocation. Expected dividends are not specifically taken into account when calculating the fair value but are implicit in the weighted average price of Qantas shares. Shares are issued or purchased on-market and are held subject to a restriction period.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

25. Derivatives and Hedging Instruments

The following section summarises derivative financial instruments in the Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Comprehensive Income and Consolidated Income Statement.

(A) OTHER FINANCIAL ASSETS AND LIABILITIES

	Qantas Group	
	2012 $M	2011 $M
NET OTHER FINANCIAL LIABILITIES		
Derivatives		
Designated as cash flow hedges	(115)	(98)
Designated as fair value hedges	(355)	(415)
De-designated derivatives	(17)	(53)
Not qualifying for hedge accounting	(1)	64
Net other financial liabilities	**(488)**	**(502)**
Net other financial liabilities included in the Consolidated Balance Sheet		
Other financial assets – current	88	318
Other financial assets – non-current	17	70
Other financial liabilities – current	(369)	(397)
Other financial liabilities – non-current	(224)	(493)
Net other financial liabilities	**(488)**	**(502)**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

25. Derivatives and Hedging Instruments continued

(B) HEDGE RESERVE

At 30 June 2012 the Qantas Group held various types of derivative financial instruments that were designated as cash flow hedges of future forecast transactions. These were hedging of:

- Future foreign currency revenue receipts and operational payments by future debt repayments in foreign currency and exchange derivative contracts (forwards, swaps or options)
- Future aviation fuel purchases by crude, gasoil and jet kerosene derivative contracts (forwards, swaps or options)
- Future interest payments by interest rate derivative contracts (forwards, swaps or options)
- Future capital expenditure payments by foreign exchange derivative contracts (forwards or options)

To the extent that the hedges were assessed as highly effective, the effective portion of changes in fair value is included in the hedge reserve. For further information on accounting for derivative financial instruments as cash flow hedges, refer to Note 1(F). The periods in which the related cash flows are expected to occur are summarised below:

Qantas Group 2012 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
Contracts to hedge				
Future foreign currency receipts and payments	45	95	–	140
Future aviation fuel payments	(11)	–	–	(11)
Future interest payments	(26)	(24)	–	(50)
Future capital expenditure payments	(19)	(1)	–	(20)
	(11)	**70**	**–**	**59**
Tax effect				(18)
Total net gain included within hedge reserve				**41**

2011 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
Contracts to hedge				
Future foreign currency receipts and payments	2	174	–	176
Future aviation fuel payments	130	–	–	130
Future interest payments	(3)	(29)	–	(32)
Future capital expenditure payments	(131)	(29)	–	(160)
	(2)	**116**	**–**	**114**
Tax effect				(34)
Total net gain included within hedge reserve				**80**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

25. Derivatives and Hedging Instruments continued

(C) DERIVATIVE INEFFECTIVENESS AND NON-DESIGNATED DERIVATIVES IN THE CONSOLIDATED INCOME STATEMENT

Amounts shown below reflect ineffectiveness on changes in the fair value of any derivative instrument in a cash flow hedge, or part of a derivative instrument that does not qualify for hedge accounting. AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) permits reporting entities to separate the intrinsic value and time value of an option. AASB 139 allows for the intrinsic value of an option to be designated as part of any hedging relationship. As a result, the time value component is not hedge accounted and changes in fair values are recognised immediately in the Consolidated Income Statement for the financial period as it does not form part of a hedging relationship.

	Qantas Group	
	2012 $M	2011 $M
INEFFECTIVE AND NON-DESIGNATED DERIVATIVES		
Ineffective portion of cash flow hedges	17	25
Components of derivatives not hedge accounted (including time value of options)	(182)	(145)
Ineffective and non-designated derivatives expense	**(165)**	**(120)**

26. Notes to the Cash Flow Statement

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

	Qantas Group	
	2012 $M	2011 $M
Statutory (loss)/profit for the year	**(244)**	**249**
Add: depreciation and amortisation	1,384	1,249
Add: dividends received from associates and jointly controlled entities	22	21
Add: share-based payments	31	59
Add: amortisation of deferred financing fees	24	18
Add: net impairment of property, plant and equipment	157	44
Add: net impairment of goodwill and intangible assets	20	–
Add: net impairment of investments	19	–
Add: net loss on disposal of investments and related transaction costs	–	20
Add: net loss on disposal of property, plant and equipment	4	1
Add: changes in fair value of financial instruments	146	124
Less: amortisation of deferred lease benefits	(8)	(11)
Less: interest payments on liabilities held at fair value	(106)	(113)
(Less)/add: realised hedging gain/(loss) on operating cash flows	(33)	60
Less: share of net profit of associates and jointly controlled entities	(3)	(22)
(Less)/add: other items	9	9
Movements in operating assets and liabilities:		
– Decrease /(increase) in receivables	50	(35)
– Increase in inventories	(5)	(51)
– Increase in other assets	(3)	(6)
– Increase in payables	132	48
– Increase/(decrease) in revenue received in advance	128	(5)
– Increase in provisions	193	51
– (Decrease)/increase in deferred tax liabilities	(107)	72
Net cash from operating activities	**1,810**	**1,782**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

26. Notes to the Cash Flow Statement continued

(B) FINANCING FACILITIES

The total amount of financing facilities available to the Qantas Group as at balance date is detailed below:

	Qantas Group	
	2012 $M	2011 $M
FINANCING FACILITIES		
Committed bank overdraft		
Facility available	7	7
Amount of facility used	–	–
Amount of facility unused	**7**	**7**
Committed syndicated standby facility[1]		
Facility available	300	300
Amount of facility used	–	–
Amount of facility unused	**300**	**300**
Committed secured funding		
Facility available	134	130
Amount of facility used	(76)	(19)
Amount of facility unused	**58**	**111**
Committed unsecured funding		
Facility available	–	102
Amount of facility used	–	(15)
Amount of facility unused	**–**	**87**
Commercial paper and medium-term notes (subject to Dealer Panel participation)		
Facility available	1,000	1,000
Amount of facility used	–	–
Amount of facility unused	**1,000**	**1,000**

1 The syndicated standby facility will mature on 26 May 2013.

The bank overdraft facility held with Commonwealth Bank of Australia covers the combined balances of Qantas and its wholly-owned controlled entities. Subject to the continuance of satisfactory credit ratings, the bank overdraft facility may be utilised at any time. Commonwealth Bank of Australia may terminate this facility without notice.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

27. Acquisitions and Disposals of Controlled Entities, Associates and Jointly Controlled Entities

(A) ACQUISITIONS

(i) Wishlist Holdings Group

On 5 August 2011 the Qantas Group acquired 100 per cent of the Wishlist Holdings Group for $11 million (net of cash acquired). From 31 July 2011 (date of effective control) the Wishlist Holdings Group has been consolidated into the Qantas Group. Other than goodwill of $5 million and other intangible assets of $8 million, there were no other material effects of this transaction on the Qantas Group's financial position.

(ii) Network Aviation Group

On 11 February 2011 the Qantas Group acquired 100 per cent of the Network Aviation Group. The purchase consideration, net of cash acquired, was $21 million. The fair value of the net assets acquired includes property, plant and equipment of $26 million, intangible assets of $4 million, interest-bearing liabilities of $18 million and net working capital and operating assets of $1 million. Goodwill arising from this acquisition was $8 million.

During 2011 the Network Aviation Group contributed approximately $19 million in revenue and other income and a break-even profit before tax. If the transaction had occurred on 1 July 2010, the Network Aviation Group would have contributed $45 million in revenue and other income and a break-even profit before tax.

(iii) Jetstar Japan Co., Ltd.

Jetstar Japan Co., Ltd., a venture between Qantas, Japan Airlines Co., Ltd., Century Tokyo Leasing Corporation and Mitsubishi Corporation, was incorporated on 5 September 2011. The Qantas Group owns a 33 per cent voting interest representing a 42 per cent economic interest in this venture.

In October 2011 the Group made an initial investment of JPY2 billion ($28 million) to fund the operational start-up costs and working capital in Jetstar Japan Co., Ltd. The Group's investment in Jetstar Japan Co., Ltd. is accounted for as an investment in associate and equity accounted.

(B) DISPOSALS OR RESTRUCTURING

(i) DPEX Group

On 9 August 2010 the Qantas Group disposed of its ownership in the DPEX Group, which was part of the Qantas Freight operating segment. On the completion of the transaction, the Qantas Group recognised a gain of $5 million before tax. The assets of the DPEX disposal group represented goodwill of $16 million and receivables and other assets of $6 million. The liabilities of the DPEX disposal group represented payables of $4 million.

(ii) Jetset Travelworld Group

On 30 September 2010 the Jetset Travelworld Group merged with Stella Travel Services. The merger resulted in the Qantas Group's shareholding in Jetset Travelworld Group reducing to 29 per cent from 58 per cent. Consequently, Jetset Travelworld Group ceased to be a controlled entity and was deconsolidated from the Qantas Group. From 1 October 2010 the investment is accounted for as an associate. The Qantas Group recognised a net loss arising from this transaction of $29 million before tax.

(iii) Harvey Holidays Pty Ltd

On 30 June 2011 the Qantas Group disposed of its 50 per cent ownership in Harvey Holidays Pty Ltd (a jointly controlled entity). The Group recognised a gain on disposal of $4 million before tax.

Gain/loss on disposal or restructuring of investments

For the year ended 30 June 2011, the net loss on disposal of the above investments of $20 million was included in Other expenditure in the Consolidated Income Statement.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

28. Commitments

(A) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	Qantas Group	
	2012 $M	2011 $M
AS LESSEE		
Finance lease and hire purchase liabilities included in the Consolidated Financial Statements at the present value of future rentals		
Aircraft and engines – payable:		
Not later than one year	88	46
Later than one year but not later than five years	507	427
Later than five years	290	–
	885	**473**
Less: future lease and hire purchase finance charges and deferred lease benefits	162	15
Total finance lease and hire purchase liabilities	**723**	**458**
Finance lease and hire purchase liabilities included in the Consolidated Financial Statements		
Current liabilities (refer to Note 21)	73	51
Non-current liabilities (refer to Note 21)	650	407
Total finance lease and hire purchase liabilities	**723**	**458**

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

	2012 $M	2011 $M
AS LESSEE		
Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements		
Aircraft – payable:		
Not later than one year	616	632
Later than one year but not later than five years	1,569	1,718
Later than five years	342	450
	2,527	**2,800**
Non-aircraft – payable:		
Not later than one year	185	171
Later than one year but not later than five years	528	527
Later than five years	365	404
	1,078	**1,102**
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	8	7
	1,070	**1,095**
Total operating lease commitments not provided for in the Consolidated Financial Statements	**3,597**	**3,895**

The Qantas Group leases aircraft, buildings and plant and equipment under operating leases with expiry dates between one and 30 years.

The Qantas Group has the right to negotiate extensions on most leases.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

28. Commitments continued

	Qantas Group 2012 $M	Qantas Group 2011 $M
AS LESSOR		
Operating lease receivables not recognised in the Consolidated Financial Statements		
Receivable:		
Not later than one year	15	12
Later than one year but not later than five years	52	47
Later than five years	23	32
Total operating lease receivables not recognised in the Consolidated Financial Statements	**90**	**91**

Qantas leases out freighter aircraft under long-term operating leases with rentals received monthly.

(C) CAPITAL EXPENDITURE COMMITMENTS

	2012 $M	2011 $M
Capital expenditure commitments contracted but not provided for in the Consolidated Financial Statements, payable, in relation to:		
Assets to be operated by the Qantas Group:		
Not later than one year	1,201	1,982
Later than one year but not later than five years	7,930	7,568
Later than five years	4,928	1,254
Total capital expenditure commitments not recognised in the Consolidated Financial Statements	**14,059**	**10,804**

Qantas provides aircraft sourcing for some of its associates and jointly controlled entities. Capital expenditure commitments have reduced since 31 December 2011 driven in part by the transfer of 24 Airbus A320 aircraft to Jetstar Japan.

In addition, Qantas has a number of cancellation and deferral rights within its aircraft purchase contracts which can reduce or defer capital expenditure. The Group also has further opportunities to place ordered aircraft with its associates and jointly controlled entities.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

29. 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 sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Qantas Group	
	2012 $M	2011 $M
Performance guarantees and letters of comfort to support operating lease commitments and other arrangements entered into with other parties	3	5
General guarantees in the normal course of business	196	187
Contingent liabilities relating to current and threatened litigation	3	3
	202	**195**

AIRCRAFT FINANCING

As part of the financing arrangements for the acquisition of aircraft, the Qantas Group has provided certain guarantees and indemnities to various lenders and equity participants in leveraged lease transactions. In certain circumstances, including the insolvency of major international banks and other AAA rated counterparties, the Qantas Group may be required to make payment under these guarantees.

FREIGHT AND PASSENGER THIRD PARTY CLASS ACTIONS

Qantas is a party to a number of third party class actions relating to its freight and passenger divisions. Qantas continues to have a number of defences to these class actions. Qantas expects the outcome of these class actions will be known over the course of the next few years.

30. Superannuation

The Qantas Superannuation Plan (QSP) is a hybrid defined benefit/defined contribution fund with 14 separate divisions which commenced operation in June 1939. In addition to the QSP, there are a number of small offshore defined benefit plans.

The Qantas Group makes contributions to defined benefit superannuation 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. As at 30 June 2012 the total plan assets include shares in Qantas with a fair value of $9 million (2011: $18 million).

	Qantas Group	
	2012 $M	2011 $M
CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION		
Opening defined benefit obligation	2,274	2,210
Current service cost	154	152
Past service cost	–	(3)
Interest cost	106	102
Actuarial losses/(gains)	183	(41)
Exchange differences on foreign plans	3	(18)
Benefits paid	(159)	(128)
Closing defined benefit obligation	**2,561**	**2,274**
CHANGES IN THE FAIR VALUE OF PLAN ASSETS		
Opening fair value of plan assets	2,101	1,964
Expected return	151	144
Actuarial losses	(178)	(7)
Exchange differences on foreign plans	2	(15)
Contributions by employer	138	120
Contributions by plan participants	27	23
Benefits paid	(159)	(128)
Closing fair value of plan assets	**2,082**	**2,101**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

30. Superannuation continued

	Qantas Group	
	2012 $M	2011 $M
EXPENSE RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT		
Current service cost	154	152
Past service cost	–	(3)
Interest cost	106	102
Contributions by plan participants	(27)	(23)
Expected return on plan assets	(151)	(144)
Actuarial losses	20	26
Total included in manpower and staff related expenditure	**102**	**110**
ACTUAL RETURN (LOSS)/GAIN ON PLAN ASSETS		
Actual return (loss)/gain on plan assets	**(27)**	**137**
	%	%
MAJOR CATEGORIES OF PLAN ASSETS AS A PERCENTAGE OF TOTAL PLAN ASSETS		
Equity instruments (Australian and overseas)	50	50
Fixed interest, cash and indexed bonds (Australian and overseas)	30	30
Property	5	5
Alternative assets	15	15
	$M	$M
RECONCILIATION TO THE CONSOLIDATED BALANCE SHEET		
Fair value of plan assets	2,082	2,101
Present value of defined benefit obligation	2,561	2,274
Deficit	**(479)**	**(173)**
Less: unrecognised actuarial losses	(772)	(431)
Recognised prepayments in the Consolidated Balance Sheet (refer to Note 14)	**293**	**258**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

30. Superannuation continued

	Qantas Group				
	2012 $M	2011 $M	2010 $M	2009 $M	2008 $M
HISTORICAL AMOUNTS					
Fair value of plan assets	2,082	2,101	1,964	1,944	2,142
Present value of defined benefit obligation	2,561	2,274	2,210	2,098	1,846
(Deficit)/surplus	**(479)**	**(173)**	**(246)**	**(154)**	**296**
Experience adjustments (loss)/gain on plan assets	(178)	(7)	36	(343)	(271)
Experience adjustments gain/(loss) on plan liabilities	18	40	(81)	(37)	(138)
Actuarial estimate adjustments (loss)/gain on plan liabilities	(201)	1	(93)	(139)	(42)

	Qantas Group	
	2012 %	2011 %
PRINCIPAL ACTUARIAL ASSUMPTIONS (EXPRESSED AS WEIGHTED AVERAGES PER ANNUM)		
Discount rate	4.4	5.3
Expected return on plan assets	6.8	7.2
Future salary increases	3.0	3.0

The expected long-term rate of return is based on the weighted average of expected returns on each individual asset class where the weightings reflect the proportion of defined benefit assets invested in each asset class. Each asset class' expected return is based on expectations of average returns over the next 10 years.

Employer contributions to the defined benefit superannuation plans are based on recommendations by the plans' actuaries. It is estimated that $104 million will be paid by Qantas for employees accruing defined benefits for the year ended 30 June 2013 (2011: $105 million for the year ended 30 June 2012).

In April 2009, following the Global Financial Crisis and the resultant weakening of QSP's financial position, a three year additional funding plan for the defined benefit divisions was implemented in agreement with the Trustee of the QSP. In May 2012 the additional funding plan was extended for six months. As at 30 June 2012 Qantas has contributed a total of $83 million of additional funding (as at 30 June 2011: total of $50 million).

The QSP's financial position is monitored by the Trustee each quarter and the actuary recommends the amounts of additional contributions to be made each quarter, as required under the agreed funding plan.

Defined contribution fund

The Qantas Group's results include $157 million (2011: $154 million) of expenses in relation to defined contribution funds.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

31. Related Parties

(A) KEY MANAGEMENT PERSONNEL

The Key Management Personnel (KMP) of the Qantas Group during the year were:

Directors

Leigh Clifford, AO, Chairman

Alan Joyce, Chief Executive Officer

Peter Cosgrove, AC, MC, Non-Executive Director

Patricia Cross, Non-Executive Director

Richard Goodmanson, Non-Executive Director

Garry Hounsell, Non-Executive Director

William Meaney, Non-Executive Director (appointed 15 February 2012)

Corinne Namblard, Non-Executive Director

Paul Rayner, Non-Executive Director

John Schubert, AO, Non-Executive Director

James Strong, AO, Non-Executive Director

Barbara Ward, AM, Non-Executive Director

Key Management Executives

Bruce Buchanan, Chief Executive Officer Jetstar

Gareth Evans, Chief Financial Officer

Rob Gurney, Group Executive Qantas Airlines Commercial (ceased employment on 30 June 2012)

Simon Hickey, Chief Executive Officer Qantas Loyalty

Jayne Hrdlicka, Group Executive Strategy & Technology (appointed as KMP effective 1 February 2011)

Lyell Strambi, Group Executive Qantas Airlines Operations

(B) REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

	Qantas Group	
	2012 $000	2011 $000
Short-term employee benefits	10,360	9,236
Post-employment benefits	650	688
Other long-term benefits	107	188
Termination benefits	840	–
Share-based payments	6,988	5,374
	18,945	**15,486**

Further details in relation to the remuneration of KMPs is included in the Directors' Report from pages 42 to 62.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

31. Related Parties continued

(C) EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL

Set out in the following tables are the holdings of equity instruments granted as remuneration to the KMP by Qantas. Non-Executive Directors do not receive any remuneration in the form of share-based payments, although they may salary sacrifice a portion of their Directors' fees to purchase shares.

(i) Short Term Incentive Plan (STIP)

Key Management Personnel		Opening Balance	Number Granted	Number Forfeited	Number Vested and Transferred	Closing Balance
Alan Joyce	2012 Total	1,166,000	375,014	–	(583,000)	958,014
	2011 Total	–	1,166,000	–	–	1,166,000
Bruce Buchanan	2012 Total	259,000	103,166	–	(129,500)	232,666
	2011 Total	–	259,000	–	–	259,000
Gareth Evans	2012 Total	178,000	111,658	–	(89,000)	200,658
	2011 Total	–	178,000	–	–	178,000
Rob Gurney	2012 Total	238,000	81,671	–	(200,671)	119,000
	2011 Total	–	238,000	–	–	238,000
Simon Hickey	2012 Total	243,000	109,119	–	(121,500)	230,619
	2011 Total	–	243,000	–	–	243,000
Jayne Hrdlicka	2012 Total	–	35,704	–	–	35,704
	2011 Total	–	–	–	–	–
Lyell Strambi	2012 Total	303,000	99,600	–	(151,500)	251,100
	2011 Total	–	303,000	–	–	303,000

The shares were granted on 31 August 2011 (2011: 12 August 2010) at a fair value of $1.58 (2011: $2.56). No amount has been paid, or is payable, by the Executive in relation to these deferred shares.

(ii) Long Term Incentive Plan (LTIP)

Key Management Personnel		Opening Balance	Number Granted	Number Lapsed/ Forfeited	Number Vested and Transferred	Closing Balance
Alan Joyce	2012 Total	1,710,350	1,675,000	(255,280)	(56,070)	3,074,000
	2011 Total	633,750	1,084,000	(7,400)	–	1,710,350
Bruce Buchanan	2012 Total	320,500	426,000	(70,500)	–	676,000
	2011 Total	209,500	111,000	–	–	320,500
Gareth Evans	2012 Total	270,651	456,000	(51,920)	–	674,731
	2011 Total	153,575	119,000	(1,924)	–	270,651
Rob Gurney	2012 Total	279,460	414,000	(562,920)	(1,540)	129,000
	2011 Total	184,384	97,000	(1,924)	–	279,460
Simon Hickey	2012 Total	358,405	197,000	(73,860)	–	481,545
	2011 Total	256,625	104,000	(2,220)	–	358,405
Jayne Hrdlicka	2012 Total	–	191,000	–	–	191,000
	2011 Total	–	–	–	–	–
Lyell Strambi	2012 Total	320,000	456,000	(75,000)	–	701,000
	2011 Total	201,000	119,000	–	–	320,000

During the year 3,815,000 Rights were granted, of which 2,140,000 Rights were granted on 23 August 2011 and 1,675,000 Rights were granted on 28 October 2011 (2011: 550,000 Rights were granted on 12 August 2010 and 1,084,000 Rights were granted on 29 October 2010).

The fair value of Rights granted is calculated at the date of grant using a Monte Carlo model to value the Rights with the TSR performance condition and a Black Scholes model to value the Rights with the EPS performance condition. The fair value of Rights granted on 23 August 2011 and 28 October 2011 were $0.86 and $0.815, respectively (2011: $1.50 and $1.76 for Rights granted on 12 August 2010 and 29 October 2010, respectively). No amount has been paid, or is payable, by the Executive in relation to these Rights.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

31. Related Parties continued

(iii) Performance Share Plan (PSP)

		Opening Balance	Number Granted	Number Forfeited	Number Vested and Transferred	Closing Balance	Not Available to Call	Available to Call
Alan Joyce	2012 Total	420,863	–	–	(420,863)	–	–	–
	2011 Total	420,863	–	–	–	420,863	86,681	334,182
Bruce Buchanan	2012 Total	57,220	–	–	(25,500)	31,720	–	31,720
	2011 Total	82,720	–	–	(25,500)	57,220	25,500	31,720
Gareth Evans	2012 Total	50,382	–	–	(13,761)	36,621	–	36,621
	2011 Total	64,143	–	–	(13,761)	50,382	13,761	36,621
Rob Gurney	2012 Total	32,663	–	–	(32,663)	–	–	–
	2011 Total	49,663	–	–	(17,000)	32,663	17,000	15,663
Simon Hickey	2012 Total	116,713	–	–	(26,500)	90,213	–	90,213
	2011 Total	143,213	–	–	(26,500)	116,713	26,500	90,213
Lyell Strambi	2012 Total	93,500	–	–	(18,500)	75,000	–	75,000
	2011 Total	112,000	–	–	(18,500)	93,500	18,500	75,000

No amount has been paid, or is payable, by the Executive in relation to these deferred shares.

(iv) Retention Plan (RP)

Alan Joyce	2012 Total	750,000	–	–	(750,000)	–	–	–
	2011 Total	750,000	–	–	–	750,000	–	750,000
Simon Hickey	2012 Total	400,000	–	–	–	400,000	–	400,000
	2011 Total	400,000	–	–	–	400,000	–	400,000

No amount has been paid, or is payable, by the Executive in relation to these deferred shares.

(v) 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 – Non-Executive Directors	Interest in Shares as at 30 June 2010	Other Change[1]	Interest in Shares as at 30 June 2011	Other Change[1]	Interest in Shares as at 30 June 2012
Leigh Clifford	51,622	–	51,622	100,000	151,622
Peter Cosgrove	15,251	10,381	25,632	8,933	34,565
Patricia Cross	5,474	5,000	10,474	20,000	30,474
Richard Goodmanson	20,000	–	20,000	–	20,000
Garry Hounsell	43,449	–	43,449	36,551	80,000
William Meaney	n/a	n/a	n/a	–	–
Corinne Namblard	n/a	–	–	–	–
Paul Rayner	21,622	–	21,622	50,000	71,622
John Schubert	41,375	–	41,375	61,728	103,103
James Strong	44,717	–	44,717	–	44,717
Barbara Ward	17,597	–	17,597	30,000	47,597

1 Other change includes shares acquired through salary sacrifice, purchased or sold.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

31. Related Parties continued

Key Management Personnel – Executives	Interest in Shares as at 30 June 2010	Awarded as Remuneration	Rights Converted to Shares	Other Change[1]	Interest in Shares as at 30 June 2011[2]	Awarded as Remuneration	Rights Converted to Shares	Other Change[1]	Interest in Shares as at 30 June 2012[2]
Alan Joyce	1,309,118	1,166,000	–	–	2,475,118	375,014	56,070	–	2,906,202
Bruce Buchanan	89,366	259,000	–	–	348,366	103,166	–	–	451,532
Gareth Evans	64,864	178,000	–	–	242,864	111,658	–	–	354,522
Rob Gurney	49,663	238,000	–	–	287,663	81,671	1,540	(153,000)	217,874
Simon Hickey	560,488	243,000	–	–	803,488	109,119	–	–	912,607
Jayne Hrdlicka	n/a	–	–	–	–	35,704	–	–	35,704
Lyell Strambi	112,000	303,000	–	(18,300)	396,700	99,600	–	(159,000)	337,300

1 Other change includes shares acquired through salary sacrifice, purchased, sold or forfeited.
2 Where appropriate, the number shown is at the date the person ceased to be KMP.

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 2012 or prior year.

A number of KMPs and their related parties have transactions with the Qantas Group. All transactions, including air travel, are conducted on normal commercial arm's length terms. The nature of transactions, other than air travel, is set out below:

— Toolangi Vineyards is a related entity to Mr Hounsell. Toolangi Vineyards' wine has been selected by an independent wine panel for use on Qantas Business Class services. All transactions were conducted on normal commercial arm's length terms. The value of the transactions throughout the year was $326,958 (2011: $79,290). The amount payable as at 30 June 2012 was $89,280 (2011: nil).

(D) OTHER RELATED PARTY TRANSACTIONS – ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of interests in associates and jointly controlled entities are provided in Note 15. Transactions with associates and jointly controlled entities are conducted on normal terms and conditions.

Transactions between the Qantas Group and associates and jointly controlled entities include:

— The Qantas Group provides catering and ground handling services and performs maintenance and contract work for Air Pacific Limited (Air Pacific)
— The Qantas Group codeshares on certain Air Pacific services for which it pays for seats utilised
— The Qantas Group provides ramp handling services to AUX Investment Pty Limited and its controlled entities (AUX Investment Group)
— The Qantas Group leases aircraft and domestic freight capacity and sub-leases certain property to the AUX Investment Group
— The Qantas Group receives certain domestic freight and document delivery services from the AUX Investment Group
— The Qantas Group receives interest from the AUX Investment Group on an investment loan
— The Qantas Group receives engine maintenance services from LTQ Engineering Pty Limited
— The Qantas Group provides airline seats on domestic and international routes to the Jetset Travelworld Group for sale through its travel agency network
— The Qantas Group sells Frequent Flyer points to the Jetset Travelworld Group and redeems Qantas Holidays vouchers on the Qantas Frequent Flyer store
— The Qantas Group provides aircraft sourcing for Jetstar Japan Co., Ltd.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

31. Related Parties continued

Transactions and balances with associates and jointly controlled entities are included in the Consolidated Financial Statements as follows:

	Notes	Qantas Group 2012 $M	Qantas Group 2011 $M
Revenue and other income			
– Associates		94	102
– Jointly controlled entities		181	170
Finance income – Jointly controlled entities	5	10	10
Expenditure			
– Associates		34	41
– Jointly controlled entities		9	24
Current receivables			
– Associates		213	23
– Jointly controlled entities		13	16
Non-current receivables – Jointly controlled entities	11	128	128
Current payables – Associates		1	1

32. Consolidated Entities

Consolidated Entities	Footnote	ACN/ABN	Country of Incorporation	Qantas Group Ownership Interest 30 June 2012 %	Qantas Group Ownership Interest 30 June 2011 %
738 Leasing 1 Pty Limited		33 099 119 641	Australia	100	100
738 Leasing 2 Pty Limited		71 099 119 801	Australia	100	100
AAL Aviation Limited	1	83 008 642 886	Australia	100	100
AAFE Superannuation Pty Limited		064 186 214	Australia	100	100
TAA Superannuation Pty. Ltd.		065 318 461	Australia	100	100
Australian Regional Airlines Pty. Ltd.	1	25 006 783 633	Australia	100	100
Regional Airlines Charter Pty Limited	1	21 147 543 806	Australia	100	100
Network Aviation Pty Ltd	1	082 007 350	Australia	100	100
The Network Trust	1		n/a	100	100
Network Aviation Holdings Pty Ltd	1	081 505 008	Australia	100	100
The Network Holding Trust	1		n/a	100	100
Network Holding Investments Pty Ltd	1	110 179 818	Australia	100	100
Network Turbine Solutions Pty Ltd	1	20 110 180 008	Australia	100	100
Osnet Jets Pty Ltd	1	99 128 559 419	Australia	100	100
Sunstate Airlines (Qld) Pty. Limited	1	82 009 734 703	Australia	100	100
Southern Australia Airlines Pty Ltd	1	38 006 604 217	Australia	100	100
Airlink Pty Limited	1	76 010 812 316	Australia	100	100
Eastern Australia Airlines Pty. Limited	1	77 001 599 024	Australia	100	100
Impulse Airlines Holdings Proprietary Limited	1	67 090 590 024	Australia	100	100
Impulse Airlines Australia Pty Ltd	1	17 090 379 285	Australia	100	100
Jetstar Airways Pty Limited	1	33 069 720 243	Australia	100	100
Jetstar Airways Limited			New Zealand	100	100
Jetstar Group Pty Limited	1	64 003 901 353	Australia	100	100
Jetstar Holidays Co. Ltd.			Japan	100	100
First Brisbane Airport Proprietary Limited	1	60 006 912 116	Australia	100	100
Second Brisbane Airport Proprietary Limited	1	49 006 912 072	Australia	100	100
First Brisbane Airport Unit Trust			n/a	100	100
Second Brisbane Airport Unit Trust			n/a	100	100

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

32. Consolidated Entities continued

Consolidated Entities	Footnote	ACN/ABN	Country of Incorporation	Qantas Group Ownership Interest 30 June 2012 %	Qantas Group Ownership Interest 30 June 2011 %
TAA Aviation Pty. Ltd.	1	17 008 596 825	Australia	100	100
In Tours Airline Unit Trust No 1			n/a	100	100
Australian Airlines Limited	1	85 099 625 304	Australia	100	100
Jetstar Services Pty Limited	1, 2	19 107 638 326	Australia	100	100
J Stay Pty Limited	3, 4	32 152 774 457	Australia	100	–
Jetconnect Limited			New Zealand	100	100
Jetstar Asia Holdings Pty Limited	1	86 108 623 123	Australia	100	100
Newstar Investment Holdings Pte. Ltd.	5		Singapore	49	49
Orangestar Investment Holdings Pte. Ltd.			Singapore	49	49
Jetstar Asia Airways Pte. Ltd.			Singapore	49	49
Valuair Limited			Singapore	49	49
Jetstar International Group Australia Pty Limited	3	17 152 774 395	Australia	100	–
Jetstar International Group Holdings Co. Limited	6		Hong Kong	100	–
Jetstar International Group Japan Co., Ltd	7		Japan	100	–
Jetstar Leasing Pty Limited		81 138 783 169	Australia	100	100
Q H Tours Ltd	1	81 001 262 433	Australia	100	100
Holiday Tours & Travel Pte. Ltd.			Singapore	75	75
H Travel Sdn Bhd			Malaysia	75	75
Holiday Tours & Travel Limited			Hong Kong	75	75
Holiday Tours & Travel Ltd			Taiwan	75	75
Holiday Tours & Travel (Korea) Limited			Korea	56.25	56.25
Holiday Tours & Travel (Singapore) Pte. Ltd.			Singapore	75	75
PT Pacto Holiday Tours			Indonesia	52.5	52.5
PT Biro Perjalanan Wisata Tour East Indonesia			Indonesia	60	60
Tour East (2009) Sdn Bhd			Malaysia	75	75
Tour East Australia Pty Limited		87 106 526 096	Australia	75	75
Tour East (Hong Kong) Limited			Hong Kong	75	75
Hangda Ticket Agent (Shanghai) Co. Ltd	8		China	75	75
Tour East Singapore (1996) Pte Ltd			Singapore	75	75
QH International Co. Limited.			Japan	100	100
Jetabout Japan, Inc.			Japan	100	100
QH Tours (UK) Limited			United Kingdom	100	100
Qantas Viva! Holidays Pty Limited		82 003 857 332	Australia	100	100
Qantas Asia Investment Company Pty Ltd	1	26 125 048 044	Australia	100	100
Qantas Asia Investment Company (Singapore) Pte. Ltd.			Singapore	100	100
Qantas Cabin Crew (UK) Limited			United Kingdom	100	100
Qantas Catering Group Limited	1	34 003 836 440	Australia	100	100
Q Catering Limited	1	35 003 530 685	Australia	100	100
Q Catering Cairns Pty Limited	1	51 008 646 302	Australia	100	100
Q Catering Riverside Pty Limited	1	37 062 648 140	Australia	100	100
Airport Infrastructure Finance Pty. Limited		14 011 071 248	Australia	100	100
Qantas Defence Services Pty Limited	1	53 090 673 466	Australia	100	100
Aerial Operations Services Pty Limited		52 123 140 152	Australia	100	100
QDS Richmond Pty Ltd	9	58 092 691 140	Australia	–	100
Qantas Domestic Pty Limited	1	21 134 556 255	Australia	100	100
Qantas Freight Enterprises Limited	1	55 128 862 108	Australia	100	100
Express Freighters Australia Pty Limited	1	73 003 613 465	Australia	100	100

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

32. Consolidated Entities continued

Consolidated Entities	Footnote	ACN/ABN	Country of Incorporation	Qantas Group Ownership Interest 30 June 2012 %	Qantas Group Ownership Interest 30 June 2011 %
Express Freighters Australia (Operations) Pty Limited	1	54 119 093 999	Australia	100	100
Qantas Road Express Pty Limited	1	56 130 392 111	Australia	100	100
Qantas Courier Limited	1	32 003 890 328	Australia	100	100
Qantas Foundation Trustee Limited		130 129 449	Australia	100	100
Qantas Frequent Flyer Limited	1	12 129 456 908	Australia	100	100
Wishlist Holdings Limited	10	38 085 529 979	Australia	100	–
Loyalty Magic Pty Limited	10	51 075 350 239	Australia	100	–
Qantas Frequent Flyer Operations Pty Limited	1	22 132 484 210	Australia	100	100
Qantas Ground Services Pty Limited	1	43 137 771 692	Australia	100	100
Qantas Group Flight Training Pty Limited	1	29 128 258 104	Australia	100	100
Qantas Group Flight Training (Australia) Pty Limited	1	45 128 258 677	Australia	100	100
Qantas Information Technology Ltd	1	99 000 005 372	Australia	100	100
Qantas Superannuation Limited		47 003 806 960	Australia	100	100
QF 738 Leasing 5 Pty Limited		75 100 511 706	Australia	100	100
QF 738 Leasing 6 Pty Limited		83 100 511 742	Australia	100	100
QF 744 Leasing 3 Pty Limited		18 100 511 466	Australia	100	100
QF 744 Leasing 4 Pty Limited		24 100 511 493	Australia	100	100
QF A332 Leasing 1 Pty Limited		11 100 511 813	Australia	100	100
QF A332 Leasing 2 Pty Limited		13 100 511 886	Australia	100	100
QF A332 Leasing 3 Pty Limited		86 100 510 503	Australia	100	100
QF A332 Leasing 4 Pty Limited		84 100 510 558	Australia	100	100
QF A333 Leasing 3 Pty Limited		50 100 510 352	Australia	100	100
QF A333 Leasing 4 Pty Limited		44 100 510 389	Australia	100	100
QF A388 Leasing 1 Pty Limited		62 100 510 843	Australia	100	100
QF A388 Leasing 2 Pty Limited		66 100 510 861	Australia	100	100
QF B738 2011 No.1 Pty Limited		76 151 556 393	Australia	100	100
QF B738 2011 No.2 Pty Limited		95 151 556 473	Australia	100	100
QF B738 2011 No.3 Pty Limited		97 151 556 482	Australia	100	100
QF B738 2011 No.4 Pty Limited		23 151 556 544	Australia	100	100
QF B738 2011 No.5 Pty Limited		27 151 556 562	Australia	100	100
QF BNP 2008-1 Pty Limited		25 132 252 174	Australia	100	100
QF BNP 2008-2 Pty Limited		17 132 252 138	Australia	100	100
QF BOC 2008-1 Pty Limited		22 100 510 674	Australia	100	100
QF BOC 2008-2 Pty Limited		35 100 510 727	Australia	100	100
QF Cabin Crew Australia Pty Limited	1	46 128 382 105	Australia	100	100
QF Calyon 2009-1 Pty Limited		23 135 258 534	Australia	100	100
QF Calyon 2009-2 Pty Limited		12 135 258 490	Australia	100	100
QF Dash 8 Leasing Pty Limited	9	86 107 164 750	Australia	–	100
QF Dash 8 Leasing No. 2 Pty Limited		44 134 259 957	Australia	100	100
QF Dash 8 Leasing No. 3 Pty Limited		48 134 259 975	Australia	100	100
QF Dash 8 Leasing No. 4 Pty Limited		91 135 258 445	Australia	100	100
QF Dash 8 Leasing No. 5 Pty Limited		31 149 204 713	Australia	100	100
QF ECA 2008-1 Pty Limited		71 133 356 475	Australia	100	100
QF ECA 2008-2 Pty Limited		73 133 356 420	Australia	100	100
QF ECA A380 2010 No.1 Pty Limited		14 145 079 312	Australia	100	100
QF ECA A380 2010 No.2 Pty Limited		78 145 079 205	Australia	100	100
QF ECA A380 2010 No.3 Pty Limited		61 145 079 134	Australia	100	100

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

32. Consolidated Entities continued

Consolidated Entities	Footnote	ACN/ABN	Country of Incorporation	Qantas Group Ownership Interest 30 June 2012 %	30 June 2011 %
QF ECA A380 2010 No.4 Pty Limited		42 145 079 054	Australia	100	100
QF ECA A380 2011 No.1 Pty Limited		11 145 078 931	Australia	100	100
QF ECA A380 2011 No.2 Pty Limited		19 146 437 774	Australia	100	100
Snap Fresh Pty Limited	1	55 092 536 475	Australia	100	100
Southern Cross Insurances Pte Limited			Singapore	100	100
Travel Software Solutions Pty Limited		36 005 407 465	Australia	100	100

1 Pursuant to ASIC Class Order 98/1418 (as amended), these controlled entities are relieved from the Corporations Act requirements for the preparation, audit and lodgement of Financial Reports.
2 Express Ground Handling Pty Limited changed its name to Jetstar Services Pty Limited on 21 February 2012.
3 These companies were incorporated on 19 August 2011.
4 This company changed its name to HOOROO Pty Limited on 11 July 2012.
5 In accordance with the Air Navigation Act (Singapore 2009), Newstar Investment Holdings Pte. Ltd. and its Singapore based airline subsidiaries are substantially owned and effectively controlled by Singapore nationals. Notwithstanding this, Australian Accounting Standards (AASB 127 Consolidated and Separate Financial Statements) require the Qantas Group to consolidate Newstar Investment Holdings Pte Ltd and its controlled entities in the Qantas Group Financial Statements.
6 This company was incorporated on 2 April 2012.
7 This company was incorporated on 6 September 2011.
8 Hangda Consulting (Shanghai) Co. Ltd changed its name to Hangda Ticket Agent (Shanghai) Co. Ltd on 3 November 2011.
9 These companies were voluntarily deregistered on 28 August 2011.
10 Qantas acquired 100 per cent of these companies on 5 August 2011 and both companies became party to the Qantas Deed of Cross Guarantee on 13 October 2011.

33. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) (Class Order), the wholly-owned entities identified in Note 32 are relieved from the Corporations Act requirements for preparation, audit, distribution and lodgement of Financial Statements and Directors' Reports.

It is a condition of the Class Order that Qantas and each of the controlled entities eligible to obtain relief under the Class Order 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 of any of the controlled entities that is party to the Deed. If the winding up occurs under other provisions of the Corporations Act, 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 and 13 October 2011.

The consolidated Condensed Income Statement and Balance Sheet for Qantas and each of its controlled entities that are party to the Deed is 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 controlled entities that are not party to the Deed are carried at cost less any accumulated impairment
- Investments in associates and jointly controlled entities are carried at cost less any accumulated impairment
- Dividends received from investments in associates and jointly controlled entities are recognised as income

	Consolidated 2012 $M	2011 $M
CONDENSED INCOME STATEMENT		
Statutory (loss)/profit before income tax expense	**(344)**	**249**
Income tax benefit/(expense)	105	(74)
Statutory (loss)/profit for the year	**(239)**	**175**
Retained earnings as at 1 July	1,296	1,121
Shares unvested and lapsed	2	–
Impact of entities joining/leaving the Deed	–	–
Retained earnings as at 30 June	**1,059**	**1,296**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

33. Deed of Cross Guarantee continued

	Consolidated	
	2012 $M	2011 $M
BALANCE SHEET		
Current assets		
Cash and cash equivalents	3,178	3,262
Receivables	1,229	1,207
Other financial assets	88	318
Inventories	376	372
Assets classified as held for sale	73	20
Other	399	380
Total current assets	**5,343**	**5,559**
Non-current assets		
Receivables	2,307	2,220
Other financial assets	17	70
Investments in controlled entities which are not parties to the Deed	310	223
Investments in associates and jointly controlled entities	368	408
Other investments	18	3
Property, plant and equipment	14,089	13,641
Intangible assets	544	535
Other	–	1
Total non-current assets	**17,653**	**17,101**
Total assets	**22,996**	**22,660**
Current liabilities		
Payables	1,859	1,755
Revenue received in advance	3,106	2,997
Interest-bearing liabilities	1,294	728
Other financial liabilities	369	398
Provisions	529	446
Income tax liabilities	2	–
Liabilities classified as held for sale	12	–
Total current liabilities	**7,171**	**6,324**
Non-current liabilities		
Revenue received in advance	1,136	1,111
Interest-bearing liabilities	7,254	7,244
Other financial liabilities	225	496
Provisions	724	614
Deferred tax liabilities	653	774
Total non-current liabilities	**9,992**	**10,239**
Total liabilities	**17,163**	**16,563**
Net assets	**5,833**	**6,097**
Equity		
Issued capital	4,729	4,729
Treasury shares	(42)	(72)
Reserves	87	144
Retained earnings	1,059	1,296
Total equity	**5,833**	**6,097**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

34. Financial Risk Management

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Qantas Group is subject to liquidity, interest rate, foreign exchange, fuel price and credit risks. These risks are an inherent part of the operations of an international airline. The Qantas Group manages these risk exposures using various financial instruments, governed by a set of policies approved by the Board. Qantas Group's policy is not to enter, issue or hold derivative financial instruments for speculative trading purposes.

The Qantas Group uses different methods to assess and manage different types of 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 risk and credit risk.

(A) LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. 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 tables summarise the contractual timing of cash flows, including estimated interest payments, of financial liabilities and derivative instruments. Contractual amount assumes current interest rates and foreign exchange rates.

Qantas Group 2012 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
FINANCIAL LIABILITIES				
Trade creditors	645	–	–	**645**
Bank loans – secured[1]	689	2,124	1,794	**4,607**
Bank loans – unsecured[1]	54	957	–	**1,011**
Other loans – unsecured[1]	557	742	–	**1,299**
Lease and hire purchase liabilities[1]	69	500	291	**860**
Derivatives – inflows	(595)	(888)	(89)	**(1,572)**
Derivatives – outflows	868	1,149	92	**2,109**
Net other financial assets/liabilities – outflows	33	24	–	**57**
Total financial liabilities	**2,320**	**4,608**	**2,088**	**9,016**

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

2011 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
FINANCIAL LIABILITIES				
Trade creditors	597	–	–	**597**
Bank loans – secured[1]	631	2,180	1,745	**4,556**
Bank loans – unsecured[1]	61	1,031	–	**1,092**
Other loans – unsecured[1]	89	1,163	–	**1,252**
Lease and hire purchase liabilities[1]	46	427	–	**473**
Derivatives – inflows	(191)	(1,442)	(33)	**(1,666)**
Derivatives – outflows	247	2,045	37	**2,329**
Net other financial assets/liabilities – inflows	28	30	–	**58**
Total financial liabilities	**1,508**	**5,434**	**1,749**	**8,691**

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

(B) MARKET RISK

The Qantas Group has exposure to market risk in the following areas: interest rate, foreign exchange and fuel price. The following section summarises the Qantas Group's approach to managing these risks.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

34. Financial Risk Management continued

(i) Interest Rate 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 in a number of currencies, predominantly in AUD, GBP, USD, JPY, NZD and EUR. These principally include corporate debt, leases and cash. The Qantas Group manages interest rate risk by reference to pricing intervals spread across different time periods with the proportion of floating and fixed rate debt managed separately. 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 2012 interest-bearing liabilities amounted to $6,549 million (2011: $6,031 million). The fixed/floating split is 11 per cent and 89 per cent respectively (2011: 17 per cent and 83 per cent). Other financial assets and liabilities include financial instruments related to debt totalling $431 million (liability) (2011: $446 million (liability)). These financial instruments are recognised at fair value in accordance with AASB 139.

(ii) Foreign Exchange 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 arise from operations, capital expenditures and translation risks.

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. These foreign currency borrowings have a maturity of between one and 12 years. 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.

Forward foreign exchange contracts and currency options are used to hedge a portion of remaining net foreign currency revenue or expenditure in accordance with Qantas Group policy. Net foreign currency revenue and expenditure out to two years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board. Purchases and disposals of property, plant and equipment denominated in a foreign currency may be hedged out to two years using a combination of forward foreign exchange contracts and currency options.

As at 30 June 2012, 49 per cent (2011: 39 per cent) of forecast operational and capital expenditure foreign exchange exposures less than one year and 1 per cent (2011: 12 per cent) of exposures greater than one year but less than three years have been hedged. As at 30 June 2012, total unrealised exchange gains on hedges of net revenue designated to service long-term debt were $164 million (2011: $234 million).

For the year ended 30 June 2012, other financial assets and liabilities include derivative financial instruments used to hedge foreign currency, including hedging of future capital and operating expenditure payments, totalling $62 million (net liability) (2011: $226 million (net liability)). These are recognised at fair value in accordance with AASB 139.

(iii) Fuel Price Risk

The Qantas Group uses options and swaps on jet kerosene, gasoil and crude oil to hedge exposure to movements in the price of aviation fuel. Hedging is conducted in accordance with Qantas Group policy. Up to 80 per cent of estimated fuel consumption out to 12 months and up to 40 per cent in the subsequent 12 months may be hedged, with any hedging outside these parameters requiring approval by the Board. As at 30 June 2012, 58 per cent (2011: 53 per cent) of forecast fuel exposure less than one year and 6 per cent (2011: 9 per cent) of forecast fuel exposures greater than one year but less than three years have been hedged. For the year ended 30 June 2012, other financial assets and liabilities include fuel derivatives totalling $6 million (asset) (2011: $170 million (asset)). These are recognised at fair value in accordance with AASB 139.

(iv) Sensitivity on Interest Rate, Foreign Exchange and Fuel Price Risk

The table on the following page summarises the gain/(loss) impact of reasonably possible changes in market risk, relating to existing financial instruments, on net profit and equity before tax. For the purpose of this disclosure, the following assumptions were used:

- 100 basis points (2011: 100 basis points) increase and decrease in all relevant interest rates
- 20 per cent (2011: 20 per cent) USD depreciation and USD appreciation
- 20 per cent (2011: 20 per cent) increase and decrease in all relevant fuel indices
- Sensitivity analysis assumes hedge designations and effectiveness testing results as at 30 June 2012 remain unchanged
- Sensitivity analysis is isolated for each risk. For example, fuel price sensitivity analysis assumes all other variables, including foreign exchange rates, remain constant
- Sensitivity analysis on foreign currency pairs and fuel indices of 20 per cent represent recent volatile market conditions

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

34. Financial Risk Management continued

	Qantas Group			
	Profit Before Tax		Equity (Before Tax)	
	2012 $M	2011 $M	2012 $M	2011 $M
100bps increase in interest rates				
Variable rate interest-bearing instruments (net of cash)	(29)	(21)	–	–
Derivatives designated in a cash flow hedge relationship	–	–	34	7
Derivatives and fixed rate debt in a fair value hedge relationship	5	11	–	–
100bps decrease in interest rates				
Variable rate interest-bearing instruments (net of cash)	29	21	–	–
Derivatives designated in a cash flow hedge relationship	–	–	(36)	7
Derivatives and fixed rate debt in a fair value hedge relationship	(5)	(12)	–	–
20% movement in foreign currency pairs				
20% (2011: 20%) USD depreciation	(27)	(7)	(205)	(306)
20% (2011: 20%) USD appreciation	60	68	422	425
20% movement in fuel indices				
20% (2011: 20%) increase per barrel in fuel indices	88	14	70	290
20% (2011: 20%) decrease per barrel in fuel indices	(45)	(61)	(82)	(148)

(C) CREDIT 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.

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 2012 trade debtor amounted to $794 million (2011: $839 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

The table below sets out the maximum exposure to credit risk as at 30 June 2012:

		Qantas Group	
	Notes	2012 $M	2011 $M
On Consolidated Balance Sheet			
Cash and cash equivalents	10	3,398	3,496
Trade debtors	11	794	839
Sundry debtors	11	661	483
Other loans	11	128	128
Other financial assets	25	105	388
Off Consolidated Balance Sheet			
Operating leases as lessor	28	90	91
Total		**5,176**	**5,425**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

34. Financial Risk Management continued

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 2012 the credit risk of the Qantas Group to counterparties in relation to other financial assets, cash and cash equivalents, and other financial liabilities where a right of offset exists, amounted to $3,423 million (2011: $3,607 million) and was spread over a number of regions, including Australia, Asia, Europe and the United States. Excluding associated entities, the Qantas Group's credit exposure is with counterparties that have a minimum credit rating of A-/A3, unless individually approved by the Board.

(D) 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 in accordance with AASB 139.

		Carrying Amount		Fair Value	
Qantas Group	Notes	2012 $M	2011 $M	2012 $M	2011 $M
Financial assets					
Cash and cash equivalents	10	3,398	3,496	3,413	3,517
Trade debtors	11	794	839	794	839
Sundry debtors	11	661	483	661	483
Other loans	11	128	128	128	128
Other financial assets	25	105	388	105	388
Other investments		23	3	23	3
		5,109	**5,337**	**5,124**	**5,358**
Financial liabilities					
Trade creditors	19	645	597	645	597
Other creditors and accruals	19	1,231	1,141	1,231	1,141
Bank loans – secured	21	3,733	3,577	3,870	3,701
Bank loans – unsecured	21	877	874	924	934
Other loans – unsecured	21	1,216	1,122	1,225	1,139
Other financial liabilities	25	593	890	593	890
Lease and hire purchase liabilities	21	723	458	789	458
		9,018	**8,659**	**9,277**	**8,860**
Net financial liabilities		**3,909**	**3,322**	**4,153**	**3,502**

(E) FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The different methods of estimating the fair value of financial instruments have been defined 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)

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

34. Financial Risk Management continued

The fair value of financial instruments, by valuation method, are summarised in the table below:

Qantas Group 2012 $M	Level 1	Level 2	Level 3	Total
Derivative financial assets	–	105	–	105
Derivative financial liabilities	–	(593)	–	(593)
Net financial instruments measured at fair value	**–**	**(488)**	**–**	**(488)**
2011 $M				
Derivative financial assets	–	388	–	388
Derivative financial liabilities	–	(890)	–	(890)
Net financial instruments measured at fair value	**–**	**(502)**	**–**	**(502)**

Financial instruments that use valuation techniques with only market observable inputs to the overall valuation include interest rate swaps, forward and option commodity contracts and foreign exchange contracts that are not traded on a recognised exchange.

(F) CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base designed to maximise shareholder value, maintain creditor confidence and sustain future development of the business. Qantas targets a capital structure consistent with an investment grade credit rating while maintaining adequate liquidity.

The Board remains focused on balancing funding requirements of the business and investing for future growth with providing dividends for shareholders. The Board is committed to the resumption of dividend payments. The quantum and timing of this will depend on trading results, prevailing market conditions, the maintenance of an investment grade credit rating and the level of capital expenditure commitments.

During the year ended 30 June 2012 the Qantas Group invested $2.3 billion (2011: $2.4 billion) in capital expenditure and maintained an investment grade credit rating.

In the year ended 30 June 2013 the Qantas Group estimates it will spend $1.9 billion on net capital expenditure. The required funding will be met primarily through operating cash flows, although further debt funding is planned within the objective of maintaining an investment grade credit rating. The Board considers it prudent not to pay a dividend for the year ended 30 June 2012.

The Board monitors the level of returns relative to the assets employed in the business measured by the Return on Invested Capital (ROIC). The target is for ROIC to exceed cost of capital over the long term while growing the business.

35. Events Subsequent to Balance Date

On 23 August 2012, the Group announced it would restructure its Boeing 787 delivery schedule as part of the five-year Qantas International turnaround plan. Firm commitments for 35 B787-9s will be cancelled. Fifty B787-9 options and purchase rights will be retained, available for delivery from 2016. There is no change to the Group's plans for the B787-8 aircraft. Total cash inflow from the restructure is US$433 million with US$355 million in 2012/2013. These cash flows will result in the Group recognising profit before tax of approximately US$140 million in 2012/2013.

On 6 September 2012, Qantas announced a ten year commercial agreement with Emirates. Under the agreement, Qantas will move its hub for European flights to Dubai and enter an extensive commercial relationship with Emirates. The 10-year agreement will go beyond codesharing and includes integrated network collaboration with coordinated pricing, sales and scheduling as well as a benefit-sharing model. Neither airline will take equity in the other. Subject to regulatory approval, it is anticipated that the agreement will commence in April 2013.

Following the announcement of the commercial agreement with Emirates, Qantas announced that it would be terminating its Joint Services Agreement with British Airways, effective 31 March 2013. Qantas and British Airways will continue to work together as part of the **one**world alliance and through bilateral codeshares.

Other than the matters noted above, there has not arisen in the interval between 30 June 2012 and the date of this Report any other event that would have had a material effect on the Financial Statements as at 30 June 2012.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

36. Parent Entity Disclosures for Qantas Airways Limited (Qantas)

(A) CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Qantas	
	2012 $M	2011 $M
CONDENSED INCOME STATEMENT		
Revenue and other income	10,918	10,765
Expenditure	(11,473)	(10,672)
Statutory (loss)/profit before income tax expense and net finance costs	**(555)**	**93**
Net finance costs	(165)	(107)
Statutory loss before income tax benefit/(expense)	**(720)**	**(14)**
Income tax benefit	222	36
Statutory (loss)/profit for the year	**(498)**	**22**
CONDENSED STATEMENT OF COMPREHENSIVE INCOME		
Statutory (loss)/profit for the year	**(498)**	**22**
Effective portion of changes in fair value of cash flow hedges, net of tax	(51)	(53)
Transfer of hedge reserve to the Income Statement, net of tax	(89)	(82)
Recognition of effective cash flow hedges on capitalised assets, net of tax	92	142
Total other comprehensive (loss)/income for the year	**(48)**	**7**
Total comprehensive (loss)/income for the year	**(546)**	**29**
CONDENSED BALANCE SHEET		
Current assets		
Cash and cash equivalents	3,093	3,388
Receivables	3,033	2,669
Inventories	309	311
Other	526	699
Total current assets	**6,961**	**7,067**
Non-current assets		
Receivables	2,298	2,213
Property, plant and equipment	12,640	12,302
Intangible assets	377	365
Other	870	915
Total non-current assets	**16,185**	**15,795**
Total assets	**23,146**	**22,862**
Current liabilities		
Payables	3,495	3,109
Revenue received in advance	2,658	2,562
Interest-bearing liabilities	1,286	725
Other	819	764
Total current liabilities	**8,258**	**7,160**
Non-current liabilities		
Revenue received in advance	1,145	1,111
Interest-bearing liabilities	7,253	7,234
Other	1,487	1,821
Total non-current liabilities	**9,885**	**10,166**
Total liabilities	**18,143**	**17,326**
Net assets	**5,003**	**5,536**
Equity		
Issued capital	4,729	4,729
Treasury shares	(42)	(72)
Reserves	76	143
Retained earnings	240	736
Total equity	**5,003**	**5,536**

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

36. Parent Entity Disclosures for Qantas Airways Limited (Qantas) continued

	Qantas	
	2012 $M	2011 $M
CONDENSED CASH FLOW STATEMENT		
Net cash from operating activities	1,289	2,135
Net cash used in investing activities	(2,009)	(2,532)
Net cash from/(used) in financing activities	425	323
Net decrease in cash and cash equivalents held	**(295)**	**(74)**
Cash and cash equivalents held at the beginning of the year	3,388	3,466
Effects of exchange rate changes on cash and cash equivalents	–	(4)
Cash and cash equivalents at the end of the year	**3,093**	**3,388**

(B) CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure commitments contracted but not provided for in the Financial Statements		
Aircraft	13,908	11,050
Building works	13	41
Other	20	95
	13,941	**11,186**
Payable		
Not later than one year	1,083	2,226
Later than one year but not later than five years	7,930	7,706
Later than five years	4,928	1,254
	13,941	**11,186**

The above amounts exclude uncommitted aircraft purchase payments that may be made if cancellable aircraft options are exercised. Qantas has a number of slide rights available on committed aircraft capital expenditure that are generally exercisable 24 months prior to contracted delivery.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

36. Parent Entity Disclosures for Qantas Airways Limited (Qantas) continued

(C) FINANCING FACILITIES

The total amount of financing facilities available to Qantas as at balance date is detailed below:

	Qantas	
	2012 $M	2011 $M
FINANCING FACILITIES		
Committed bank overdraft		
Facility available	7	7
Amount of facility used	–	–
Amount of facility unused	**7**	**7**
Committed syndicated standby facility[1]		
Facility available	300	300
Amount of facility used	–	–
Amount of facility unused	**300**	**300**
Committed secured funding		
Facility available	134	130
Amount of facility used	(76)	(19)
Amount of facility unused	**58**	**111**
Committed unsecured funding		
Facility available	–	102
Amount of facility used	–	(15)
Amount of facility unused	**–**	**87**
Commercial paper and medium-term notes (subject to Dealer Panel participation)		
Facility available	1,000	1,000
Amount of facility used	–	–
Amount of facility unused	**1,000**	**1,000**

1 The syndicated standby facility will mature on 26 May 2013.

The bank overdraft facility held with Commonwealth Bank of Australia covers the combined balances of Qantas and its wholly-owned controlled entities. Subject to the continuance of satisfactory credit ratings, the bank overdraft facility may be utilised at any time. Commonwealth Bank of Australia may terminate this facility without notice.

Notes to the Financial Statements continued

FOR THE YEAR ENDED 30 JUNE 2012

36. Parent Entity Disclosures for Qantas Airways Limited (Qantas) continued

(D) 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 sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Qantas 2012 $M	Qantas 2011 $M
Performance guarantees and letters of comfort to support operating lease commitments and other arrangements entered into with other parties	–	5
General guarantees in the normal course of business	196	187
Contingent liabilities relating to current and threatened litigation	3	3
	199	**195**

Aircraft Financing

As part of the financing arrangements for the acquisition of aircraft, Qantas has provided certain guarantees and indemnities to various lenders and equity participants in leveraged lease transactions. In certain circumstances, including the insolvency of major international banks and other AAA rated counterparties, Qantas may be required to make payments under these guarantees.

Freight and Passenger Third Party Class Actions

Qantas is a party to a number of third party class actions relating to its freight and passenger divisions. Qantas continues to have a number of defences to these class actions. Qantas expects the outcome of these class actions will be known over the course of the next few years.

(E) 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 33.

(F) INTEREST-BEARING LIABILITIES

The parent entity has total interest-bearing liabilities of $8,539 million (2011: $7,959 million) of which $4,338 million (2011: $3,970 million) represents lease and hire purchase liabilities payable to controlled entities. Of the $4,200 million (2011: $3,989 million) payable to other parties, $2,100 million (2010: $1,979 million) represents secured bank loans and lease liabilities with the remaining balance representing unsecured loans and deferred lease benefits.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2012

1 In the opinion of the Directors of Qantas Airways Limited (Qantas):

(a) The Consolidated Financial Statements and Notes, and the Remuneration Report set out on pages 46 to 62 in the Directors' Report, are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(ii) Giving a true and fair view of the financial position of the Qantas Group as at 30 June 2012 and of its performance for the financial year ended on that date

(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 identified in Note 32 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 Class Order 98/1418.

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 2012.

4 The directors draw attention to Note 1(A) which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a Resolution of the Directors:

Leigh Clifford
Chairman
14 September 2012

Alan Joyce
Chief Executive Officer
14 September 2012

Independent Auditor's Report

FOR THE YEAR ENDED 30 JUNE 2012

To the Members of Qantas Airways Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying Financial Report of Qantas Airways Limited (Qantas), which comprises the Consolidated Balance Sheet as at 30 June 2012, and Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year ended on that date, notes 1 to 36 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Group comprising Qantas and the entities it controlled at the year's end or from time to time during the financial year (Qantas Group).

Directors' Responsibility for the Financial Report

The Directors of Qantas are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that is free from material misstatement whether due to fraud or error. In note 1(A), the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the Financial Statements of the Group comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Report.

We performed the procedures to assess whether in all material respects the Financial Report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) The Financial Report of the Qantas Group is in accordance with the Corporations Act 2001, including:
   (i) Giving a true and fair view of the Qantas Group's financial position as at 30 June 2012 and of its performance for the year ended on that date
   (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001

(b) The Financial Report also complies with International Financial Reporting Standards as disclosed in note 1(A)

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2012. The Directors of Qantas are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's Opinion on the Directors' Remuneration Report

In our opinion, the Remuneration Report of Qantas Airways Limited for the year ended 30 June 2012, excluding the non-statutory remuneration disclosures, complies with Section 300A of the Corporations Act 2001.

Auditor's Opinion on the non-statutory remuneration disclosures

In our opinion, the non-statutory remuneration disclosures set out in the Directors' Report of Qantas Airways Limited for the year ended 30 June 2012 have been properly prepared, in all material respects, in accordance with the basis of preparation set out therein.

KPMG

KPMG
Sydney

Duncan McLennan
Partner
14 September 2012

Shareholder Information

The shareholder information set out below was applicable as at 27 August 2012.

TWENTY LARGEST SHAREHOLDERS

	Shareholders	Ordinary Shares Held	% of Issued Shares
1.	J P Morgan Nominees Australia Ltd	654,241,045	28.88
2.	HSBC Custody Nominees (Australia) Limited	432,521,880	19.09
3.	National Nominees Limited	303,814,339	13.41
4.	Citicorp Nominees Pty Limited	251,729,008	11.11
5.	Cogent Nominees Pty Limited	47,327,288	2.09
6.	Dynamic Supplies Investments Pty Ltd	15,000,000	0.66
7.	Queensland Investment Corporation	13,554,503	0.60
8.	Pacifica Group Plans Ltd	13,070,334	0.58
9.	AMP Life Limited	11,512,031	0.51
10.	The Senior Master of the Supreme Court	8,568,754	0.38
11.	UBS Nominees Pty Ltd	7,849,540	0.35
12.	Bond Street Custodians Limited	7,695,592	0.34
13.	Share Direct Nominees Pty Ltd	6,373,616	0.28
14.	Mr Don Lazzaro and Mrs Ann Lazzaro	3,826,476	0.17
15.	Woodross Nominees Pty Ltd	3,623,849	0.16
16.	Buttonwood Nominees Pty Ltd	3,562,154	0.16
17.	Suncorp Custodian Services Pty Limited	2,622,594	0.12
18.	UBS Nominees Pty Ltd	2,416,914	0.11
19.	UBS Wealth Management Australia Nominees Pty Ltd	2,374,064	0.10
20.	BNP Paribas Noms Pty Ltd	2,039,361	0.09
Total		**1,793,723,342**	**79.19**

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]	22,818,339	50,125	1.01
1,001–5,000	154,503,772	61,708	6.82
5,001–10,000	79,685,843	11,260	3.52
10,001–100,000	148,700,037	6,783	6.56
100,001 and over	1,859,415,629	292	82.09
Total	**2,265,123,620**	**130,168**	**100.00**

1 20,596 shareholders hold less than a marketable parcel of shares in Qantas.

SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Qantas:

Shareholders	Ordinary Shares Held	% of Issued Shares
The Capital Group Companies, Inc[1]	259,184,530	11.44
Commonwealth Bank of Australia[2]	225,886,843	9.97
Franklin Resources, Inc[3,4]	248,247,958	10.96

1 Substantial shareholder notice dated 1 August 2012.
2 Substantial shareholder notice dated 3 May 2012.
3 Substantial shareholder notice dated 27 October 2011.
4 Former substantial shareholder, Balance Equity Management Pty Limited commenced reporting under Franklin Resources, Inc from 6 July 2011.

Sustainability is fundamental to the Qantas Group's performance

"Financial sustainability is our core goal – building a strong, viable business capable of delivering superior returns for shareholders over the long term. But we cannot achieve this unless we maintain strong governance frameworks, ensure that Qantas is a good place to work for employees and provide world-class service to customers. Using resources efficiently – in line with our environment strategy – and working with the community are also vital to the Group's overall sustainability performance. If we set clear goals in all these areas and achieve them, financial sustainability is the outcome."

Qantas Group CEO Alan Joyce

COMMITMENT

The Qantas Group strives to operate in a sustainable manner. We seek to do this by continually improving our economic, social and environmental performance to address long term business risks and exploit opportunities as we seek to continue to deliver financially superior and sustainable returns to our shareholders.

RECOGNITION

Dow Jones Sustainability Index World
- Member of the World Index since 2011
- 1 of only 2 airlines in the World Index

Dow Jones Sustainability Index Asia Pacific
- Member of the Asia Pacific Index since 2009

SAM Sustainable Asset Management
- Silver Class 2012

SAM Sustainable Asset Management
- Sector Mover 2012

Australian SAM Sustainable Asset Management
- Member since 2009

FTSE4Good Index
- Member since 2009

Carbon Disclosure Project
- Listed on the Carbon Disclosure Leadership Index for Australia and New Zealand for 2010 and 2011

Dow Jones Sustainability Indexes
Member 2011/12

sam 2012 silver class

sam 2012 sector mover

AuSSI
The Australian SAM Sustainability Index
Member 2011

FTSE4Good

CARBON DISCLOSURE PROJECT

GOVERNANCE

SAFETY

Safety is our first priority. Safety is overseen by the Board and embedded throughout the organisation, including through the Qantas Management System.

CORPORATE GOVERNANCE

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

QANTAS VALUES AND ORGANISATIONAL BEHAVIOURS

The Group adopts a set of core brand values, underpinned by our organisational behaviours.

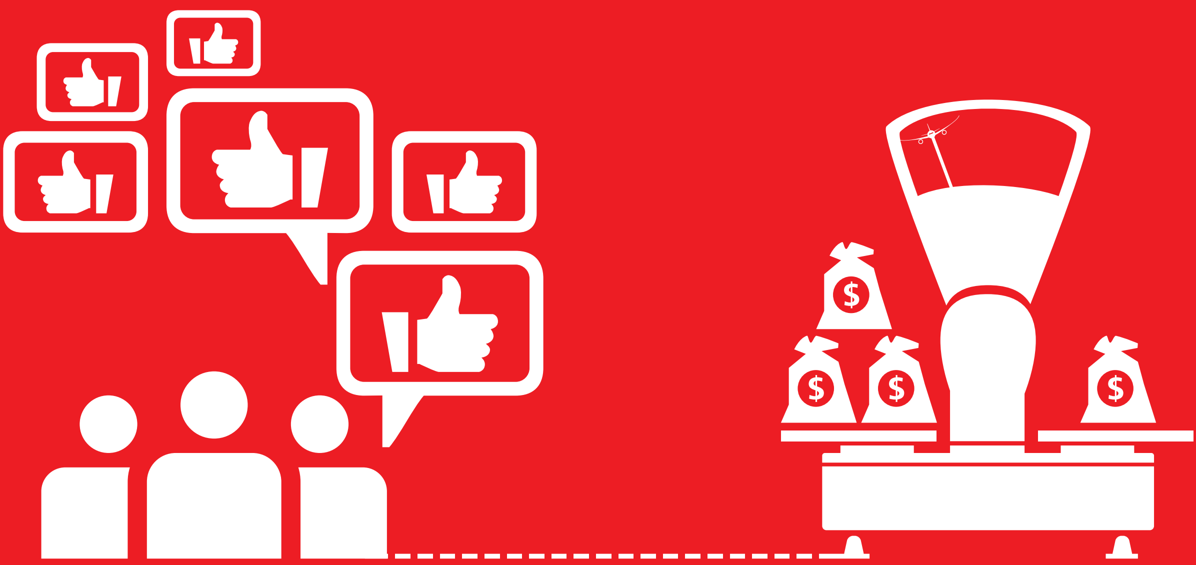
ENVIRONMENT

CARBON FOOTPRINT

Fuel represents around 95% of the Group's carbon footprint. Fuel optimisation is the cornerstone of the Group's strategy to reduce carbon emissions and fleet renewal is our greatest opportunity to improve fuel efficiency.

WATER, WASTE AND NOISE

The Group is committed to being an environmentally responsible organisation which seeks to reduce resource consumption. Continuing to reduce the impact of aircraft noise on our communities is also a priority for Qantas.



SOCIAL

CUSTOMERS

Our Customers are the core of everything we do. The Group is continually investing in aircraft, product, service and innovative technology to provide an exceptional experience for customers.

PEOPLE

The success of the Qantas Group is underpinned by our Employees being skilled, motivated and supported to do great things.

COMMUNITY

The Group is not just a provider of air services, it is a major driver of economic activity in Australia and a responsible member of the Australian community.

ECONOMIC

FINANCIAL SUSTAINABILITY

We strive to build a strong viable business capable of delivering superior returns to shareholders over the long term. If we achieve our goals in all of these areas, financial sustainability is the outcome.

Sustainability Statistics and Notes

The Group's sustainability reporting framework is two-fold to represent the priorities and measures identified, as outlined below.

1. Sustainability Priorities – An Integrated Approach

The Group's sustainability priorities are to continually improve our economic, social and environmental performance. A holistic review of governance structures, strategies and initiatives are detailed in the Qantas Sustainability Review 2012, available on qantas.com.

2. Sustainability Measures

Specific indicators have been selected to measure performance and are contained within this report, the Sustainability Statistics and Notes. The measures are divided into the following categories and are also outlined in the diagram below:

1 Safety and Health 2 Environment 3 Customer 4 People 5 Financial 6 Community

To support the Group's core goal of delivering superior returns to shareholders, priorities and indicators measure the Group's performance in the areas which contribute to financial sustainability over the long term.

The approach in determining these priorities and measures, is to demonstrate to stakeholders the integration of sustainability into the Group's strategy and operations. The Group reviews these priorities and measures to ensure that they represent material areas of focus and remain relevant.

The Group also reviews voluntary sustainability frameworks, such as the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines and where selected indicators match the performance indicators recommended by GRI, a GRI indicator reference is provided.

		Sustainability Priorities detailed in the Qantas Sustainability Review 2012	**Sustainability Measures** reported in the Sustainability Statistics and Notes, Qantas Annual Report 2012
Governance		Corporate Governance Safety Business Resilience Group Security and Facilitation Group Audit and Risk Management Supply Chain Qantas Values	The Board endorses the ASX Corporate Governance Principles and Recommendations with 2010 Amendments, 2nd Edition Corporate Governance Statement Qantas Annual Report 2012
Environment		Carbon Footprint Waste & Water Fleet Noise	Aviation Fuel and Carbon Emissions Electricity Water Waste
Social	**Customer**	Qantas Qantas Frequent Flyer Jetstar	Domestic On-time Performance
	People	Investing Recognising Supporting Listening	Occupational Health and Safety Absenteeism Diversity
	Community	Qantas Foundation In the Community	National Export Revenue Domestic Traveller Expenditure Economic Output
Economic		Qantas Annual Report 2012 and Qantas Data Book 2012	Underlying Profit Before Tax Net Underlying Unit Cost Free Cash Flow Average Fleet Age

Sustainability Statistics and Notes continued

SCOPE

The Sustainability Statistics and Notes for the Year ended 30 June 2012 comprise Qantas and its wholly-owned entities (together referred to as the Qantas Group) except where the definition and scope indicates otherwise.

The definition and scope of each indicator is provided in the Definitions and Scopes section on pages 149 to 151.

ASSURANCE

KPMG's independent limited assurance report on the Sustainability Statistics and Notes can be found on page 152.

1. Safety & Health

The Qantas Group is committed to Safety as our First Priority. The safety and health of our people is central to the Qantas Group's Safety and Health strategic vision - "to be recognised as the world's leading airline group in air, ground and people safety and health".

The Qantas Group is committed to providing a safe workplace for our people, with risk-based safety and health programs across the business in place to prevent workplace injuries and promote safety, health and wellbeing.

SAFETY

The Group is dedicated to continuous improvement in the prevention of injuries, illness, accidents and incidents through effective safety systems, targeted risk reduction, culture and behavioural programs, and proactive engagement with regulators. The varying nature of the Group's operations, work environments and work tasks require business units to tailor the Workplace Health and Safety (WHS) aspects of their safety management system to their risk profiles.

Total Recordable Injury Frequency Rate (TRIFR) and Lost Work Case Frequency Rate (LWCFR) are the key measures used by the Qantas Group to monitor workplace safety performance. To reaffirm the importance of safety, TRIFR and LWCFR form part of the performance measures under the Group's Executive remuneration framework.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Occupational health and safety	Rate			LA7
Total Recordable Injury Frequency Rate (TRIFR)[1]	TRIFR	35.5	34.3	
Lost Work Case Frequency Rate (LWCFR)[1]	LWCFR	11.6	9.6	

1 In 2011/2012 Qantas expanded the scope of TRIFR and LWCFR to include all embedded contractors and International employees. Comparative data for 2010/2011 has been restated to include all embedded contractors and International employees.

2011/2012 TRIFR performance of 35.5 and LWCFR performance of 11.6 were adverse when compared with the prior year. The business units which experienced an increased injury rate have been identified and business unit specific initiatives implemented. Strain and sprain injuries in parts of the Qantas Group workforce exposed to high levels of manual handling continue to be the key drivers of people safety performance. Examples of business unit specific initiatives introduced include, but are not limited to:

- Continuous improvement of the Safety Management System to enable the more effective identification and treatment of workplace hazards
- Employee stretching and exercise programs
- The replacement or modification of equipment that poses risk of injury
- Placement of additional return to work coordinators to focus on employee rehabilitation

There were no aviation fatalities in 2011/2012 or 2010/2011. Sadly during 2011/2012 there were two employee deaths on Qantas' premises. These were not the result of an occupational injury or disease.

Sustainability Statistics and Notes continued

1. Safety & Health continued

HEALTH

Absenteeism is a lagging indicator which reflects organisation health and wellbeing, the level of staff engagement and productivity. Additionally, low injury rates and absenteeism are generally linked to positive trends in staff morale and productivity.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Absenteeism per annum	Days			LA7
Qantas		10.3	9.8	
Jetstar		6.0	6.2	
Qantas Freight		9.7	8.0	
Qantas Frequent Flyer		3.3	3.7	
Corporate		3.3	3.6	
Qantas Group		**9.6**	**9.3**	

Absenteeism increased by 0.3 days from 2010/2011. The business areas that contributed to this result have been identified and analysed to allow absenteeism to be managed effectively across the Group.

Qantas employees showed resilience in a year impacted by industrial action and the grounding of the fleet.

2. Environment

The growth of global aviation and the present reliance on traditional aviation fuel means growing industry carbon emissions during a period when emissions reductions are being mandated across the globe.

Fuel optimisation is the cornerstone of the Group's environmental strategy. Improving fuel efficiency is one of the Group's greatest opportunities to manage its environmental impact. Fuel optimisation also enables the Group to reduce costs and mitigate its exposure to fluctuations in oil prices.

AVIATION FUEL AND CARBON EMISSIONS

The Qantas Group has committed to achieving ambitious targets set out for international aviation, by the International Aviation Transport Association (IATA), of an average improvement in fuel efficiency of 1.5 per cent per year (measured as litres of fuel per Revenue Tonne Kilometre – RTK) through to 2020, against a 2008/2009 baseline, and carbon neutral growth from 2020.

To achieve these targets the Qantas Group is committed to emissions reductions, pursuing the commercialisation of sustainable aviation fuel in Australia, investing in more fuel efficient aircraft and engine technology, and process optimisation. In 2011/2012 Qantas and Jetstar became the first Australian airlines to operate commercial flights using sustainable aviation fuel.

The Qantas Group is investing in newer, more fuel efficient aircraft which, in the long run, will offer the greatest benefits. This investment is being complemented by a focus on technical and process initiatives that improve fuel performance, including, but not limited to:

- Collaboration with air traffic management providers to improve airspace usage and implement new procedures, such as Required Navigation Performance
- Engineering initiatives that improve technical performance of aircraft, such as Ground Power Unit and Pre-Conditioned Air implementation, and new aircraft wash techniques
- Process optimisation procedures that improve aircraft performance, such as load management and refined scheduling procedures

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Aviation fuel and carbon emissions				
Aviation fuel consumption	'000 Litres	4,876,999	4,790,143	EN3
CO_2-e emissions from aviation	Tonnes	12,493,157	12,270,660	EN16
Aviation fuel and carbon efficiency				
Fuel per 100 RTKs	Litres	38.8	38.7	EN5
CO_2-e per 100 RTKs	Kilograms	99.3	99.1	EN5

Aviation fuel consumption and the resulting CO_2-e emissions were 1.8 per cent higher than 2010/2011. This was driven by an increase in the associated ASKs of 3.1 per cent.

Australian domestic carbon emissions from aviation fuel were 4.4 million tonnes (2010/2011: 4.3 million tonnes) an increase of 3.0 per cent. This increase is in-line with an increase in domestic ASKs of 3.2 per cent.

Sustainability Statistics and Notes continued

2. Environment continued

The Qantas Group has achieved 3.4 per cent improvement in aviation fuel efficiency against the 2008/2009 baseline.

Fuel saving targets have been agreed across the Group's flying businesses for 2012/2013 and activities such as international fleet re-configuration, fleet renewal and ongoing fuel optimisation activities will have a positive effect on fuel efficiency.

AUSTRALIAN ELECTRICITY USE, WATER USE AND DIRECT WASTE TO LANDFILL

The Qantas Group is committed to being an environmentally responsible organisation across all levels and functions of the business. Targets for reduction of electricity, water and waste diverted directly to landfill have brought together a wide range of activities across all business areas, from corporate offices to ground operations. Tracking this consumption facilitates the monitoring of operational efficiency and cost savings.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Electricity (Australia)	MWh	228,424	231,763	EN4
Water (Australia)	'000 Litres	975,412	971,151	EN8
Direct waste to landfill (Australia)	Tonnes	24,306	25,149	EN22

In 2011/2012 the Group refreshed its utility reduction strategy moving to new business unit specific targets that aggregate at a Group level to give electricity, water and waste diverted directly to landfill 2020 targets of 10, 10 and 20 per cent respectively (set against a 2009/2010 baseline).

The Group has progressed well against these targets achieving a 2.9 per cent decrease in electricity consumption, a 2.5 per cent decrease in water consumption and a 13.5 per cent decrease in waste diverted directly to landfill. The reduction in waste diverted directly to landfill was primarily a result of the initiative introduced in November 2010 to divert general waste in Sydney to an Advance Waste Treatment facility with around 350 tonnes of waste diverted each month.

3. Customer

On-time performance is one of the Group's most important operational measures and has a significant impact on efficiency, cost, customer experience and customer satisfaction. This operational measure is especially important for Qantas Airlines and QantasLink, whose services are targeted at premium customers.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Australian domestic on-time departures	%			PR5
Qantas Airlines		84.4	83.8	
QantasLink		77.7	78.5	
Jetstar		76.6	77.1	
Qantas Group		**80.1**	**80.4**	
Australian domestic on-time arrivals	%			PR5
Qantas Airlines		83.4	83.1	
QantasLink		75.3	74.8	
Jetstar		77.6	77.3	
Qantas Group		**79.1**	**78.9**	
Australian domestic cancellations	%			PR5
Qantas Airlines		1.7	1.5	
QantasLink		2.0	1.9	
Jetstar		1.6	1.4	
Qantas Group		**1.8**	**1.6**	

Qantas was the most on-time major domestic airline for 2011/2012 for jet operations greater than 10,000 sectors, and outperformed our major domestic competitor, Virgin Australia. This was despite Qantas' on-time performance being impacted in August, September and October by industrial action and the grounding of the fleet.

Australian domestic on-time arrivals for Qantas, QantasLink and Jetstar all improved from 2010/2011.

Qantas' consistent on-time performance has contributed to Qantas reaching the highest level of domestic customer satisfaction in three years.

Sustainability Statistics and Notes continued

4. People

The Qantas Group's strategy is underpinned by a diverse and talented workforce. As at 30 June 2012, the Qantas Group community consisted of people with 102 nationalities, who speak 51 languages and are from 157 countries of origin.

The Group supports its employees by providing a safe and healthy working environment and provides specific initiatives and support in the areas of diversity, equality of opportunity, fair remuneration and freedom of association.

GENDER DIVERSITY

The Group values the benefits that a diverse workforce brings to the organisation. The Group is committed to equal opportunity in the workplace by providing all employees with equal access to the opportunities that are available at work, especially in the area of gender diversity.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Percentage of women	%	41.6	41.1	LA13
Percentage of women in senior positions	%	31.5	29.9	LA13
Number of women Directors on the Qantas Board	#	3	3	LA13
Percentage of women Directors on the Qantas Board	%	25.0	27.3	LA13
Percentage of female graduates recruited	%	61.5	35.0	LA13

Female representation in the Group's workforce increased by 0.5 percentage points from 2010/2011. Women in senior positions have increased by 1.6 percentage points predominantly due to new hires and promotion of women into senior management positions.

The number of women Directors on the Qantas Board remained the same as in 2010/2011, although the appointment of an additional male Director in February 2012 resulted in a decrease in the percentage of women on the Qantas Board to 25.0 per cent.

AGE DIVERSITY

The Qantas Group values the wide range of experience and expertise brought to the Group by its diverse workforce. This is reflected in one of the four Qantas Values, Wisdom of Experience, which recognises the value of drawing on experience to produce quality outcomes.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Employee by age group (permanent employees)	%			LA13
16–24 Years		4.1	4.2	
25–34 Years		19.8	20.2	
35–44 Years		30.4	31.2	
45–54 Years		30.9	30.4	
55–64 Years		13.6	13.1	
65+		1.2	0.9	

The percentage of employees representing the age groups of 45 years and above has increased demonstrating a gradually ageing workforce. The trend is primarily driven by Qantas' Engineering, Airports, QCatering and Cabin Crew workforces. The Group is managing the succession and continuity of the knowledge and experience of this valuable group of employees as they approach retirement.

WORKPLACE FLEXIBILITY

The Group values flexible workplace arrangements including part-time work arrangements and other wellbeing initiatives. Part-time work arrangements are an attractive offering for parents with younger children and older employees who may not want to or be able to work full-time but can bring a wealth of skills, experience and expertise to the Group. It also increases the Group's ability to respond to change and peaks of demand, and is an important driver of staff engagement and retention of talent.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Percentage of part-time employees	%	14.1	13.4	LA1

The percentage of part-time employees continues to increase as the Group seeks to provide enhanced workplace flexibility.

INDIGENOUS EMPLOYMENT

The Qantas Group strives to create meaningful and lasting opportunities for Indigenous Australians to build upon their existing skills and experience and to be an employer of choice for Aboriginal and Torres Strait Islander people. A focus in recent years has been

Sustainability Statistics and Notes continued

4. People continued

to increase the number of Indigenous Australians in the workforce.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Number of Indigenous Australian employees	#	354	338	LA13

The number of Indigenous Australian employees increased by 16, or 4.7 per cent compared to 2010/2011.

In May 2012, the third Qantas Reconciliation Action Plan was released in line with Reconciliation Australia's elements of Respect, Relationships and Opportunities and reaffirmed the target of 450 Indigenous employees to be employed by December 2013 which was reset during 2010/2011. Through the Qantas Reconciliation Action Plan, the Group undertakes a range of initiatives to support the Indigenous Australian community and to promote shared pride in Indigenous people and cultures.

NUMBER OF FULL-TIME EQUIVALENT (FTE) EMPLOYEES

The size of a workforce is representative of the economic presence and contribution of an organisation. The number of FTEs also gives context to absenteeism and diversity indicators.

Key Performance Indicators	Unit	2012	2011[2]	GRI Indicator
Number of full-time equivalent (FTE) employees as at 30 June 2012	#			LA1
Qantas		26,936	27,322	
Jetstar[1]		4,813	4,188	
Qantas Freight		927	880	
Qantas Frequent Flyer		194	92	
Corporate		714	687	
Qantas Group[1]		**33,584**	**33,169**	

1 Jetstar and Qantas Group numbers for 2010/2011 have been restated to addtionally include FTEs of Jetstar Asia.
2 Comparative balances have been reclassified to align with current year presentation.

The Group FTEs increased by 1.3 per cent primarily driven by growth in Jetstar and Qantas Frequent Flyer.

5. Financial

The objective of the Group's sustainability strategy is to achieve financial sustainability and provide sustainable returns to its shareholders. The Group's sustainability performance in the areas of health and safety, customer, people, environment and community are all linked to long-term financial sustainability. The Group focuses on the following key financial sustainability measures:

UNDERLYING PROFIT BEFORE TAX (PBT)

Underlying PBT is a non-statutory measure used by the Qantas Group's Executive Committee and the Board of Directors as the primary measure to assess the Group's financial performance.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Underlying PBT	$M	95	552	EC1

The Group's Underlying PBT of $95 million was achieved in a challenging year of major transformational change. The Group's portfolio of businesses performed well except Qantas' international network, where a four-pillar plan for turning around this loss-making part of the business exists.

Statutory loss after tax was $244 million (2011: Statutory profit after tax of $249 million). Refer to Note 2(E) to the Financial Statements on page 83 for a reconciliation of Underlying PBT to Statutory PBT.

NET UNDERLYING UNIT COST

Minimising unit cost is a key management indicator of financial performance and the sustainability of the Qantas Group. It involves constantly finding ways to minimise costs while maintaining the highest standards of safety and an optimal level of customer experience. Unit cost performance forms part of the performance measures for incentive plans pursuant to the Group's Executive remuneration framework.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Net Underlying Unit Cost	Cents per ASK	5.58	5.60	EC1

Net Underlying Unit Cost decreased by 0.02 cents per ASK from 2010/2011. Refer to the Review of Operations on page 18 of the Annual Report.

Sustainability Statistics and Notes continued

5. Financial continued

FREE CASH FLOW

Free cash flow is a measure of financial performance calculated as operating cash flows net of investing cash flows. The Group has reported negative free cash flow since 2009 due to the significant investment in fleet renewal. The Group reported positive free cash flow for the second half of 2011/2012 and is targeting positive free cash flow going forward reflecting that the Group's fleet renewal program is substantially complete and focus has turned to deleveraging and strengthening the Group's credit metrics.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Free Cash Flow	$M	(472)	(696)	EC1

AVERAGE FLEET AGE

Long-term fleet planning is essential to aviation success. Investing in new aircraft drives improvements in safety, passenger comfort, cost, fuel efficiency, noise, emissions, freight capacity and range capability. Monitoring the average passenger fleet age assists the Group to manage its long-term capital requirement. The Group's priority is renewal of its scheduled passenger aircraft fleet, which will directly improve customer experience and fuel efficiency.

The Group's fleet strategy supports the Group's objectives of growth and provides for long-term fleet renewal and simplification. In balancing these, the Group's average fleet age will remain in the range of eight to ten years over the long term.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Average fleet age – scheduled passenger fleet	Years	8.3	8.6	–

Reduction of the Group's fleet age was due to retirement of older aircraft and replacement through acquisition of new aircraft. In 2011/2012 seven aircraft were retired from the Boeing 737-400 fleet, five from the B747-400 fleet and two from the B767-300 fleet. Acquisitions included two Airbus A380-800s, two A330-200s, seven A320-200s, thirteen B737-800s, three Bombardier Q400s, two B717s, ten F100s and three ex-leased B767-300s.

6. Community

The Group makes a direct contribution to national export revenue by bringing overseas visitors into Australia and to domestic and regional tourism by carrying passengers within Australia. The Group also makes an indirect contribution to the Australian economy in the form of flow-on effect on all sectors in the economy.

Key Performance Indicators	Unit	2012	2011	GRI Indicator
Tourism spending by Qantas Group passengers	$M			
National export revenue		5,372	5,534	EC1
Domestic traveller expenditure		22,255	19,644	EC1
Indirect	$M			
Economic output		33,020	31,277	EC9

In 2011/2012, the Group made a direct contribution to national export revenue of $5.4 billion, 2.9 per cent lower than 2010/2011. The reduction was driven by a decrease in the number of international visitors brought to Australia by the Qantas Group.

The Group's contribution to domestic traveller expenditure was 13.3 per cent higher than 2010/2011. This improvement was driven by a 3.1 per cent increase in the number of domestic passengers carried by Qantas Group carriers combined with a 9.8 per cent increase in the average expenditure per visitor.

The Group's indirect contribution to the Australian economy was $33 billion, 5.6 per cent higher than 2010/2011.

Sustainability Statistics and Notes continued

Definitions and Scopes

SAFETY AND HEALTH

Total Recordable Injury Frequency Rate (TRIFR)

The total number of injuries or illnesses during work hours (1 July to 30 June) with an accepted workers' compensation claim for Australian based personnel, or equivalent in other jurisdictions, per million hours worked. Journey and slip port injuries are excluded from this calculation. This metric includes embedded contractors that work exclusively for the Qantas Group and perform work that is considered core business. Calculation is based on injury record status as at 13 July 2012 (2011: 14 July 2011).

Lost Work Case Frequency Rate (LWCFR)

The total number of injuries or illnesses during work hours (1 July to 30 June) with an accepted workers' compensation claim for Australian based personnel, or equivalent in other jurisdictions, which resulted in total incapacity, per million hours worked. Total incapacity is defined as any injury or illness that results in an injured worker being unfit for work. Journey and slip port injuries are excluded from this calculation. This metric includes embedded contractors (as described above). Calculation is based on injury record status as at 13 July 2012 (2011: 14 July 2011).

Occupational Health and Safety Fatality

The death of an employee or embedded contractor arising from an occupational injury or disease sustained or contracted while working for the Qantas Group in Australia and overseas.

Scope:
Employees and embedded contractors of wholly-owned entities of the Qantas Group.

Aviation Fatality

Fatal injuries as a result of being in Qantas Group aircraft or having direct contact with any part of Qantas Group aircraft, including parts which have become detached from the aircraft, or direct exposure to jet blast except when the injuries are from natural causes, self-inflicted or inflicted by other persons, or when the injuries are to stowaways hiding outside the areas normally available to the passengers and crew (1 July to 30 June), or where the fatality is recorded as an occupational health and safety fatality. For statistical uniformity only, an injury resulting in death within 30 days of the date of the accident is classified as a fatal injury (adapted from Australian Transport Safety Bureau (ATSB) and International Civil Aviation Organization (ICAO) definitions for serious injuries resulting from aircraft events).

Scope:
Qantas Group branded aircraft.

Absenteeism

The average number of annualised days taken as sick leave (including carer's leave) per employee from 1 July to 30 June for employees who are employed as at 30 June.

Scope:
All Australian and New Zealand based employees of wholly-owned entities of the Qantas Group.

ENVIRONMENT

Aviation fuel consumption

The total volume of aviation kerosene consumed by the Qantas Group's flying businesses from 1 July to 30 June.

Scope:
Aviation fuel consumption includes Qantas, Jetstar, QantasLink, Network Aviation, Jetconnect and Qantas Freight, for both domestic and international operations. Aviation fuel consumption does not include consumption by Jetstar Asia or codeshare partners. Aviation fuel consumption by Network Aviation is included from 11 February 2011 when this entity was acquired by the Group.

CO_2-e emissions from aviation

The amount of greenhouse gas emissions measured in carbon dioxide equivalent (CO_2-e) tonnes generated from aviation fuel consumption from 1 July to 30 June. Under the Australian Government's Department of Climate Change and Energy Efficiency National Greenhouse Accounts (NGA) Factors, emissions incorporated into the calculation include carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). The Qantas Group applies the NGA Factors conversions and methodology for the calculation of CO_2-e.

Scope:
As per the scope of aviation fuel consumption.

Australian domestic aviation fuel carbon emissions

The amount of greenhouse gas emissions within Australia measured in CO_2-e tonnes generated from aviation fuel consumption (as defined above) from 1 July to 30 June that is attributable to domestic coded flights.

Scope:
Emissions from aviation fuel consumption by domestic flights of Qantas, Jetstar, QantasLink and Network Aviation.

Fuel per 100 Revenue Tonne Kilometres (RTKs)

Aviation fuel consumption per 100 RTKs from 1 July to 30 June. Revenue tonne kilometres (RTKs) is the total number of tonnes of paying passengers, freight and mail carried, multiplied by the number of kilometres flown.

Scope:
Wholly-owned entities of the Qantas Group, excluding Network Aviation.

CO_2-e per 100 RTKs

Fuel per 100 RTKs (as defined above) converted to CO_2-e tonnes by the NGA Factors.

Scope:
Wholly-owned entities of the Qantas Group, excluding Network Aviation.

Electricity (Australia)

The total amount of electricity consumed as measured in megawatt hours (MWh) where electricity is separately billed for the period 1 July to 30 June.

Scope:
Qantas Group sites within Australia. Network Aviation data is included in 2011/2012 only.

Sustainability Statistics and Notes continued

Definitions and Scopes continued

Water (Australia)

The total amount of water consumed as measured in kilolitres where water is separately billed for the period 1 July to 30 June.

Scope:
Qantas Group sites within Australia.

Direct waste to landfill (Australia)

The total solid waste and quarantine waste generated, as measured in tonnes, where this waste is delivered from Qantas premises directly to a landfill site and where the Qantas Group is responsible for the waste removal and is separately billed (that is, where there is a separately identified item on a bill for waste and is not part of a general overhead charge) for the period 1 July to 30 June.

Scope:
Qantas Group sites within Australia.

CUSTOMER

Australian domestic on-time departures

The percentage of Australian domestic on-time departures from 1 July to 30 June. A flight departure is counted as on time if it departs from the gate within 15 minutes of the scheduled departure time and subsequently proceeds to take off, for sectors flown. Neither diverted nor cancelled flights count as being on time, as per the Bureau of Infrastructure, Transport and Regional Economics (BITRE) Airline On-Time Performance definitions.

Australian domestic on-time arrivals

The percentage of Australian domestic on-time arrivals from 1 July to 30 June. A flight arrival is counted as on time if it arrives at the gate within 15 minutes of the scheduled arrival time for sectors flown. Neither diverted nor cancelled flights count as being on time, as per the BITRE Airline On-Time Performance definitions.

Australian domestic cancellations

The percentage of Australian domestic cancellations from 1 July to 30 June. Any cancellation that occurs within seven days of original scheduled departure time is recorded as a cancellation for on-time performance purposes, as per the BITRE Airline On-Time Performance definitions.

Scope:
Australian domestic scheduled services.

PEOPLE

Percentage of women

The percentage of female employees of the wholly-owned entities of the Qantas Group in Australia and overseas as at 30 June.

Percentage of women in senior positions

The percentage of female employees in senior management positions in the wholly-owned entities of the Qantas Group in Australia and overseas as at 30 June.

Percentage of women Directors on the Qantas Board

The percentage of female Directors on the Qantas Board as at 30 June.

Number of women Directors on the Qantas Board

The number of female Directors on the Qantas Board as at 30 June.

Employee by age group (permanent employees)

The percentage by age group of permanent employees of the wholly-owned entities of the Qantas Group in Australia and overseas as at 30 June.

Percentage of part-time employees

The percentage of part-time positions in the wholly-owned entities of the Qantas Group in Australia and overseas as at 30 June. Part-time positions include permanent and temporary part-time positions. Part-time employees are defined as those whose assigned working hours (as per contract) are lower than the position's standard working hours.

Number of Indigenous Australian employees

The number of self-identified Aboriginal and Torres Strait Islander employees across the Qantas Group as at 30 June.

Scope:
Wholly-owned entities of the Qantas Group.

Percentage of female graduates recruited

The percentage of female graduates recruited into the Qantas Graduate Program during the financial year.

Scope:
The Qantas Airways Graduate Program.

Number of full-time equivalent employees

The total number of full-time equivalent (FTE) employees as at 30 June, reported in total for each segment of the Qantas Group in Australia and overseas. This is calculated using standard working hours for full-time and part-time employees and actual hours worked by the casual and temporary workforce.

Scope:
Wholly-owned entities of the Qantas Group. Additionally, the FTEs of Jetstar Asia are included.

FINANCIAL

Underlying Profit Before Tax (PBT)

Underlying PBT is a non-statutory measure, and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Executive Committee and the Board of Directors. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of each Segment and the Group.

Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 139: Financial Instruments: Recognition and Measurement (AASB 139) which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT.

Sustainability Statistics and Notes continued

Definitions and Scopes continued

A detailed definition, methodology and reconciliation of Underlying PBT to Statutory PBT is contained in Note 2 to the Financial Statements on page 80 of the Financial Report.

Net Underlying Unit Cost

The Net Underlying Unit Cost of the Group, which is the Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate, divided by the Group's Available Seat Kilometres (ASKs). Net underlying expenditure is derived from total passenger revenue less Underlying PBT.

Free Cash Flow

Free cash flow is a measure of financial performance calculated as operating cash flows net of investing cash flows.

Scope:
The Consolidated Financial Statements for the year ended 30 June 2012 comprise Qantas and its controlled entities and the Qantas Group's interest in associates and jointly controlled entities.

Average fleet age – scheduled passenger fleet

The average age of the Group's scheduled passenger fleet based on manufacturing dates.

Scope:
The scheduled passenger fleet of the Qantas Group, including both owned and leased aircraft. The Qantas Group's scheduled passenger fleet does not include dedicated freighters and Network Aviation fleet.

COMMUNITY

National export revenue

National export revenue is calculated as the number of inbound visitors brought to Australia by Qantas, Jetstar and Jetstar Asia for the 12 months to 31 May (latest available data as at 30 June) multiplied by the estimated average visitor expenditure of $3,313. (Source: Tourism Australia's March 2012 International Visitor Survey (latest available data)) (2011: $3,315 (Source: Tourism Australia's March 2011 International Visitor Survey)). This amount does not include the value of airfare and freight charges that accrue to the Qantas Group from overseas sources. These also represent export revenue.

Domestic traveller expenditure

Domestic traveller expenditure is calculated as the number of Qantas Group domestic passengers for the financial year multiplied by the estimated average expenditure per visitor of $681 (Source: Tourism Australia's March 2012 National Visitor Survey (latest available data)) (2011: $620 (Source: Tourism Australia's March 2011 National Visitor Survey)). This amount includes the value of related airfares. As it is not possible to disaggregate the data, the calculation should be viewed as indicative only, e.g. the figure may include some international visitor expenditure (where domestic flights are purchased after arrival in Australia) or understate the expenditure associated with domestic flights which are 'round trip'.

Economic output

This measure is calculated as the Qantas Group total revenue multiplied by a Qantas Group economic multiplier of 2.1 (as calculated by Access Economics in 2008). The multiplier is derived from Australian Bureau of Statistics input/output tables of the Australian economy. Access Economics is an economic advisory company which provides expertise in analysis, modelling and forecasting. Access Economics was commissioned by Qantas to gain a better understanding of the Group's contribution to the Australian economy. A multiplier of 2.1 suggests that a $1 million increase in demand for Qantas' services leads to a $2.1 million increase in output from all sectors in the economy, including air transportation. In other words, the flow-on effect outside of the Qantas Group for every $1 million of revenue is $1.1 million.

Independent Limited Assurance Report

FOR THE YEAR ENDED 30 JUNE 2012

Independent limited assurance report to Qantas on the Sustainability Statistics and Notes section in the Qantas Airways Limited Annual Report 2012

Introduction

We have been engaged by Qantas Airways Limited (Qantas) to provide limited assurance in respect of the Sustainability Statistics and Notes section (the Sustainability Section) of the Qantas Annual Report (the Report) for the year ended 30 June 2012.

Directors' and Management's responsibilities for the Sustainability Section

The Directors and Management of Qantas are responsible for the preparation and presentation of the Sustainability Section. This responsibility includes establishing and maintaining internal control systems to enable the preparation of the Sustainability Section that is free from material misstatement whether due to fraud or error.

There are no mandatory requirements for the preparation, publication or assurance on the Sustainability Section. Qantas applies its own internal reporting guidelines for sustainability reporting (the Criteria), which can be found in the Definitions and Scopes of the Sustainability Section of the Report.

Our responsibility

Our responsibility is to express a limited assurance conclusion to Qantas on the preparation and presentation of the Sustainability Section.

The internal control structure which Management has established and from which the Sustainability Section has been derived has not been reviewed and no opinion is expressed as to its effectiveness.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board.

ISAE 3000 requires us to comply with the requirements of the International Ethics Standards Board for Accountants (IESBA), and plan and perform the engagement to obtain limited assurance about whether the Sustainability Section is free from material misstatement.

A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the management, monitoring and preparation of the Sustainability Section, and applying analytical and other evidence-gathering procedures, as appropriate.

We performed procedures in order to obtain all the information and explanations that we considered necessary to provide sufficient evidence for us to state whether anything has come to our attention that would indicate that the Sustainability Section has not been prepared and presented, in all material respects, in accordance with the Criteria established by Management.

These procedures comprised:

- Inquiries and walkthroughs with Management and relevant staff to gain an understanding of the design and implementation of Qantas' processes for developing, calculating, collecting, reporting, and aggregating the reported information in the Sustainability Section
- Visits to specific sites and contractors, which were selected on the basis of a risk analysis including the consideration of both qualitative and quantitative criteria
- Comparing the information presented in the Sustainability Section to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been appropriately included in the Sustainability Section
- Reading the information presented in the Sustainability Section to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Qantas, obtained as part of our limited assurance engagement

A limited assurance engagement is substantially less in scope, based on the extent of evidence-gathering, than a reasonable assurance engagement or an audit conducted in accordance with International Standards on Auditing and Assurance Engagements, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance or audit opinion.

This report has been prepared solely for the use of Qantas in accordance with the terms of our engagement. We disclaim any assumption of responsibility for any reliance on this limited assurance report to any person other than Qantas or for any other purpose other than that for which it is prepared.

Independence

In conducting our limited assurance engagement, we have complied with the ethical requirements, including independence requirements of the International Ethics Standards Board for Accountants and the Australian Accounting Professional and Ethical Standards Board.

Conclusion

Based on the procedures performed as described above, nothing has come to our attention that would lead us to believe that the Sustainability Statistics and Notes Section of the Qantas Annual Report for the year ended 30 June 2012 has not, in all material respects, been prepared and presented in accordance with the Criteria established by Management.

KPMG

KPMG
Sydney
14 September 2012

Financial Calendar and Additional Information

2012	
16 February	Half year result announcement
30 June	Year end
23 August	Preliminary final result announcement
2 November	Annual General Meeting

2013	
21 February	Half year result announcement
6 March	Record date for interim dividend*
11 April	Interim dividend payable*
30 June	Year end
29 August	Preliminary final result announcement
11 September	Record date for final dividend*
14 October	Final dividend payable*
18 October	Annual General Meeting

* Subject to a dividend being declared by the Board.

2012 ANNUAL GENERAL MEETING

The 2012 AGM of Qantas Airways Limited will be held at 11:00am on Friday 2 November in Canberra.

Further details are available in the Investors section on the Qantas website (www.qantas.com)

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Company Secretary Taryn Morton

An electronic copy of this Annual Report is available at www.qantas.com

QANTAS AIRWAYS LIMITED
ABN 16 009 661 901