



## Shaping our Future

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QANTAS ANNUAL REPORT 2014



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# CHAIRMAN'S REPORT<sup>1</sup>

The year to 30 June 2014 was among the most challenging Qantas has faced.

Underlying fuel costs reached a new record of \$4.5 billion, up \$253 million from 2012/2013. And capacity growth ahead of demand led to a deterioration in yield and passenger loads which saw revenue decline by \$550 million. This was the culmination of a period in which the Australian aviation market has been one of the most world's most competitive.

I acknowledge that the 2013/2014 result – an Underlying Loss Before Tax of \$646 million – was unsatisfactory. But I believe Qantas is taking the right actions to secure an earnings recovery, strengthen its financial position and shape a profitable, sustainable future.

Shareholders have been patient and supportive throughout a volatile period. As we continue the necessary reform of the business, we remain focused on building long-term shareholder value in everything we do.

## Accelerated Transformation

The accelerated Qantas Transformation program announced in December 2013 – targeting \$2 billion in benefits to 2016/2017 – is commensurate to the size of the challenge.

This is one of the biggest change programs seen in the aviation industry, building on the considerable progress made with transformation from 2009 through to 2013. It is already delivering results – with \$204 million of benefits in the second half of 2013/2014 – and momentum will build throughout 2014/2015.

Change on this scale cannot be achieved without an impact on employees. I recognise that this has been a difficult time for the Group's people. They have responded magnificently to the challenges we face and deserve great credit for our progress to date, as well as for Qantas' ongoing excellence in service, safety and operational performance.

## Structural Review

Following a wide-ranging review of the structure of the Qantas Group, the Board has given approval for the establishment of a new holding structure and corporate entity for Qantas International.

This step – following the partial repeal of the Qantas Sale Act – creates the long-term option for Qantas International to source external investment and participate in partnership opportunities in the global aviation market.

While there are no other changes to the core structure of the Group, we will continue to assess options to sell non-core assets to generate cash for debt reduction.

**As we continue the necessary reform of the business, we remain focused on building long-term shareholder value in everything we do.**

## Financial Position

The Group has strong liquidity of \$3.6 billion, including \$3 billion in cash. At 30 June 2014, the Group was free cash flow neutral after delivering a resilient \$1.1 billion in operating cash flow.

Debt-to-EBITDA peaked in 2013/2014 and further debt reduction will be enabled by positive net free cash flow as we move forward with the accelerated Qantas Transformation program.

A series of refinancing transactions in the unsecured markets has extended the Group's debt maturity profile, while capital expenditure has been reduced in line with financial performance, prioritising Group fleet simplification.

## Board Renewal

Qantas Board renewal is an ongoing priority.

I would like to thank Peter Cosgrove for his significant contribution over almost nine years as a Director and congratulate him on his richly-deserved appointment as Governor-General.

In the past 12 months the Board has been strengthened by the additions of Maxine Brenner and Jacqueline Hey and, looking forward, we will assess the need for further new appointments as required.

In the meantime, all our Directors continue to make a strong and active contribution to Board deliberations.

## Shaping Qantas' Future

The actions taken in 2013/2014 have better equipped Qantas to build long-term shareholder value, provide world-class service, serve the Australian community, and shape its future in the 21st century aviation industry.

I thank all the Group's employees, shareholders, customers and partners for their support throughout the year.

<sup>1</sup> For explanations of non-statutory measures, see the Review of Operations section in this report.

<sup>2</sup> Total annual cash benefit, realised one year after completion of initiative.

# CEO'S REPORT<sup>1</sup>

Qantas' Underlying Loss Before Tax of \$646 million was driven by the extremely challenging operating conditions we faced in 2013/2014. Demand was weak, with cautious consumer spending and lower business activity, especially in the mining and government sectors.

The Statutory Loss After Tax of \$2.8 billion reflects the costs associated with the \$2 billion accelerated Qantas Transformation program – including redundancies and fleet restructuring costs – and the \$2.6 billion non-cash writedown of the Qantas International fleet. This writedown was required by accounting standards after our decision to create a new holding structure and corporate entity for Qantas International.

These numbers are confronting. But they represent the year that is past.

## Building Momentum

With our accelerated Qantas Transformation program we are already emerging as a leaner, more focused and more sustainable Qantas Group.

Group comparable unit costs were reduced by 3 per cent over the year, with a 2 per cent reduction in the first half and 4 per cent in the second half.

Transformation benefits in 2013/2014 totalled \$440 million, including \$204 million in second-half benefits from the accelerated Qantas Transformation program. A further \$900 million of projects are in the implementation phase, with more than \$600 million of benefits to be realised in 2014/2015.

There is a clear easing of both international and domestic capacity growth, which will stabilise the operating environment.

We have now come through the worst and we expect to report an Underlying Profit Before Tax for the first half of 2014/2015, subject to events beyond our control.

## Customer Focus

While we are aggressively reducing costs, we have made a deliberate choice to keep investing in the core fleet, product and service that make the Qantas and Jetstar brands so strong and give us a yield premium over the competition.

These investments include:

- New lounges in Singapore, Hong Kong and Los Angeles;
- The upgrade of our entire Airbus A330 and Boeing 737-800 fleets;
- The ongoing introduction of the B787 Dreamliner on Jetstar international routes;
- Innovative new Qantas Loyalty initiatives, such as Qantas Cash and the Acquire scheme for small-to-medium enterprises; and
- A focus on on-time performance that has seen Qantas Domestic lead the competition for 18 months in a row.

Qantas and Jetstar received record customer satisfaction and advocacy scores in 2013/2014, and our customer focus has been recognised with a string of awards and accolades.

## Looking Forward

The accelerated Qantas Transformation program is based on a clear vision for the Qantas Group as a 21st century aviation business.

Our structure is now clearly aligned with our strategy. As we move forward, we will continue to reduce costs in Qantas International and Qantas Domestic, while lifting service to new levels. We will realise the substantial value that exists across the Jetstar Group of airlines, with its extensive presence in the world's fastest-growing aviation markets. And we will keep investing and innovating with Qantas Loyalty, which continues to offer major profitable growth opportunities.

Our people have responded to the challenges we face with courage and commitment, and it is thanks to their efforts that we see a brighter future.

**As we move forward,  
we will continue to  
reduce costs  
in Qantas International  
and Qantas Domestic,  
as we lift service  
to new levels.**

<sup>1</sup> For explanations of non-statutory measures, see the Review of Operations section in this report.

<sup>2</sup> Total annual cash benefit, realised one year after completion of initiative.



# OVERVIEW OF RESULT<sup>1</sup>

For the 12 months to 30 June 2014, Qantas announced an Underlying PBT loss of \$646 million and a Statutory Loss After Tax of \$2.8 billion.

The underlying result was driven by market record fuel costs of \$4.5 billion – up \$253 million<sup>1</sup> from 2012/2013 – and the impact of capacity growth running ahead of demand, leading to a \$550 million decline in revenue from weaker yields and passenger loads.

The \$2 billion accelerated Qantas Transformation program is permanently reducing costs and laying the foundations for sustainable growth in earnings. Transformation benefits totalled \$440 million in 2013/2014, including \$204 million in second-half benefits from the accelerated Qantas Transformation program, while unit costs were reduced by 3 per cent over the year.

At the same time, Qantas has taken action to adjust its capacity and network in response to shifts in demand and the competitive environment.

The Group has maintained targeted investment in customer service to sustain yield premiums for Qantas and Jetstar, while overall capital investment has been reduced to maximise free cash flow for debt reduction. At 30 June 2014, Group liquidity was \$3.6 billion – including \$3 billion in cash – and the Group was net free cash flow neutral after delivering operating cash flow of \$1.1 billion.

## FLEET WRITEDOWN

On 28 August 2014, Qantas announced the outcomes of a structural review of the Group that commenced in December 2013 – including Board approval to establish a new corporate entity for the Qantas International business.

Under accounting standards, this decision required a change in Qantas' Cash Generating Units (CGUs) for impairment testing. The previous 'Qantas Brands' CGU has now been split into separate CGUs for Qantas International, Qantas Domestic, Qantas Loyalty and Qantas Freight.

While the Qantas Domestic, Qantas Loyalty and Qantas Freight CGUs are all in surplus, Qantas International's CGU required a non-cash impairment charge of \$2.6 billion, which is included in the statutory result for 2013/2014.

Following this writedown, the depreciation expense of Qantas International aircraft will be approximately \$200 million per year lower. There is no impact on the Group's or Qantas International's cash earnings.

<sup>1</sup> For explanations of non-statutory measures, see the Review of Operations section in this report.

## SEGMENT UNDERLYING EBIT<sup>1</sup>

### QANTAS DOMESTIC \$30 MILLION

Profitable in tough market, maintained over 80 per cent corporate market share

### QANTAS INTERNATIONAL -\$497 MILLION

Unit costs<sup>1</sup> down 4 per cent, offset by market capacity growth and fuel costs

### JETSTAR -\$116 MILLION

Domestic Australia profitable, offset by fuel costs, competitive South-East Asian markets and start-up costs

### QANTAS LOYALTY \$286 MILLION

Record result, fifth consecutive year of double-digit Underlying EBIT growth

### QANTAS FREIGHT \$24 MILLION

Weak global cargo markets, Australian air Express consolidation process complete

## FINANCIAL POSITION<sup>1</sup>

### STRONG LIQUIDITY

\$3.6bn, including \$3 billion cash

### ACCELERATED TRANSFORMATION BENEFITS

\$204m realised in 2013/2014, projects worth \$900 million underway

### COST REDUCTION

Unit costs down 3 per cent, with rate accelerating (2 per cent first half, 4 per cent second half)

### CAPITAL INVESTMENT

\$874m in 2013/2014 with forecast of \$700m in 2014/2015 and \$800m in 2015/2016, aligned with financial performance

### DEBT REFINANCED

Following early repayment of \$450m of unsecured debt, no significant unsecured refinancing due until April 2016

<sup>1</sup> For explanations of non-statutory measures, see the Review of Operations section in this report.



# A CHANGING WORLD

The aviation industry of 2014 is very different from that of 10 or even five years ago.

Fuel prices were around US\$60 per barrel in 2005; today they are consistently above US\$120 per barrel.

Despite a subdued global economy since the Global Financial Crisis, international airline capacity has increased rapidly – especially in the Asia-Pacific region.

Australia is at the centre of this trend, which has been driven largely by state-owned airlines from the Middle East and East Asia, as well as low-cost carriers. Between 2008/2009 and 2013/2014, Qantas' international competitors increased capacity into Australia by 44 per cent, compared with global growth of 29 per cent. In 2013/2014, competitor capacity growth was 9.5 per cent.

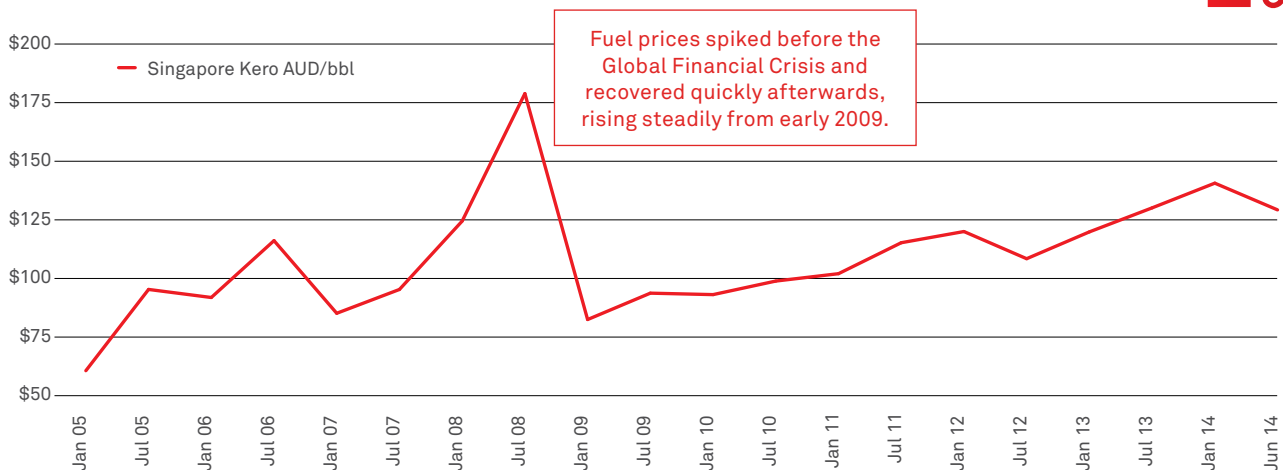
In the domestic market, capacity growth has exceeded demand growth for two consecutive years, resulting in a significantly reduced profit pool.

The combination of these factors brought about a uniquely challenging set of market conditions in Australian aviation.

It was in response to these challenges that Qantas announced an accelerated and expanded transformation program in December 2013.



## FUEL PRICE INCREASE





## FY14 INTERNATIONAL CAPACITY GROWTH<sup>1</sup>



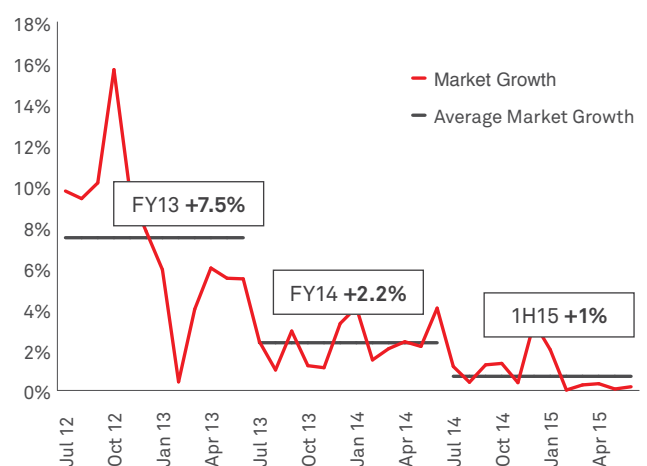
## 1H15 INTERNATIONAL CAPACITY GROWTH<sup>2</sup>



<sup>1</sup> BITRE (excl. Qantas Group; Qantas modelled for June 2014).

<sup>2</sup> OAG Published Flight Schedules as at 1 July 2014 excludes Qantas Group.

## TOTAL MARKET DOMESTIC CAPACITY GROWTH<sup>1</sup>



<sup>1</sup> Sourced from BITRE.



# STRENGTHENING OUR BUSINESS

In February 2014, the Group announced the detail of its accelerated Qantas Transformation program, with a target of \$2 billion in benefits over three years to 2016/2017.

As at 30 June 2014, \$204 million in accelerated transformation benefits had already been realised. Major pillars of Qantas Transformation include:

- Accelerating cost reduction;
- Right-sizing fleet and network;
- Working existing assets harder;
- Deferring growth;
- Aligning capital expenditure to financial performance; and
- Accelerating simplification.

Alongside cost base transformation, the Group has also refinanced near-term debt to extend maturity through two well-subscribed transactions in the unsecured markets.

With no significant debt falling due until April 2016, we can focus on strengthening our balance sheet through both earnings recovery and debt reduction.

Planned capital investment in 2014/2015 and 2015/2016 has been reduced by \$1.3 billion since 30 June 2013, while core investment in customer projects and fleet simplification has been preserved. Capital expenditure net of movements in lease liabilities was \$874 million in 2013/2014, with a forecast of \$700 million in 2014/2015 and \$800 million in 2015/2016.

*Qantas CEO  
Alan Joyce*

*We are making the hard but necessary decisions that will protect this great company, and ensure its return to a profitable and sustainable future.*



## QANTAS TRANSFORMATION CASE STUDY

**Consolidation initiative: 1,500 management and non-operational FTE reduction**

BACKGROUND	BENEFIT	COST	TIMELINE
<ul style="list-style-type: none"> <li>– Head office restructure to reduce management layers and improve efficiency</li> <li>– Simplified organisation structures for all reporting segments</li> <li>– Stringent controls on recruitment, consultants and contractors</li> </ul>	<p>Total annual benefit<sup>1</sup>: \$175m</p>	<p>Total one-off redundancy<sup>3</sup> costs: \$165m</p>	<ul style="list-style-type: none"> <li>– 1,000 of 1,500FTE reduction actioned<sup>2</sup> by end FY14</li> <li>– Remainder to exit in 1H15</li> </ul>

<sup>1</sup> Total annual cash benefit, realised one year after completion of initiative. <sup>2</sup> Includes FTEs that had exited or received notice by 30 June 2014. <sup>3</sup> Costs include cash payments for redundancy, annual leave, long service leave and other termination benefits.

\$

DEBT  
MATURITY  
PROFILE

As at December 2013



As at August 2014



## QANTAS TRANSFORMATION CASE STUDY

### International Fleet Simplification

#### BACKGROUND

Increasing fleet utilisation and putting the right aircraft on the right route across Asia, Europe and US networks.

- Exit from Perth–Singapore route > freed an A330 to operate Brisbane–Singapore > enabled retirement of a B747 (4Q FY14)
- Increased domestic fleet utilisation > frees an A330 to operate Sydney–Singapore > enables the retirement of a B747 (2Q FY15)
- Retire of QF9/10 (Melbourne–Dubai–London) > frees an A380 to operate Sydney–Dallas/Fort Worth > enables the retirement of a B747 (2Q FY15)

#### OUTCOMES

**Total annual benefit: > \$100 million<sup>1</sup> (from initiatives announced so far)**

- Two B747s replaced with existing A330s
- One B747 replaced through increased A380 utilisation
- Two B747s planned for retirement by the second half of FY16
- Voluntary redundancies for surplus cabin crew during FY15

<sup>1</sup> Total annual cash benefit, realised one year after completion of initiative.

# CUSTOMER SERVICE EXCELLENCE





When we announced our accelerated transformation, we made a commitment that customer service would not be affected.

Despite the significant cost reductions underway, we continue to invest in the customer experience to keep our brand strong and maintain a yield premium.

After earning record customer satisfaction in 2012/2013, we have built on that momentum in 2013/2014, delivering industry-leading punctuality, reinventing our international premium lounges, and winning a series of awards for service and innovation.

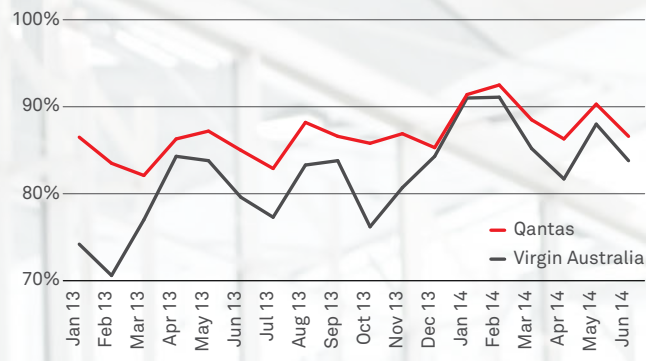
## Punctuality

For 18 consecutive months to June 2014, Qantas was Australia's most punctual major domestic airline, as measured by the Government's Bureau of Infrastructure, Transport and Regional Economics.

This statistic matters because punctuality is one of the most important measures of performance for our customers, especially in the time-sensitive business market. And while we have always been a consistent leader in on-time performance, this streak of consecutive monthly wins over the competition is unprecedented – reflecting a commitment across the operational supply chain to lift standards even higher.



**DEPARTURES  
WITHIN  
15 MINUTES**



On-time performance can be affected from month to month by seasonal variations in demand and weather-related disruptions



# REINVENTING LOUNGES

Qantas' extensive lounge network continues to expand and evolve, most recently with the reinvention of our international premium lounges in the key ports of Singapore, Hong Kong and Los Angeles.

These lounges draw on the elements of the award-winning Qantas First Lounges in Sydney and Melbourne, but also incorporate the look, feel and cuisine of their home city.

The role of Qantas' consulting chef Neil Perry has been crucial in re-imagining the dining experience for these new lounges, whether yum cha in Hong Kong or Mexican-influenced Californian street food in Los Angeles.

Domestically, Qantas opened its 12th regional lounge – in the popular West Australian destination of Broome – complementing our 12 Qantas Clubs in major cities. We continue to look for ways to improve our domestic lounge network, with a new Darwin Qantas Club to open in late 2014, doubling the size of Qantas' lounge space in the Northern Territory capital.

## AWARDS

### Qantas

- TripAdvisor Travellers' Choice Awards: Best Airline in Australia (2014);
- The World of Fine Wine Magazine: Best Airline Wine List (2014);
- International Design Awards: Qantas Singapore Lounge awarded first place in its category (2014);
- AirlineRatings.com: Best Economy and Best Lounge offerings in a review of more than 450 international airlines (2014);
- One of the world's most recognisable companies in the Reputation Institute and Forbes magazine's annual survey (2014);
- Skytrax World Airline Awards: Best Airline – Australia/Pacific (2014, 2013);
- National Travel Industry Awards: Best Domestic Airline (2014, 2013, 2012, 2011, 2010); and
- Qantas Cash card rated maximum five stars by CANSTAR for outstanding value on a travel money card.

### Jetstar

- AirlineRatings.com: Best Low-Cost Carrier in the Asia Pacific (2014);
- Skytrax World Airline Awards Best Low-Cost Airline – Australia/Pacific (2014, 2013, 2012 and 2011); and
- AsiaOne People's Choice Awards: Best Low-Cost Carrier (Jetstar Asia, 2014).







Qantas Chef  
Neil Perry

*There's a certain type of comfort food a lot of travellers want. They'll have a steak sandwich or a chicken schnitzel. Or they might want a movie and a delicious three course meal. You have to make sure there is a nice variety.*



# RENEWING OUR FLEET



Since 2008/2009, the Qantas Group has taken delivery of more than 140 new aircraft, bringing our average passenger fleet age down to 7.7 years.

The benefits of fleet renewal are:

- Significant reductions in cost through greater fuel efficiency and less frequent heavy maintenance requirements; and
- Increased customer satisfaction from a better onboard experience. A380 routes, for example, gain consistently high customer satisfaction ratings.

As part of the accelerated Qantas Transformation program, the Group has completed the retirement of all Qantas' Boeing 737-400s, with the retirement of all Boeing 767s to follow by early 2015. Older B747s are also being retired at pace, with just nine of Qantas' youngest

of these aircraft – all fitted with A380-standard interiors – to remain by early 2016, compared with a fleet of 35 in 2003.

We have realised significant cost savings from fleet simplification, with the reduction in the B747 fleet enabling the closure of the Avalon maintenance base, while A380s, B787s, A330s and B737-800s are all considerably more fuel efficient than the older models they are replacing.

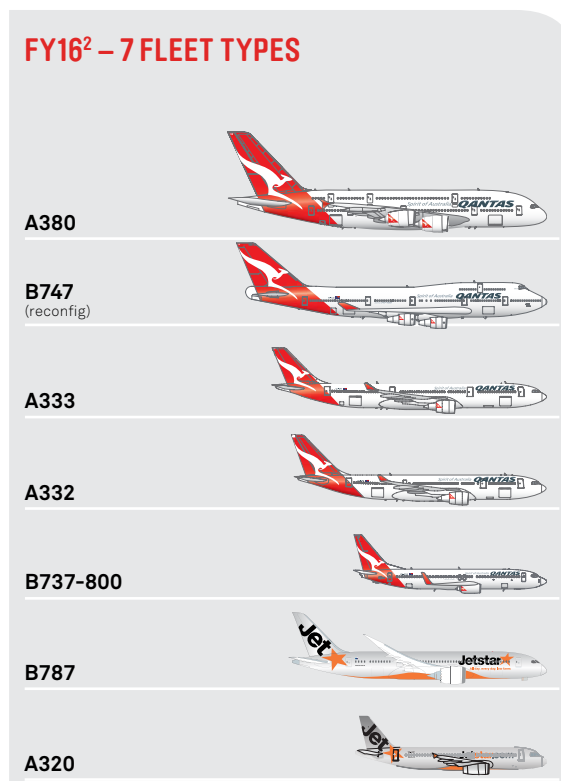
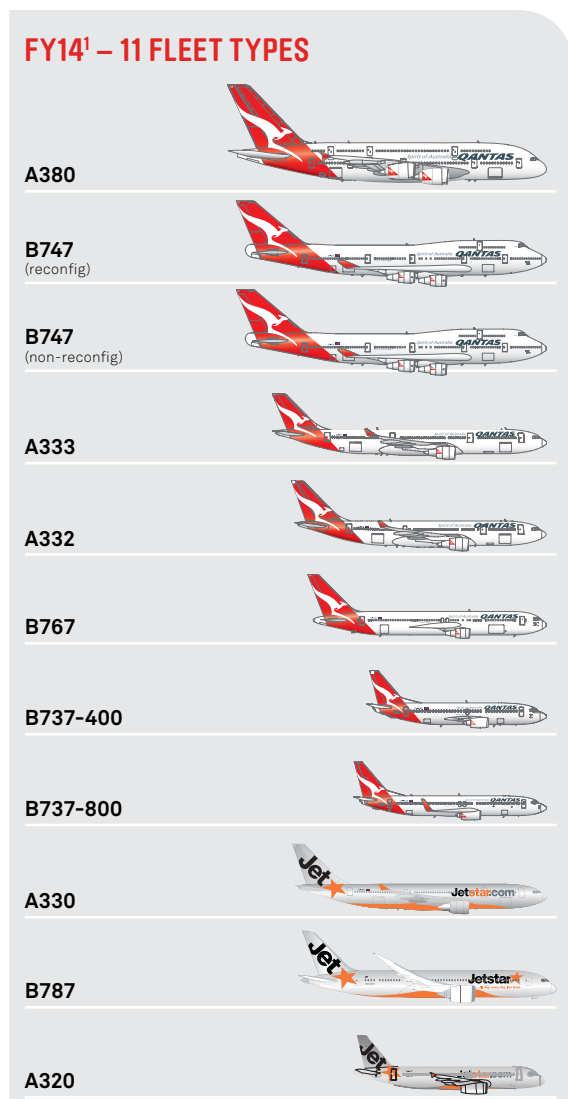
The Group continues to renew its regional fleet, with five B717 jets and two next-generation Q400 turboprops delivered during the year. Network Aviation, the Group's FIFO airline, has completed the retirement of its Brasilia turboprop fleet, and now has a single fleet comprising 12 Fokker F100s.





# RIGHT-SIZING FLEET AND NETWORK

## Accelerated Mainline Fleet Simplification



- Young average fleet age of ~8 years in FY16
- B747: 7 non-reconfigured aircraft retired by 2H FY16
- B767: all 15 retired by 3Q FY15
- B734: all retired by February 2014

<sup>1</sup> As at 31 December 2013.

<sup>2</sup> By end of financial year 2015–2016.

# 4

Jetstar successfully introduced four Boeing 787 Dreamliners into its fleet in 2013/2014.

# 500

A 500-strong Jetstar team, including flight operations, engineering and ground operations roles, has completed conversion and competency training to operate on the B787.

# \$100m

Jetstar is investing \$100 million to establish a maintenance base at Melbourne Tullamarine, procuring spares and equipment and setting up a flight simulator to support the addition of B787s to the fleet.

Customer feedback has been very positive, with passengers particularly enjoying the aircraft's larger dimmable windows, reduced noise onboard, and increased space in overhead bins.

# GROUP DOMESTIC STRATEGY



The Qantas Group's domestic strategy is based on simple guiding principles: to hold a frequency and network advantage in the premium market, and a scale and network advantage in the price-sensitive leisure market.

Market capacity increases above demand between 2012 and 2014 put intense pressure on yields and reduced the domestic profit pool. Nevertheless, Qantas and Jetstar have remained consistently profitable in the domestic market throughout this period – including in 2013/2014, when they were the only major domestic carriers to make a profit.

Qantas Domestic has held more than 80 per cent of the corporate market by revenue, while we have increased our share of the charter market to 30 per cent

– driven by Network Aviation. We have also maintained investment in product and service, with the refresh of our Airbus A330 and Boeing 737-800 fleets to begin in 2014/2015.

Looking forward, we expect the domestic travel market to be impacted by weaker consumer confidence and the shift in the mining boom from construction to production. As a result, the Group's planned capacity growth is flat – but we maintain the flexibility to make adjustments as market conditions require. Earnings recovery will be underpinned by delivery of cost reduction and a stabilising operating environment.

## WHY IT WORKS

Qantas offers the greatest frequency of flights at the times the business market wants to travel, across the most number of routes. This allows Qantas to maintain a yield premium over the competition.



Jetstar offers by far the biggest network of any domestic low-cost carrier, meaning it has a scale advantage over the competition. This allows Jetstar to maintain the lowest cost base in the domestic market, which in turn enables it to keep fares low and generate demand.



Qantas and Jetstar together maintain a capacity share in the domestic market that allows the Group to maximise profit over the long term.

# BUILDING GLOBAL REACH



The Qantas Group today connects Australians to an international network spanning the Australia-Pacific, Asia and the Middle East, Europe, Africa and North and South America.

Through Qantas and Jetstar-operated services, a wide range of codeshare partnerships and minority shareholdings in the Jetstar airlines in Asia, we have built global reach and a strategic presence in all the world's major aviation markets.

## QANTAS INTERNATIONAL

The Qantas International network has been restructured around a series of 'global gateway' cities. In each gateway, we form partnerships with the region's leading airlines to give our customers greater choice through codesharing and other joint benefits.

The launch of the Emirates partnership was pivotal, opening up a network of 65 destinations in Europe, the Middle East and North Africa via Qantas' new Dubai hub. More than a year on, our research shows that customers have embraced the expanded network, Dubai transit experience and shared benefits of the partnership.

Asia is now at the heart of the Qantas International network – rather than a stopover point on the way to Europe. Qantas flies directly from Australia to seven major cities in Asia. And in 2013/2014, we took important steps to strengthen our network of partners in the region, forming new codeshare agreements with Bangkok Airways and China Southern.

### Focus on China

In late 2013, Qantas announced a new partnership with Guangzhou-based China Southern – the world's fourth largest domestic airline and one of the carriers leading Chinese aviation's impressive growth on the global stage.

The codeshare – covering four destinations in mainland China, 'trunk' routes between Australia and Guangzhou and key routes on Qantas' domestic and trans-Tasman networks – means that Qantas now has commercial partnerships with two of China's 'big three' carriers. This new China Southern partnership complements our existing, wide-ranging alliance with China Eastern, centred on its Shanghai gateway.

Together with multiple daily services to Hong Kong and our relationship with Cathay Pacific through oneworld, Qantas' presence in China is bigger than ever.

China is Australia's largest trading partner and second-largest source market for inbound tourists. Qantas is playing a key role in strengthening the ties between the two countries, building partnerships that will deliver benefits over many years to come.





# JETSTAR IN ASIA



Jetstar's international growth in just 10 years has been remarkable.

From a domestic airline with 14 aircraft in 2004, the Jetstar Group today numbers five airlines with almost 120 aircraft, flying to more than 60 destinations across 17 countries and territories.

Jetstar's Australia-based long haul operation began a new chapter in 2013/2014, with the arrival of the Group's first Boeing 787 Dreamliners – and Jetstar was once again named best Low-Cost Carrier in the Australia/Pacific region in the annual Skytrax World Airline Awards.

The Jetstar Group's unique scale and brand presence across Asia is built on strategic minority holdings, where

the Group provides its share of start-up capital and the widely recognised Jetstar brand – but each airline is led and managed by its own board, CEO and management team, supported by majority local investors.

After a decade of rapid expansion, the Group's priority now is to strengthen and support the existing network of Jetstar airlines as each airline pursues its own strategy. In Singapore, a decision has been made to defer growth until market conditions improve; in Vietnam and Japan, the stage is set for ongoing growth; in Hong Kong, the Jetstar Hong Kong board and management team continue to work towards regulatory approval.



## THE JAPAN OPPORTUNITY

Jetstar Japan was launched in July 2012; since then it has built a fleet of 18 aircraft, a network of 14 routes and carried 5 million passengers.

Operating out of two main hubs – Tokyo and Osaka – it already holds a 56 per cent share of the Japanese LCC market, which in turn accounts for only 7 per cent of the total domestic air travel market in what is the world's third-largest economy.

With a strong, recognised brand, enormous growth potential and the highest customer satisfaction ratings anywhere across the Jetstar Group network, Jetstar Japan is well-positioned to continue its initial momentum.

# EARNING AND REWARDING LOYALTY



This year, Qantas Frequent Flyer passed the milestone of 10 million members, meaning member numbers doubled in size between 2008 and 2014. There is now a member in every other Australian household.

For five years, Qantas Loyalty has reported double-digit growth in earnings, as the Group has pursued a strategy to broaden revenue streams and diversify the business.

As well as the successful Qantas Frequent Flyer program – a ‘coalition’ model with more than 100 partners – Qantas Loyalty has diversified to create new brands and enter new markets.

- Qantas epiQure is a food and wine community for Qantas Frequent Flyer members, created based on a close understanding of member interests;

- Qantas Cash is a prepaid travel card that also functions as the Qantas Frequent Flyer membership card (members can load up to 11 currencies and earn Qantas Points for their spend at home and abroad);
- Accumulate helps businesses to establish and run employee loyalty programs; and
- Aquire is a loyalty program for small-to-medium (SME) size enterprises.

With proven strong fundamentals, Qantas Loyalty has built up a leading position in the Australian market, steadily increasing the value proposition for both members and external partners.

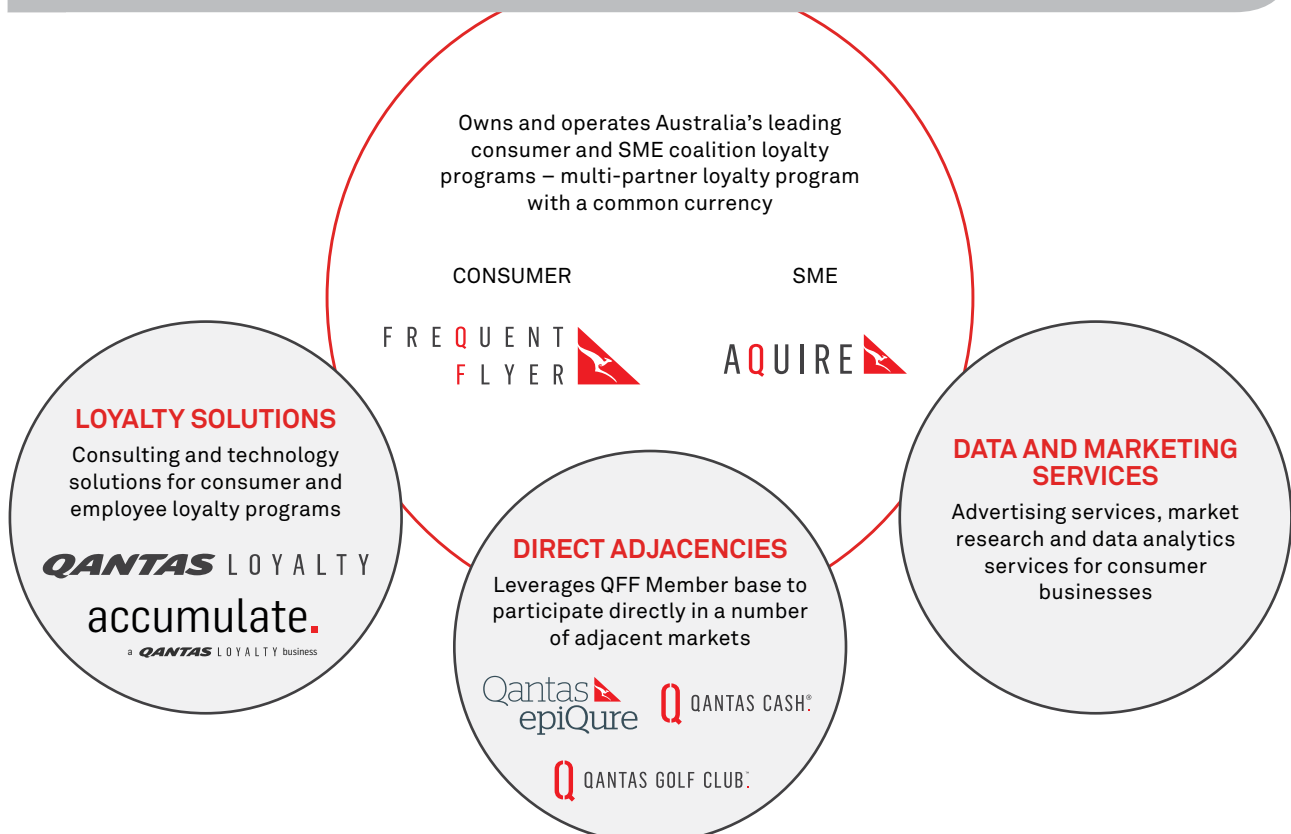
## Serving small business

Over more than 25 years, Qantas has developed a unique experience in the consumer loyalty market and in the corporate travel market. Drawing on that knowledge, we launched Aquire, Australia's first airline-based business loyalty program aimed at the SME sector.

Members can earn points from business activities and transactions with a wide range of partners, convert them to Qantas Points, and redeem them to meet their business needs. At the same time, individual employees can keep earning points as Qantas Frequent Flyers in their own right.

Research showed that the market for SME loyalty was underdeveloped and the response to the launch of Aquire has been emphatic: more than 35,000 businesses have signed up.

## QANTAS LOYALTY





# QANTAS AND THE COMMUNITY

Qantas serves the Australian community in many different ways, all of them unique to our role as national carrier.

- We generate jobs and economic activity through procurement spend with Australian suppliers;
- With a network of 57 destinations around Australia, Qantas connects regional communities to our capital cities and overseas travel opportunities in a way that no other airline can match;
- We work with charities and community organisations across Australia to advance good causes of all kinds, from Indigenous education to young social entrepreneurs and Jetstar's Starkids anti-poverty initiative;
- We are a major sponsor of sports and arts organisations that help enrich Australia's cultural life; and
- We are a strategic partner for Australia's armed forces and provide the Government with logistical support in times of crisis, drawing on our 300-strong aircraft fleet and wide aviation skill base.

*Qantas CEO  
Alan Joyce*

*As Australia's national carrier, we will fly this livery with great pride. It not only reflects our rich history as a country, it highlights the opportunities we have to promote our Indigenous culture to the Australian public and our international visitors.*



Photo courtesy of Boeing.



Qantas and the Make-a-Wish® Australia helped make 6-year-old Samuel's wish a reality: to become a 'plane driver'.

### Introducing Mendoowoorji

Qantas has a long and proud record of representing Indigenous art through distinctive aircraft liveries.

These aircraft are the most visible symbol of Qantas' commitment to supporting employment pathways and economic development for Indigenous Australians through one of corporate Australia's most well-established Reconciliation Action Plans.

In 2012, we farewellled our iconic B747 in Indigenous livery, *Wunala Dreaming*; and in 2013, we welcomed *Mendoowoorji*: a brand new Boeing 737-800 featuring the art of West Australian Aboriginal painter Paddy Bedford.

Together Qantas, Boeing and the Balarinji Design Studio interpreted Paddy Bedford's work *Medicine Pocket* – a representation of the Kimberley landscape – into a striking livery that, for the first time, altered the iconic red tail to incorporate it within the design.



### Standing up for Moree

When regional carrier Brindabella Airlines was put into administration in December 2013, the NSW town of Moree was left without its vital air link to Sydney.

Qantas stepped in to provide daily services on a temporary basis and, after an enthusiastic campaign from the Moree community, the NSW Government awarded the contract to operate the route permanently.

The end result was the resumption of a 21-year partnership between Qantas and Moree, and a snapshot of Qantas' role in supporting regional economies around Australia.





# BOARD OF DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2014



## Leigh Clifford, AO

BEng, MEngSci  
Chairman and Independent  
Non-Executive Director

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

He is Chairman of the Nominations Committee.

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

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: 66



## Alan Joyce

BAppSc(Phy)(Math)(Hons), MSc(MgtSc),  
MA, FRAeS, FTSE  
Chief Executive Officer

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

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

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

Mr Joyce was the Chief Executive Officer of Jetstar from 2003 to 2008. Before that, he spent over 15 years in leadership positions with Qantas, Ansett and Aer Lingus. At both Qantas and Ansett, he led the network planning, schedules planning and network strategy functions. Prior to that, Mr Joyce spent eight years at Aer Lingus, where he held roles in sales, marketing, IT, network planning, operations research, revenue management and fleet planning.

Age: 48



## Maxine Brenner

BA, LLB  
Independent Non-Executive Director

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

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

Ms Brenner is a Director of Origin Energy Limited, Orica Limited and Growthpoint Properties Australia Limited. She is a Trustee of the State Library of NSW and a Member of the Advisory Panel of the Centre for Social Impact at the University of New South Wales.

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

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

Age: 52



### **Richard Goodmanson**

BCom, BEc, MBA, MCE  
Independent Non-Executive Director

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

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

Mr Goodmanson 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 Senior Vice President of Operations for Frito-Lay Inc and a Principal at McKinsey & Company Inc where he cofounded the Transportation Practice. 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: 67



### **Jacqueline Hey**

BCom, Grad Cert (Mgmt), GAICD  
Independent Non-Executive Director

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

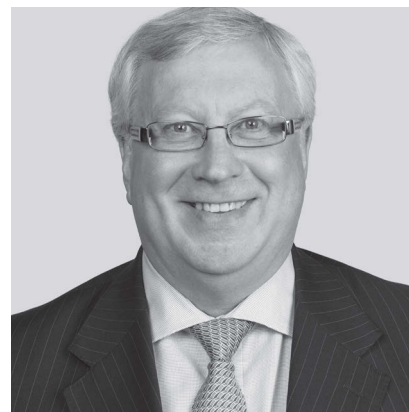
She is a Member of the Audit Committee.

Ms Hey is a Director of Bendigo and Adelaide Bank Limited and is Chairman of its Change & Technology Committee and a Member of its Audit and Risk Committees. She is also a Director of the Australian Foundation Investment Company Limited, Special Broadcasting Service, Melbourne Business School and Cricket Australia, and a Member of the ASIC Director Advisory Panel.

Ms Hey is the Honorary Consul for Sweden in Victoria.

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

Age: 48



### **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 Investec Global Aircraft Fund, and is a Director of DuluxGroup Limited, Spotless Group Holdings Limited, Treasury Wine Estates Limited and Ingeus Limited.

Mr Hounsell was formerly a Director of Orica Limited and Nufarm Limited and Deputy Chairman of Mitchell Communication Group Limited. He was also a Senior Partner of Ernst & Young, Chief Executive Officer and Country Managing Partner of Arthur Andersen and a Board Member of law firm Herbert Smith Freehills.

Age: 59

## BOARD OF DIRECTORS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014



### William Meaney

BScMEng, MSIA  
Independent Non-Executive Director

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

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

Mr Meaney is the President and Chief Executive Officer of Iron Mountain Inc. He is a Member of the Asia Business Council and also serves as Trustee of Carnegie Mellon University and Rensselaer Polytechnic Institute.

Mr Meaney was formerly the Chief Executive Officer of The Zuellig Group and a Director of moksha8 Pharmaceuticals Inc. He was also 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: 54



### Paul Rayner

BEc, MAdmin, FAICD  
Independent Non-Executive Director

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

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

Mr Rayner is Chairman of Treasury Wine Estates Limited and a Director of Centrica plc. He is also a Director of Boral Limited and Chairman of its Audit Committee.

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: 60



### 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 the Sydney Children's Hospital Foundation.

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

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

Age: 60

# REVIEW OF OPERATIONS

FOR THE YEAR ENDED 30 JUNE 2014

The Qantas Group reported an Underlying PBT<sup>1</sup> loss of \$646 million for the financial year ended 30 June 2014. The result reflects the very difficult operating environment the Group has faced, with challenges including:

- Weak underlying demand growth in Australia, with consumer spending and business confidence remaining subdued
- \$566 million of yield and load factor decline from market capacity growth running ahead of demand
- \$253 million higher fuel expense, driven by the weaker Australian dollar

The Qantas Group took decisive action to address these challenges, commencing the accelerated Qantas Transformation program on 1 January 2014. This program is targeting the delivery of \$2 billion<sup>2</sup> of benefits by the end of financial year 2016/2017. The program delivered \$204 million of benefits in the second half of the year, building on the benefits derived from previous Qantas Transformation and fuel burn initiatives. Combined, all these measures delivered \$440 million of cost reduction in the period.

All accelerated Qantas Transformation milestones were met in the second half, with strong momentum heading into 2014/2015. Transformation is at the centre of the Group's strategy to drive an earnings recovery, strengthen the balance sheet and build long-term shareholder value. Other key pillars of that strategy include:

- Group capacity and network response to shifting demand and competitive environment
- Targeted investment in the customer to maintain brand and yield premium
- Reduced capital investment to maximise free cash flow for debt reduction

A comprehensive Group structural review was announced in December 2013, and has now been completed. The outcomes from the review are both structural and strategic for the future direction of the Qantas Group:

- Non-core assets identified and valued, including terminals, land and property holdings. The Group will continue to assess opportunities to sell, with proceeds to repay debt
- Detailed assessment of potential for Qantas Loyalty minority sale undertaken. After careful consideration, the decision has been made that Loyalty continues to offer major profitable growth opportunities and there was no justification for a partial sale
- No new Jetstar ventures to be established while Group focused on Transformation. Substantial value exists across Jetstar Group Airlines, to be realised over time
- Following partial repeal of Qantas Sale Act foreign ownership limits, the decision has been made to establish a new holding structure and corporate entity for Qantas International to increase the potential for future external investment, and creates long-term options for Qantas International to participate in partnership and consolidation opportunities. This change to the Group's organisational structure resulted in the write-down of the Qantas International fleet

The Qantas Group's Statutory Loss After Tax was \$2,843 million for the financial year ended 30 June 2014. The Statutory result includes the impact of fleet restructuring costs of \$394 million and redundancies, restructuring and other transformation costs associated with the accelerated Transformation program of \$428 million. In addition, triggered by the Board decision relating to Qantas International on conclusion of the Structural Review, a non-cash impairment of the Qantas International fleet of \$2,560 million has been recognised. The Group's underlying financial position is strong and improving with cash of \$3,001 million, liquidity of \$3,631 million, net debt<sup>4</sup> reduction of \$96 million and neutral free cash flow achieved alongside significant investment in fleet and product.

The Board's decision on 28 August 2014 changes the organisational structure of the Group. As a result, for the purpose of assessing the carrying value of the Group's assets, each of the Segments will now be required to be tested for impairment on a stand-alone basis. There are significant surpluses in the Qantas Domestic, Qantas Freight, Qantas Loyalty and Jetstar Group Cash Generating Units (CGUs), but an impairment of \$2,560 million arose in the newly created Qantas International CGU.

Performance highlights in the year include:

- Record<sup>3</sup> result for Qantas Loyalty, and fifth consecutive year of double-digit EBIT growth
- Both Qantas and Jetstar domestic businesses profitable in intensely competitive market
- Qantas Domestic outperformed major competitor in on-time performance for fifth consecutive year
- Record customer satisfaction and advocacy levels reached at Qantas Domestic, Qantas International, Qantas Loyalty and Jetstar

The challenging operating environment precipitated the loss of the Group's investment grade credit rating. Despite this, the Qantas Group continues to display strong financial discipline. Financial highlights in the year included:

- Delivery of neutral free cash flow in the context of significant earnings pressure and significant investment in the Qantas Transformation Program
- \$3 billion cash held at year end
- Reduction in net debt<sup>4</sup> of \$96 million
- Significantly extending unsecured debt maturity profile through \$700 million of landmark bond issuances
- Prudent capital investment<sup>5</sup> of \$874 million

1 Underlying Profit Before Tax (PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying Earnings Before Net Finance Costs and Tax (EBIT) as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT. Refer to Note 3 for a reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax.

2 Excluding the impact of inflation.

3 Qantas Loyalty record Underlying EBIT result compared to prior periods normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.

4 Net debt including operating lease liabilities includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent applied in Standard and Poor's methodology.

5 Capital investment is net cash from investing activities, net of changes in operating lease liability and including non-cash investing activities. Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet.

# REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## UNDERLYING PBT

The Qantas Group full-year Underlying PBT decreased to a loss of \$646 million, compared to Underlying PBT of \$186 million in financial year 2012/2013. The deterioration in earnings was driven by a decline in revenue, with both yield and passenger loads lower due to capacity growth running ahead of demand in domestic and international markets. A three per cent improvement in comparable unit cost<sup>6</sup> related to benefits being realised from the \$2 billion<sup>2</sup> accelerated Qantas Transformation program, though was offset by the \$253 million increase in fuel cost to the prior year.

Group Underlying Income Statement Summary		June 2014	June 2013 Restated <sup>7</sup>	Change	% Change
Net passenger revenue <sup>8</sup>	\$M	13,242	13,673	(431)	(3)
Net freight revenue	\$M	955	935	20	2
Other revenue <sup>8</sup>	\$M	1,155	1,294	(139)	(11)
<b>Revenue</b>	<b>\$M</b>	<b>15,352</b>	<b>15,902</b>	<b>(550)</b>	<b>(3)</b>
Operating expenses (excluding fuel) <sup>9</sup>	\$M	(9,288)	(9,279)	(9)	–
Share of net (loss)/profit of investments accounted for under the equity method	\$M	(66)	(39)	(27)	(69)
Fuel <sup>9</sup>	\$M	(4,496)	(4,243)	(253)	(6)
Depreciation and amortisation	\$M	(1,422)	(1,450)	28	2
Non-cancellable aircraft operating lease rentals	\$M	(520)	(525)	5	1
<b>Expenses</b>	<b>\$M</b>	<b>(15,792)</b>	<b>(15,536)</b>	<b>(256)</b>	<b>(2)</b>
<b>Underlying EBIT</b>	<b>\$M</b>	<b>(440)</b>	<b>366</b>	<b>(806)</b>	<b>&gt;(100)</b>
Net finance costs <sup>9</sup>	\$M	(206)	(180)	(26)	(14)
<b>Underlying PBT</b>	<b>\$M</b>	<b>(646)</b>	<b>186</b>	<b>(832)</b>	<b>&gt;(100)</b>

Operating Statistics		June 2014	June 2013 Restated <sup>7</sup>	Change	% Change
Available Seat Kilometres (ASK) <sup>10</sup>	M	141,715	139,909	1,806	1.3
Revenue Passenger Kilometres (RPK) <sup>11</sup>	M	109,659	110,905	(1,246)	(1.1)
Passengers Carried	'000	48,776	48,276	500	1.0
Revenue Seat Factor <sup>12</sup>	%	77.4	79.3	(1.9) pts	
Yield (excluding FX) <sup>13</sup>	c/RPK	10.02	10.29	(0.27)	(3)
Comparable unit cost <sup>6</sup>	c/ASK	5.00	5.15	0.15	3

Revenue fell three per cent, driven by a three per cent decline in net passenger revenue and an 11 per cent fall in other revenue. The decline in passenger revenue was primarily the result of aggressive international competitor capacity growth into Australia<sup>14</sup>, with an increase of 9.5 per cent in the year and growth above eight per cent for each of the last four years. Foreign airlines have continued to grow capacity into Australia in recent years, attracted by the country's relative economic strength and the high Australian dollar, though that pace of growth has slowed into financial year 2014/2015. In the Australian domestic market, capacity growth slowed in the second half of the year, though has still grown ahead of demand for a second consecutive year. Demand has been impacted by the resource sector slowdown, cautious business environment, and most recently by subdued consumer spending.

Net freight revenue increased with the acquisition and consolidation of Australian air Express. This was offset by lower Qantas Freight capacity as a result of Qantas International network reductions.

Other revenue declined by 11 per cent, reflecting reduced third party contract revenue following the sale of catering centres in the 2012/2013 financial year and the sale of Qantas Defence Services. Other revenue in the prior year included the one-off Boeing settlement<sup>15</sup> of \$125 million in the first half.

Qantas Loyalty reached the milestone of 10 million members<sup>16</sup>, and continued to grow revenue through new and existing commercial partners to achieve another record result.

<sup>6</sup> Unit cost is adjusted to aid comparability between reporting periods. Comparable unit cost is calculated as Underlying PBT less passenger revenue and fuel, adjusted for the impact of Boeing settlement and change in estimate of passenger revenue received in advance (2012/2013), changes in foreign exchange rates. Share of net loss of investments accounted for under the equity method and movements in average sector length per ASK. Comparable unit cost is the primary measure of unit cost used by the Qantas Group to aid comparability between reporting periods.

<sup>7</sup> The 2012/2013 Group Underlying Income Statement has been restated as a result of the application of new or revised accounting standards. Refer to Note 38.

<sup>8</sup> Net passenger revenue has been adjusted in 2013/2014 to include charter revenue previously reported as Other revenue. 2012/2013 Net passenger revenue and Other revenue has been reclassified accordingly. These items remain excluded from the calculation of yield.

<sup>9</sup> Underlying operating expenses (excluding fuel and Share of net loss of investments accounted for under the equity method), 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 36 for a reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax.

<sup>10</sup> ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.

<sup>11</sup> RPK – total number of passengers carried, multiplied by the number of kilometres flown.

<sup>12</sup> Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.

<sup>13</sup> Yield (excluding FX) – Passenger revenue excluding foreign exchange, divided by RPKs.

<sup>14</sup> BITRE data, Qantas modelled for June 2014.

<sup>15</sup> Boeing settlement of \$125 million in first half of 2012/2013 following the restructuring of the Group's B787-8 deliveries.

<sup>16</sup> As of 2 June 2014.

Group comparable unit cost<sup>6</sup> improved three per cent compared to the prior year, reflecting the early delivery of benefits from the accelerated Qantas Transformation program.

Fuel costs increased by six per cent. The increase was driven by an 11 per cent devaluation of the average Australian dollar over the period, mitigated by the Group's hedging program and a three per cent improvement in fuel efficiency<sup>17</sup> from fleet modernisation, cabin reconfigurations, and other fuel burn initiatives.

The increase in net finance costs was the result of a reduction in interest income due to lower average deposit rates and a reduced average cash balance. The average cost of debt did not materially increase over the period following the loss of the Group's investment grade credit rating in December 2013.

Segment Performance Summary		June 2014	June 2013 Restated <sup>7</sup>	Change	% Change
Qantas Domestic	\$M	30	365	(335)	(92)
Qantas International	\$M	(497)	(246)	(251)	>(100)
Qantas Loyalty	\$M	286	260	26	10
Qantas Freight	\$M	24	36	(12)	(33)
Qantas Brands Eliminations	\$M	3	3	–	–
<b>Qantas Brands</b>	<b>\$M</b>	<b>(154)</b>	<b>418</b>	<b>(572)</b>	<b>&gt;(100)</b>
Jetstar Group	\$M	(116)	138	(254)	>(100)
Corporate/Unallocated	\$M	(168)	(191)	23	12
Eliminations	\$M	(2)	1	(3)	>(100)
<b>Underlying EBIT</b>	<b>\$M</b>	<b>(440)</b>	<b>366</b>	<b>(806)</b>	<b>&gt;(100)</b>
Net finance costs	\$M	(206)	(180)	(26)	(14)
<b>Underlying PBT</b>	<b>\$M</b>	<b>(646)</b>	<b>186</b>	<b>(832)</b>	<b>&gt;(100)</b>

Qantas Domestic reported full-year Underlying EBIT of \$30 million, a pronounced deterioration from the prior year with a three per cent improvement in comparable unit cost offset by weaker yield and passenger loads. Intense market competition continued, with the negative impact of market capacity additions exacerbated by weak underlying demand. Qantas Domestic maintained its leading network and frequency advantage in the market, supporting the retention of over 80 per cent of corporate account revenue<sup>18</sup>.

Qantas International reported an Underlying EBIT loss of \$497 million, a \$251 million decline compared to the prior year. The reduction was primarily due to the continuation of market capacity oversupply, led by competitor airlines in Asia and the Middle East, and unfavourable fuel cost from foreign exchange movements. Strategic highlights in the year included enhancements to the international network offering, with expanded code share partnerships agreed with both China Eastern and China Southern as well as the bedding down of the alliance with Emirates.

The focus on business transformation at Qantas International continued, with a four per cent reduction in comparable unit costs as major initiatives including the B747-400 retirement program, cabin reconfigurations, and increased aircraft utilisation delivered benefits. Over the past two financial years, Qantas International has reduced comparable unit costs by nine per cent, with a 10 percentage point improvement in customer advocacy over the same period. These gains have been eroded at an earnings level by unfavourable fuel cost and revenue decline caused by excess market capacity growth.

Qantas Loyalty achieved another record<sup>3</sup> full-year Underlying EBIT of \$286 million, up 10 per cent on the prior year. Membership in the Qantas Frequent Flyer program passed 10 million<sup>16</sup> in the period, with 14 new partners added to the program, delivering more ways to earn and increased member interaction. Growth initiatives including Qantas Cash and the Aquire loyalty program have diversified Loyalty's customer base and added new revenue streams.

Jetstar Group's first full-year Underlying EBIT loss of \$116 million reflects the intense competitive environment in both domestic Australia and South East Asia. Domestic Australia remained profitable, however sustained aggressive competitor capacity growth in South East Asia depressed yields and loads in the period. As a result, Jetstar Asia, based in Singapore, reported losses of \$40 million. Associate losses of \$70 million were consistent with the rapid growth of Jetstar Japan as it expanded to consolidate its leading low-cost carrier position in the Japanese market and the establishment of Jetstar Hong Kong. Continued underlying unit cost<sup>19</sup> improvements helped mitigate increased fuel cost of \$86 million.

Qantas Freight Underlying EBIT of \$24 million is down \$12 million on the prior corresponding period, with \$11 million of the decline reported in the first half of financial year 2013/2014. Qantas International capacity reductions reduced freight capacity, and air freight markets were challenging in the first half of financial year 2013/2014 in particular. The full run-rate of benefits from the integration of Australian air Express began to be received in the second half of financial year 2013/2014.

<sup>17</sup> Fuel efficiency is measured as litres per ASK adjusted for movements in average sector length.

<sup>18</sup> Qantas modelled share of total corporate account revenue.

<sup>19</sup> Unit cost – Unit cost is measured using controllable unit cost in line with industry benchmarks for low-cost carriers. Controllable unit cost is adjusted to aid comparability between reporting periods. Controllable unit cost is measured as total underlying expenses excluding fuel, carbon tax, Jetstar Group costs and Share of net loss of investments accounted for under the equity method, adjusted for changes in foreign exchange rates and movements in average sector length per ASK.

# REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## Qantas' guiding strategic principles remain consistent

As the Group undergoes the most significant business transformation in its history, repositioning both its cost base and competitive position in every market we operate in, our guiding strategic principles as a business remain consistent:

- Safety is always our first priority
- The first choice for customers in every market we serve
- Maintaining dual-brand strength in the Australian market
- Reshaping Qantas International to remain competitive
- Maintaining the Jetstar opportunity in Asia
- Broadening Qantas Loyalty for strong, diversified earnings growth
- Driving efficiency and productivity across the Group

In order to continue implementing that strategy and to deliver sustainable returns to shareholders in what will remain a very challenging operating environment, the Group must accelerate the pace of Qantas Transformation.

With overarching targets to implement initiatives that will deliver \$2 billion<sup>20</sup> of benefits by the end of financial year 2016/2017 and reduce net debt<sup>20</sup> by more than \$1 billion by the end of financial year 2014/2015, Qantas Transformation is the key to driving earnings recovery and simultaneously deleveraging the Group's balance sheet.

At the same time, the Group is focused on targeted reductions in capital investment to ensure sustainable positive free cash flow from financial year 2014/2015 onwards. To remain the first choice for customers and maintain our brand and yield premium, key customer-facing investments, including gateway lounges, cabin reconfigurations to the A330 and B738 fleets, and the prioritisation of fleet simplification through the arrival of the B787-8 Dreamliner into Jetstar, are all proceeding.

Strategic priorities delivered on in the 2013/2014 financial year include:

- **Dual-brand strength:** number one and two most profitable Australian Domestic airlines<sup>21</sup>; maintained margin premium over competition; market-leading on-time performance; unrivalled network and frequency; retained over 80 per cent of corporate accounts by revenue
- **First choice for customers:** new and expanded lounges opened in Singapore, Hong Kong, Los Angeles and in the domestic market; roll-out of B787-8 Dreamliner on new routes; record customer satisfaction levels; ongoing commitment to staff training
- **Reshaping Qantas International:** strong comparable unit cost improvement of four per cent; enhanced code share relationships with China Eastern and China Southern; successful integration with major alliance partner Emirates after move to new hub in Dubai
- **Maintaining Jetstar opportunity in Asia:** largest Low Cost Carrier (LCC) in domestic Japan market, second base in Osaka launched, market leading OTP; Jetstar Asia 'Best Budget Airline' in 2014<sup>22</sup>; Jetstar Pacific business recapitalisation complete; all A320-200 fleet driving unit cost improvement
- **Broadening Qantas Loyalty:** customer innovation with launch of Qantas Cash and Acquire new revenue streams; reached milestone of over 10 million members<sup>16</sup> in Qantas Frequent Flyer

## Qantas Transformation strong momentum towards \$2 billion target

The pillars that underpin the Group's transformation are:

- Accelerating cost reduction
- Right-sizing fleet and network
- Working existing assets harder
- Deferring growth
- Aligning capital expenditure to financial performance
- Accelerating simplification
- Focus on customer and revenue

In the second half of financial year 2013/2014, \$204 million of Transformation benefits were realised and an even greater pipeline of initiatives entered the implementation phase for delivery in financial year 2014/2015 and beyond. The accelerated Qantas Transformation program builds upon the significant cost reduction and strategic achievements of recent years.

Transformation milestones achieved in the first six months of the accelerated program include:

- \$204 million of benefits realised, \$900 million worth of initiatives in implementation phase
- Accelerating comparable unit cost<sup>9</sup> reduction: two per cent in first half, four per cent in second half of 2013/2014
- 2,200 of targeted 5,000 FTE reduction exited as at 30 June 2014. Redundancy, restructuring and other transformation costs of \$428 million<sup>23</sup> recognised in financial year 2013/2014

<sup>20</sup> Net debt including operating lease liabilities includes on balance sheet debt and off balance sheet aircraft operating lease liabilities. Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent applied in Standard and Poor's methodology.

<sup>21</sup> Based on Qantas Domestic and Jetstar earnings before interest and tax in 2013/2014. Tigerair Australia reported earnings before interest and tax, and consensus estimates for Virgin Australia domestic earnings before interest and tax in 2013/2014.

<sup>22</sup> AsiaOne People's Choice Awards.

<sup>23</sup> Included in items not included in Underlying PBT in the 2013/2014 financial year.



- Avalon heavy maintenance facility closed
- Line Maintenance Operations changes enacted
- Right-sizing fleet and network at a cost of \$394 million<sup>23</sup> in financial year 2013/2014
  - Qantas International network optimisation under way; exit Perth-Singapore, down-gauge aircraft to A330s on Sydney-Singapore and Brisbane-Singapore, re-time of QF 9/10 and maintenance changes to up-gauge Sydney-Dallas/Fort Worth to A380-800
  - Qantas Domestic fleet simplification under way; exit of B737-400 aircraft and continuation of B767-300 retirement
  - Over 50 aircraft deferred or sold, accelerated B747-400 and B767-300 retirement in Group fleet restructure
- Jetstar ‘Lowest Seat Cost’ program lowering unit costs with a two per cent improvement in 2013/2014
- \$1.3 billion reduction<sup>24</sup> in planned capital investment in financial years 2014/2015 and 2015/2016
- Net debt<sup>4</sup> reduced by \$96 million

In December 2013, management announced it would freeze wages until the Qantas Group makes a full-year underlying profit. The wage freeze is:

- Ongoing for executives
- Immediate for open Enterprise Bargaining Agreements (EBAs)
- Proposed for other EBA-covered staff

Discussions with respective unions on implementation of the wage freeze continue to take place.

The Qantas Group Chief Executive Officer did not receive an increase in Base Pay during 2013/2014 and elected to forego five per cent of Base Pay from 1 January 2014. All other Qantas Airways Limited Directors also elected to forego five per cent of their fees from 1 January 2014.

In addition to the wages freeze, no bonus payments will be awarded for financial year 2013/2014.

The end of financial year 2013/2014 represents the peak in costs associated with Qantas Transformation being incurred, with the full run-rate of permanent cost reduction to flow in the financial year ahead.

#### Unlocking value through a structural review

The outcomes from the review are both structural and strategic for the future direction of Qantas Group:

- **Creating future optionality for Qantas International:** *Qantas Sale Act* foreign ownership restrictions have been a long-standing barrier to Qantas’ participation in industry consolidation at a Group level. The partial repeal of the Act’s 25% and 35% foreign airline ownership caps removes a substantial barrier to consolidation that was unique to Qantas.

The decision has been made to create a new holding structure and corporate entity for Qantas International. The new structure increases potential for future external investment, and creates long-term options for Qantas International to participate in partnership and consolidation opportunities.

The new structure builds upon existing segmentation of Qantas International and Qantas Domestic at management and financial reporting levels since 2012.

With the change to Group structure, accounting standards require a change to the Group’s Cash Generating Units (CGU) for impairment testing.

- **Impact on Qantas International asset carrying values:** Prior to the Board decision to change the structure of the Group, the Qantas Brands CGU comprised the operations of the Qantas fleet and brand to collectively generate cash inflow and derive value. As a result of the decision to create a new holding structure and corporate entity for Qantas International, Accounting Standards require the existing ‘Qantas Brands CGU’ to be split into four separate CGUs for the purposes of assessing the carrying value of the Group’s assets.

While there are significant surpluses in Qantas Loyalty, Qantas Domestic and Qantas Freight CGUs, an impairment of \$2,560 million arose in the stand-alone Qantas International CGU. The size of the impairment loss recognised is largely the result of wide body aircraft being purchased through a period where the Australian dollar was significantly weaker against the US dollar compared to recent years.

This impairment is a non-cash charge, with no impact on the economics of the business or change to cash flow forecasts. The impairment has arisen because Qantas International CGU has been tested as a standalone CGU for the first time. Accordingly the Qantas International fleet assets are not assessed in combination with the collective cash flows of the whole of Qantas’ operations. Following the impairment, the carrying value of Qantas International aircraft is more reflective of current market value.

<sup>24</sup> Compared to August 2013 planned capital expenditure.

# REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## Material business risks

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or epidemic.

Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects:

- **Competitive intensity:** Market capacity growth ahead of demand impacts industry profitability
  - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas has also embarked on reducing its cost base through the Qantas Transformation program. Qantas continues to leverage its considerable fleet flexibility and established relationships with manufacturers to adjust capital expenditure in line with financial performance and right-size its fleet and network.
  - The Australian domestic aviation market has attracted increased competition in recent years. The resulting intensity of competition as a result of capacity growth ahead of demand over a sustained period is being mitigated by maintaining the Qantas Group's market leading domestic position and executing Qantas Group's dual-brand strategy. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price sensitive customers. Qantas Domestic is focused on removing the cost base disadvantage to its competitors through its transformation initiatives and fleet renewal, while Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs.
- **Fuel and foreign exchange volatility:** The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations as an airline. The Qantas Group manages these risks through a comprehensive hedging program.
- **Industrial relations:** The associated risks of a transformation including industrial action relating to Qantas' collective agreements with its employees. This risk is being mitigated through continuous employee engagement initiatives and ongoing, constructive dialogue with all union groups and other relevant stakeholders.
- **Continuity of critical systems:** The Group's operations depend on the continuous functioning of a number of information technology and communication services. The Group has an extensive control and management framework<sup>25</sup> to reduce the likelihood of outages, ensure early detection and to mitigate the impact.
- **Credit rating:** Qantas' credit rating is Ba2 negative outlook and BB+ negative outlook by Moody's and Standard and Poor's respectively. Compared to an investment grade credit rating, the price of new debt funding may increase and/or the Group's access to some sources of unsecured credit could reduce over time. To mitigate the risk Qantas maintains strong liquidity and has a flexible fleet plan to enable it to reduce Capital Expenditure to ensure debt remains within an acceptable range.
- **Key business partners:** The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework<sup>25</sup>.

## Securing the future with financial discipline

Cash Flow Summary		June 2014	June 2013	Change	% Change
Operating cash flows	\$M	1,069	1,417	(348)	(25)
Investing cash flows	\$M	(1,069)	(1,045)	(24)	(2)
<b>Net free cash flow<sup>26</sup></b>	<b>\$M</b>	<b>–</b>	<b>372</b>	<b>(372)</b>	<b>(100)</b>
Financing cash flows	\$M	173	(953)	1,126	>(100)
Cash at beginning of period	\$M	2,829	3,398	(569)	(17)
Effect of foreign exchange on cash	\$M	(1)	12	(13)	>(100)
<b>Cash at period end</b>	<b>\$M</b>	<b>3,001</b>	<b>2,829</b>	<b>172</b>	<b>6</b>

<sup>25</sup> An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on [qantas.com.au](http://qantas.com.au).

<sup>26</sup> Net free cash flow – Operating cash flows less investing cash flows. Net 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.

The Group ended the financial year with a robust liquidity position, with \$3 billion in cash and \$630 million in undrawn facilities available. Net free cash flow was neutral in the period, despite the significant early cash costs associated with Qantas Transformation. Capital investment<sup>5</sup> for the year was \$874 million.

Total financial year 2014/2015 capital investment is expected to be \$700 million, a \$600 million reduction from previous expectations as highlighted in May 2014<sup>27</sup>.

Cash generated from operations was unfavourable to the prior year largely as a result of revenue deterioration caused by market capacity oversupply and the financial year 2012/2013 one-off receipt of funds related to the Boeing settlement<sup>15</sup> and sale of StarTrack.

Seven new unencumbered aircraft were added to the fleet, and another 15 mid-life aircraft became debt free in the period.

The Group continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to any change in market conditions.

Debt and Gearing Analysis		June 2014	June 2013	Change	% Change
Net on balance sheet debt <sup>28</sup>	\$M	3,455	3,226	229	7
Net Debt including operating lease liabilities <sup>4</sup>	\$M	4,751	4,847	(96)	(2)
Adjusted Equity <sup>29</sup>	\$M	2,938	5,717	(2,779)	(49)
Gearing Ratio <sup>30</sup>		62 : 38	46 : 54	(16) pts	

## Fleet

The Qantas Group remains committed to a fleet strategy that provides for long-term flexibility, renewal, and that prioritises Group fleet simplification. The fleet strategy is designed to support the strategic objectives of the Group's two flying brands and the overarching targets of the Qantas Transformation program. At all times, the Group retains significant flexibility to respond to any changes in market conditions and the competitive environment.

At 30 June 2014, the Qantas Group fleet<sup>31</sup> totalled 308 aircraft. During financial year 2013/2014, the Group purchased 17 aircraft and leased six aircraft:

- Qantas – four B737-800s, two Bombardier Q400s and five B717-200s
- Jetstar (including Jetstar Asia) – four B787-8s and eight A320-200s

The Group removed 27 aircraft from service in financial year 2013/2014 including eight lease returns. These included three B747-400s, seven B767-300s, six B737-400s, five A320-200s, two Q200s and four EMB120s.

The Qantas Group's scheduled passenger fleet average age is now 7.7 years. The benefits of fleet investment include improved customer satisfaction, environmental outcomes, operational efficiencies and cost reductions.

With the fleet modernisation program nearing completion, the low fleet age has enabled planned capital investment<sup>5</sup> to be reduced by \$1.3 billion over two years from previous expectations as highlighted in May 2014<sup>27</sup> to \$700 million in financial year 2014/2015 and \$800 million in financial year 2015/2016.

## Qantas Domestic

- Domestic market yields and revenue seat factor were adversely impacted by market capacity growth running ahead of demand for the second consecutive year
- Comparable unit cost improvement of three per cent, up from one per cent improvement in first half of financial year 2013/2014
- Superior on-time performance: market leader in 12 out of 12 months
- Record levels of customer satisfaction and advocacy

		June 2014	June 2013	Change	% Change
Total Revenue and Other Income	\$M	5,848	6,218	(370)	(6)
Revenue Seat Factor	%	73.3	75.9	(2.6) pts	
Underlying EBIT	\$M	30	365	(335)	(92)

Qantas Domestic Underlying EBIT of \$30 million for the full year ended 30 June 2014 was down from \$365 million in the prior corresponding period.

<sup>27</sup> May 2014 Macquarie Australia Conference.

<sup>28</sup> Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt less cash, cash equivalents and aircraft security deposits.

<sup>29</sup> Adjusted equity includes equity adjusted to exclude hedge reserves.

<sup>30</sup> Gearing Ratio is net debt including operating lease liability to net debt including operating lease liability and adjusted equity. The gearing ratio is used by management to represent the Qantas Group's debt obligation including obligations under operating leases.

<sup>31</sup> Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific.

# REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

The reduction in Underlying EBIT was driven largely by continued domestic market capacity growth ahead of demand growth and increased fuel cost of \$68 million. Business and leisure demand remained weak throughout the year, with corporate account revenue impacted by softening resources sector demand, particularly in the Western Australian and Queensland markets and reduced Government spending. This challenging competitive environment resulted in reduced revenue seat factor and weaker yields. However, Qantas continues to be the clear choice for business travellers and has maintained over 80 per cent share of corporate account revenue.

Qantas Domestic's comparable unit cost<sup>6</sup> improved three per cent on the prior corresponding period, as cost savings were realised from the accelerated Qantas Transformation program. Benefits realised stemmed from initiatives including the consolidation of Qantas heavy maintenance bases, continued fleet renewal, and the ongoing management and non-operational restructure.

Qantas Domestic achieved record customer satisfaction levels over the year, with a number of industry awards recognising our product offering and service standards:

- 'Best Domestic Airline'<sup>32</sup> five years running
- 'Best Economy'<sup>33</sup> noting that Qantas Domestic was the world's best by a wide margin
- 'Best Lounges'<sup>33</sup>
- 'Australia's Favourite Airline'<sup>34</sup>

Qantas Domestic has achieved superior on-time performance for the fifth year running, including beating its main competitor for an unprecedented 18 consecutive months to June 2014.

Qantas Domestic continued to strengthen its customer proposition through improved lounge experiences, investing in new and expanded lounges in Melbourne, Tamworth and Broome airports, and continued investment in front-line team training. Network growth continues with commencement of new East Coast premium leisure routes: Brisbane to Port Macquarie, Sydney to Hervey Bay, Melbourne to Coffs Harbour, and Sydney to Hamilton Island.

Qantas Domestic continues to support the regional market position through QantasLink and Network Aviation services. QantasLink launched two-class B717-200 services on Canberra and Tasmania routes and took delivery of two Bombardier Q400 aircraft and two B717-200 aircraft during the period. Network Aviation commenced regular passenger transport operations during June. QantasLink relocated into the Qantas Sydney terminal, creating a more seamless travel experience for Qantas customers through smoother connections and reduced check-in times.

## Qantas International

- Market capacity oversupply adversely impacted International market yields and revenue seat factors
- Adverse currency movement increased AUD fuel price
- Comparable unit cost<sup>6</sup> improvement of four per cent
- Strengthening alliances through Emirates partnership and new codeshare agreements
- Ongoing product investment to build on recent customer advocacy gains

		June 2014	June 2013	Change	% Change
Total Revenue and Other Income	\$M	5,297	5,496	(199)	(4)
Revenue Seat Factor	%	79.6	81.6	(2.0) pts	
Underlying EBIT	\$M	(497)	(246)	(251)	>(100)

Qantas International Underlying EBIT loss of \$497 million represents a \$251 million deterioration on the prior financial year. Significant benefits from the Qantas Transformation program have been materially offset by lower revenue and the unfavourable foreign exchange impact on fuel of \$42 million.

Yields were reduced due to market capacity oversupply, with International capacity in and out of Australia increasing by 9.5 per cent (or 3.7 million additional seats), resulting in an intensely competitive pricing environment. Capacity growth was largely led by Middle Eastern, Asian network and low-cost carriers. The strength of our alliance with Emirates has provided a partial offset, with a strong 'one stop' European proposition and additional frequencies into Asia.

Comparable unit cost improved four per cent. Improved asset utilisation of six per cent, combined with the ongoing restructure of the legacy cost base through the Qantas Transformation program, has delivered this strong unit cost result. The B747-400 retirement program (an additional three units in financial year 2013/2014), reduction in heavy maintenance footprint, and improved fleet economics following the A380-800 and B747-400 reconfiguration program have all made a significant contribution to cost reduction. Ongoing optimisation of the network remains a key focus area. Recent examples include the exit of Perth-Singapore and down-gauge of Brisbane-Singapore and Sydney-Singapore to A330 aircraft.

Qantas International continues to invest in what our customers value most, including lounges, with significant improvements to the Los Angeles and Hong Kong lounges, and onboard product enhancement including menu design and a sleeper service. These, combined with the broader network proposition through the Emirates alliance, have seen Net Promoter Scores improve a significant 10 points over two years. The launch of the A330 flat bed in late 2014 continues this commitment.

<sup>32</sup> Australian Federation of Travel Agents National Industry Awards 2010 – 2014.

<sup>33</sup> AirlineRatings.com's Airline Excellence Awards, January 2014.

<sup>34</sup> TripAdvisor Traveller's Choice Awards.



Qantas International continued to strengthen its intra-Asia proposition, including announcing a new codeshare partnership with China Southern and expanded code share with China Eastern. Qantas International now has agreements with three major China-based carriers, providing access to one of the world's largest and fastest growing economies.

### Jetstar

- Domestic business profitable every year since 2004
- Competitive environment impacting yields, in particular in South East Asia
- Unfavourable fuel cost with lower Australian dollar
- Low Cost Carrier (LCC) business fundamentals remain strong
  - Continued unit cost<sup>19</sup> improvement
  - Successful introduction of the B787-8 Dreamliner
- Record customer advocacy levels reached

		June 2014	June 2013	Change	% Change
Total Revenue and Other Income	\$M	3,222	3,288	(66)	(2)
Revenue Seat Factor	%	78.5	79.1	(0.6) pts	
Underlying EBIT	\$M	(116)	138	(254)	>(100)

Jetstar Underlying EBIT for the full year ended 30 June 2014 was a loss of \$116 million, down from \$138 million profit in the prior corresponding period.

The decline in earnings was primarily driven by yield pressure from market capacity oversupply in South East Asia and market growth ahead of demand in the Australian domestic market. Unfavourable fuel cost of \$86 million was not recovered in intensely competitive markets. The rapid expansion of Jetstar Japan as the airline consolidates its leading LCC position in the Japanese market and establishment of Jetstar Hong Kong resulted in associate losses of \$70 million.

Jetstar's LCC fundamentals remain strong, improving unit cost by two per cent compared to the prior corresponding period as benefits from the 'Lowest Seat Cost' program – part of the \$2 billion in targeted cost reductions from Qantas Transformation – were realised.

Jetstar has been profitable in the Australian domestic market every year since launch. Domestic seat factor remains high – above 80 per cent in the year.

Jetstar International successfully introduced the B787-8 Dreamliner into long haul operations out of Australia during the period which has enhanced customer experience and delivered significant operational efficiencies.

In Singapore, Jetstar Asia reported a \$40 million loss due to the intense competitive environment. Jetstar Asia continues to provide a strategically important price sensitive gateway to Asia, operating in a highly competitive market with LCC capacity up 27 per cent<sup>35</sup>, putting significant downward pressure on yields for all airlines in the market. This was partially offset by four per cent increase in Ancillary revenue per passenger compared to the prior corresponding period.

Japan continues to be a substantial opportunity within the Jetstar Group, with Jetstar Japan in a strong competitive position. Jetstar Japan is the largest domestic LCC in Japan<sup>36</sup>, with over five million passengers carried since launch, now operating from two domestic bases with the launch of flights from Osaka in June, and with market leading on-time performance<sup>37</sup> and record customer advocacy.

Jetstar Pacific continues to realise the benefits from its fleet renewal program, achieving a two per cent unit cost<sup>19</sup> improvement compared to the prior corresponding period. The successful recapitalisation during the period will support fleet growth and the planned launch of international services in the first half of 2014/2015.

Jetstar Hong Kong's preparation for operational launch continues while seeking necessary regulatory approvals.

### Qantas Loyalty

- Record<sup>3</sup> Underlying EBIT of \$286 million, up 10 per cent on the prior year
- Member growth of eight per cent to 10.1 million members
- Billings<sup>38</sup> up eight per cent to \$1,306 million
- Growth initiatives exceeding expectations – Qantas Cash and Aquire
- Continuing member engagement through Qantas Points Website, Online Mall and upcoming launch of Qantas Golf Club
- Record annual Net Promoter Score<sup>39</sup>

		June 2014	June 2013	Change	% Change
Members	M	10.1	9.4	0.7	8
Billings	\$M	1,306	1,209	97	8
Underlying EBIT	\$M	286	260	26	10

<sup>35</sup> Diio Report published 25 June 2014.

<sup>36</sup> Based on fleet, network and domestic ASKs as at 10 July 2014 compared to Peach Aviation and Air Asia Japan/Vanilla.

<sup>37</sup> MLIT Report January – March 2014 reporting period.

<sup>38</sup> Billings represent point sales to partners.

<sup>39</sup> Net Promoter Score is at its highest level since reporting started in 2008.

# REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

Qantas Loyalty achieved another record result with a 10 per cent improvement in Underlying EBIT to \$286 million. This has been driven by strong billings growth, continuing member engagement and continued member growth, with more than 720,000 members added over the financial year.

Billings increased by eight per cent to \$1,306 million. External billings are up by 10 per cent, mainly due to growth in credit card billings driven by promotional campaigns and new products.

New growth initiatives of Qantas Cash and Aquire are already exceeding expectations.

Only 10 months from the initial launch, Qantas Cash is already providing incremental EBIT to the business. Over 300,000 members have activated the facility and almost \$500 million has been loaded onto cards, making it one of the largest prepaid products in Australia. Qantas Cash has won multiple awards including the Australian Business Award for Product Excellence and a 5-Star Canstar rating for Outstanding Value.

Qantas Loyalty launched Aquire on 31 March 2014. The business rewards program continues to grow with close to 35,000 members already registered in the program. Sixteen partners are currently signed up as Aquire partners across airline, financial services, consulting services, car rentals, office supplies and other business expenses.

As the program continues to expand its product offerings, Qantas Loyalty launched a dedicated digital channel in August 2014 – [www.qantaspoints.com](http://www.qantaspoints.com). The channel showcases the depth and breadth of the program and is a responsive design across all devices, making it even easier to access all there is to know about earning and redeeming Qantas Points. Along with Qantas Points, Qantas Loyalty also launched the Online Mall, providing new opportunities for Qantas Frequent Flyer members to earn Qantas Points when shopping online with 17 premium Australian and International retailers such as David Jones, eBay, Net-A-Porter and The Iconic.

Qantas Loyalty announced Qantas Golf Club which will launch in the summer of 2014. This is an online program dedicated to engaging golfers and supporting golf clubs in Australia. The Qantas Golf Club will offer easy access to play at participating golf courses, earn Qantas Points when playing golf, receive invitations to attend Qantas Golf Club events and participate in tournaments, and access to a range of golf travel packages, both within Australia and overseas.

Qantas Loyalty added 14 new partners to the Qantas Frequent Flyer Program during the period, providing members with expanded opportunities to earn and redeem points. New ways to earn include Macquarie Bank Home Loans, secure Parking, iSelect, Jumeirah Hotels & Resorts, Qantas Restaurants, Qantas Cruises and Qantas Hotels. Airline partners that joined the program this year were US Airways, Qatar Airways, LATAM and Sri Lankan Airlines.

## Qantas Freight

- Increased revenue in a competitive environment
- Full run-rate synergies from embedding the Australian air Express acquisition
- Removal of B747F hull from January 2014
- Closure of Qantas Courier Australian operations

		June 2014	June 2013	Change	% Change
Total Revenue and Other Income	\$M	1,084	1,056	28	3
Revenue Load Factor <sup>40</sup>	%	55.1	56.2	(1.1) pts	
Underlying EBIT	\$M	24	36	(12)	(33)

Qantas Freight's Underlying EBIT was \$24 million for the year ended 30 June 2014, down \$12 million on the prior corresponding period, of which \$11 million relates to the first half of 2013/2014. The result reflects an overall reduction in international capacity of nine per cent, including the impact of freighter hull reduction, and delivery of full run-rate synergy benefits from the Australian air Express acquisition from the second half 2013/2014.

Due to ongoing challenging domestic conditions, the Australian operations of Qantas Couriers ceased operations on 27 March 2014. The New Zealand operations continue to contribute positively to the Freight segment.

## Reconciliation of Underlying PBT to Statutory PBT

The Statutory Loss Before Tax of \$3,976 million for the year ended 30 June 2014 is \$3,987 million down on the prior year.

### Underlying PBT

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

<sup>40</sup> Revenue Load Factor – Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK).

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

Reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax		June 2014	June 2013
<b>Underlying PBT</b>	<b>\$M</b>	<b>(646)</b>	<b>186</b>
<b>Ineffectiveness and non-designated derivatives relating to other reporting periods</b>			
- AASB 139 mark-to-market movements relating to other reporting periods	\$M	72	32
<i>Other items not included in Underlying PBT</i>			
- Redundancies and restructuring	\$M	(428)	(118)
- Fleet restructuring	\$M	(394)	(90)
- Impairment of Qantas International CGU	\$M	(2,560)	-
- Other impairment <sup>41</sup>	\$M	(59)	(22)
- Net profit on disposal of investments accounted for under the equity method	\$M	62	30
- Other	\$M	(23)	(7)
<b>Total items not included in Underlying PBT</b>	<b>\$M</b>	<b>(3,330)</b>	<b>(175)</b>
<b>Statutory (Loss)/Profit Before Tax</b>	<b>\$M</b>	<b>(3,976)</b>	<b>11</b>

#### *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.

#### *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.

Items not included in Underlying PBT in the 2013/2014 year were driven by the accelerated Qantas Transformation program, fleet restructuring, the disposal of Qantas Defence Services, impairment of an investment in an associate (Helloworld Limited) and the impairment of the Qantas International CGU.

Redundancy, restructuring and other transformation costs of \$428 million include the reduction of management and non-operational roles, further consolidation of engineering and catering facilities and the integration of Australian air Express.

Fleet restructuring costs of \$394 million include impairment of aircraft, together with associated support property, plant and equipment, inventory and other related costs following strategic network changes and accelerated fleet retirements resulting from the Qantas Transformation program.

Impairment of cash generating unit of \$2,560 million relates to an impairment being recognised in the Qantas International CGU arising because as a result of the outcome of the Structural Review the Qantas International CGU has been tested as a standalone CGU for the first time. The size of the impairment loss recognised is largely the result of wide body aircraft being purchased through a period where the Australian dollar was significantly weaker against the US dollar compared to recent years.

<sup>41</sup> Includes impairment of investments and other intangible assets.

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

## 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, knowledge, experience, independence and diversity to enable the Board as a collective to effectively discharge its responsibilities.

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

Accordingly, Qantas has taken the opportunity to disclose its 2014 Corporate Governance Statement in the Corporate Governance section on the Qantas website ([www.qantas.com](http://www.qantas.com)). As required, Qantas has also lodged the Corporate Governance Statement with the ASX.

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

## THE BOARD LAYS SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a formal Charter which is available in the Corporate Governance section on the Qantas website ([www.qantas.com](http://www.qantas.com)).

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

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

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

## THE BOARD IS STRUCTURED TO ADD VALUE

The Qantas Board currently has nine Directors (see details on pages 24 to 26 of the 2014 Annual Report). Eight Directors are Independent Non-Executive Directors elected by shareholders. The Qantas CEO, who is an Executive Director, is not regarded as independent.

Details of the current Directors, their qualifications, skills, experience and tenure are set out on pages 24 to 26 of the 2014 Annual Report.

The Board has four Committees:

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

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

Membership of and attendance at 2013/2014 Board and Committee Meetings is detailed on page 40 of the 2014 Annual Report.

## THE BOARD PROMOTES ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

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



### THE BOARD SAFEGUARDS THE INTEGRITY OF CORPORATE FINANCIAL REPORTING

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. 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 the areas for which they are responsible 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 BOARD RESPECTS THE RIGHTS OF SHAREHOLDERS

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

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

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

### THE BOARD RECOGNISES AND MANAGES RISK

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

During 2013/2014, the two Board committees responsible for oversight of risk-related matters, being the Audit Committee and the Safety, Health, Environment and Security Committee, undertook their annual review of the effectiveness of Qantas' implementation of its risk management system and internal control framework.

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

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

### THE BOARD REMUNERATES FAIRLY AND RESPONSIBLY

The Qantas executive remuneration objectives and approach are set out in full below.

Information about remuneration of Executive Management is disclosed to the extent required, together with the process for evaluating performance, in the Remuneration Report from page 44 of the 2014 Annual Report.

Qantas Non-Executive Directors are entitled to statutory superannuation and certain travel entitlements (accrued during service) which are reasonable and standard practice in the aviation industry. Non-Executive Directors do not receive any performance-based remuneration (see page 62 of the 2014 Annual Report).

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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 2014 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

Maxine Brenner (appointed 29 August 2013)

Peter Cosgrove, AK, MC (resigned 28 January 2014)

Patricia Cross (retired 18 October 2013)

Richard Goodmanson

Jacqueline Hey (appointed 29 August 2013)

Garry Hounsell

William Meaney

Paul Rayner

Barbara Ward, AM

Details of current Directors, their qualifications, experience and any special responsibilities, including Qantas Committee Memberships, are set out on pages 24 to 26.

## 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.

## DIRECTORS' MEETINGS

The number of Directors' Meetings held (including Meetings of Committees of Directors) during 2013/2014 is as follows:

	Qantas Board				Audit Committee <sup>1</sup>		Safety, Health, Environment and Security Committee <sup>1</sup>		Remuneration Committee <sup>1</sup>		Nominations Committee <sup>1</sup>	
	Scheduled Meetings		Unscheduled Meetings		Sub-Committee Meetings <sup>2</sup>							
Directors	Attended	Held <sup>3</sup>	Attended	Held <sup>3</sup>	Attended	Held <sup>3</sup>	Attended	Held <sup>3</sup>	Attended	Held <sup>3</sup>	Attended	Held <sup>3</sup>
Leigh Clifford	7	7	4	4	2	2 <sup>4</sup>	—	—	—	—	2	2
Alan Joyce	7	7	4	4	2	2 <sup>4</sup>	—	—	4	4	—	—
Maxine Brenner <sup>5</sup>	5	5	4	4	—	—	2	2	—	—	2	2
Peter Cosgrove <sup>6</sup>	4	4	3	4	—	—	—	—	2	2	—	—
Patricia Cross <sup>7</sup>	3	3	—	—	—	—	1	1	—	—	1	1
Richard Goodmanson	7	7	4	4	—	—	—	—	4	4	—	—
Jacqueline Hey <sup>8</sup>	5	5	4	4	—	—	3	3	—	—	—	—
Garry Hounsell	7	7	4	4	2	2 <sup>4</sup>	4	4	—	—	2	2
William Meaney <sup>9</sup>	7	7	4	4	—	—	—	—	4	4	2	2
Paul Rayner <sup>10</sup>	7	7	4	4	—	—	1	1	—	—	3	3
Barbara Ward	7	7	4	4	—	—	4	4	4	4	—	—

<sup>1</sup> All Directors are invited to, and regularly attend, Committee meetings in an ex-officio capacity. The above table reflects the attendance of a Director only where he or she is a member of the relevant Committee.

<sup>2</sup> Sub-Committee meetings convened for specific Board-related business.

<sup>3</sup> Number of meetings held during the period that the Director held office.

<sup>4</sup> Number of meetings held and requiring attendance.

<sup>5</sup> Ms Brenner was appointed as a Member of the Remuneration Committee on 29 August 2013 and as a Member of the Audit Committee on 26 February 2014.

<sup>6</sup> Mr Cosgrove resigned as a Director on 28 January 2014.

<sup>7</sup> Mrs Cross retired as a Director on 18 October 2013.

<sup>8</sup> Ms Hey was appointed as a Member of the Audit Committee on 29 August 2013.

<sup>9</sup> Mr Meaney was appointed as a Member of the Remuneration Committee on 19 October 2013.

<sup>10</sup> Mr Rayner retired as a Member of the Audit Committee and was appointed as Chairman of the Remuneration Committee and a Member of the Nominations Committee on 19 October 2013, following the retirement of Mrs Cross.

## DIVIDENDS

No final dividend will be paid in relation to the year ended 30 June 2014 (2013: nil final dividend). No interim dividend was paid during the year.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

Any matter or circumstance that has arisen since the end of the year that may affect the Qantas Group's state of affairs in future financial years has been included in the Review of Operations.

## REVIEW OF OPERATIONS

A review of, and information about, the Qantas Group's operations, including the results of those operations during the year together with information about the Group's financial position appear on pages 27 to 37.

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

## EVENTS SUBSEQUENT TO BALANCE DATE

Refer to page 107 for events which occurred subsequent to balance date. Other than the matters disclosed on page 107, 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.

**DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2014  
– FOR THE PERIOD 1 JULY 2011 TO 30 JUNE 2014**

Leigh Clifford	Qantas Airways Limited	— Current, appointed 9 August 2007
Alan Joyce	Qantas Airways Limited	— Current, appointed 28 July 2008
Maxine Brenner	Qantas Airways Limited	— Current, appointed 29 August 2013
	Growthpoint Properties Australia Limited	— Current, appointed 19 March 2012
	Orica Limited	— Current, appointed 8 April 2013
	Origin Energy Limited	— Current, appointed 15 November 2013
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
Jacqueline Hey	Qantas Airways Limited	— Current, appointed 29 August 2013
	Australian Foundation Investment Company	— Current, appointed 31 July 2013
	Bendigo and Adelaide Bank Limited	— Current, appointed 5 July 2011
Garry Hounsell	Qantas Airways Limited	— Current, appointed 1 January 2005
	DuluxGroup Limited	— Current, appointed 8 July 2010
	PanAust Limited	— Current, appointed 1 July 2008
	Spotless Group Holdings Limited	— Current, appointed 20 March 2014
	Treasury Wine Estates Limited	— Current, appointed 1 September 2012
	Orica Limited	— Ceased, appointed 21 September 2004 and ceased 17 February 2013
	Nufarm Limited	— Ceased, appointed 1 October 2004 and ceased 8 October 2012
William Meaney	Qantas Airways Limited	— Current, appointed 15 February 2012
	Iron Mountain Inc.	— Current, appointed 7 January 2013
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 22 September 2004
Barbara Ward	Qantas Airways Limited	— Current, appointed 19 June 2008
	Brookfield Capital Management Limited <sup>1</sup>	— Current, appointed 1 January 2010
	Brookfield Funds Management Limited <sup>2</sup>	— Current, appointed 22 October 2003

<sup>1</sup> Responsible entity for the Brookfield Prime Property Fund and the Multiplex European Property Fund, both of which are listed Australian registered managed investment schemes. Previously responsible entity for the Brookfield Australian Opportunities Fund, which was wound up on 30 October 2012.

<sup>2</sup> Responsible entity for the Multiplex SITES Trust, which is a listed Australian registered managed investment scheme.

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF QANTAS AS AT 30 JUNE 2014

### Andrew Finch – Company Secretary

- Joined Qantas on 1 November 2012
- Appointed as Company Secretary on 31 March 2014
- 2002 to 2012 – Mergers and Acquisitions Partner at Allens, Sydney
- 1999 to 2001 – Managing Associate at Linklaters, London
- 1993 to 1999 – Various roles at Allens, Sydney (previously Allens Arthur Robinson and Allen Allen & Hemsley), including Senior Associate (1997–1999) and Solicitor (1993–1997)
- Admitted as a solicitor of the Supreme Court of NSW in 1993

### Sarah Jane Udy – Company Secretary

- Joined Qantas on 1 April 2004
- Appointed as a Company Secretary on 9 April 2014
- 2002 to 2004 – Solicitor at Minter Ellison, Sydney
- 2000 to 2002 – Solicitor at Chapman Tripp, Auckland, New Zealand
- Admitted as a solicitor of the Supreme Court of NSW in 2002 and the High Court of New Zealand in 2000

### John David Francis Morris – Company Secretary

- Joined Qantas in March 2010
- Appointed as a Company Secretary on 9 April 2014
- 2002 to 2008 – General Counsel and Company Secretary at KAZ Group
- 1997 to 2002 – Solicitor then Senior Associate at Ashurst (previously Blake Dawson Waldron)
- Admitted as a solicitor of the Supreme Court of Victoria in 1992

## DIRECTORS' INTERESTS AND BENEFITS

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

Directors	Number of Shares	
	2014	2013
Leigh Clifford	251,622	251,622
Alan Joyce	2,906,202	2,906,202
Maxine Brenner	15,000	–
Richard Goodmanson	20,000	20,000
Jacqueline Hey	30,000	–
Garry Hounsell	80,000	80,000
William Meaney	–	–
Paul Rayner	71,622	71,622
Barbara Ward	47,597	47,597

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

<b>Deferred shares held in trust under:</b>		
2012/13 Short Term Incentive Plan	284,769	284,769

	Number of Rights	
	2014	2013
<b>Rights granted under:</b>		
2012–2014 Long Term Incentive Plan	– <sup>1</sup>	1,675,000
2013–2015 Long Term Incentive Plan	2,575,000 <sup>2</sup>	2,575,000
2014–2016 Long Term Incentive Plan	2,151,000 <sup>3</sup>	–
	<b>4,726,000</b>	<b>4,250,000</b>

<sup>1</sup> As a result of performance hurdle testing conducted as at 30 June 2014, all unvested Rights lapsed subsequent to 30 June 2014.

<sup>2</sup> Shareholders approved the award of these Rights on 2 November 2012. Performance hurdles will be tested as at 30 June 2015 to determine whether any Rights vest to Mr Joyce.

<sup>3</sup> Shareholders approved the award of these Rights on 18 October 2013. Performance hurdles will be tested as at 30 June 2016 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 55 to 56 for further details.

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

Performance Rights Reconciliation	Number of Rights	
	2014	2013
Rights outstanding as at 1 July	28,174,047	18,631,168
Rights granted	13,790,000	15,969,000
Rights forfeited	(4,571,000)	(2,066,000)
Rights lapsed	(3,755,000)	(4,343,801)
Rights exercised	(58,615)	(16,320)
<b>Rights outstanding as at 30 June</b>	<b>33,579,432<sup>1</sup></b>	<b>28,174,047</b>

<sup>1</sup> The movement of Rights outstanding as at 30 June 2014 to the date of this Report is explained in the footnotes below.

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 2014:

Name	Testing Period	Grant Date	Value at Grant Date	Number of Rights					
				2014 Net Vested	2014 Unvested	2014 Total	2013 Net Vested	2013 Unvested	2013 Total
2004/05 Performance Rights Plan	30 Jun 07 – 30 Jun 09 <sup>1</sup>	13 Jan 05	\$2.47	14,860	–	14,860	23,590	–	23,590
2005 Performance Rights Plan	30 Jun 08 – 30 Jun 10 <sup>1</sup>	22 Nov 05	\$2.67	44,682	–	44,682	63,246	–	63,246
2006 Performance Rights Plan	30 Jun 09 – 30 Jun 11 <sup>1</sup>	4 Oct 06	\$2.95	156,890	–	156,890	188,211	–	188,211
2011 – 2013 Long Term Incentive Plan	30 Jun 13 <sup>2</sup>	12 Aug 10	\$1.50	–	–	–	–	2,608,000	2,608,000
2011 – 2013 Long Term Incentive Plan	30 Jun 13 <sup>2</sup>	29 Oct 10	\$1.76	–	–	–	–	1,147,000	1,147,000
2012 – 2014 Long Term Incentive Plan	30 Jun 14 <sup>3</sup>	23 Aug 11	\$0.86	–	5,208,000	5,208,000	–	6,563,000	6,563,000
2012 – 2014 Long Term Incentive Plan	30 Jun 14 <sup>3</sup>	28 Oct 11	\$0.82	–	1,806,000	1,806,000	–	1,806,000	1,806,000
2013 – 2015 Long Term Incentive Plan	30 Jun 15	2 Nov 12	\$0.88	–	13,448,000	13,448,000	–	15,446,000	15,446,000
2013 – 2015 Long Term Incentive Plan	30 Jun 15	13 Jun 13	\$0.70	–	329,000	329,000	–	329,000	329,000
2014 – 2016 Long Term Incentive Plan	30 Jun 16	18 Oct 13	\$0.83	–	12,572,000	12,572,000	–	–	–
<b>Total</b>				<b>216,432</b>	<b>33,363,000</b>	<b>33,579,432</b>	<b>275,047</b>	<b>27,899,000</b>	<b>28,174,047</b>

<sup>1</sup> 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.

<sup>2</sup> As a result of performance hurdle testing conducted as at 30 June 2013, all unvested Rights were lapsed subsequent to 30 June 2013.

<sup>3</sup> As a result of performance hurdle testing conducted as at 30 June 2014, all unvested Rights were lapsed subsequent to 30 June 2014.

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED)

### COVER LETTER TO THE REMUNERATION REPORT

Dear Shareholder,

Qantas is pleased to present its Remuneration Report for 2013/2014, which sets out remuneration information for the Chief Executive Officer (CEO), direct reports to the CEO (Executive Management) and Non-Executive Directors.

This was an extremely challenging year for the aviation industry generally and for Qantas in particular. In addition to ongoing record high fuel prices, the trend of intense competitive pressure and high capacity growth continued in both the international and domestic markets, affecting earnings for all carriers.

In response to these fundamental changes in the market, the Group announced and began delivering an accelerated transformation program, targeting \$2 billion in cost reduction over three years.

The Group's 2013/2014 financial results and remuneration outcomes reflect the challenging operating environment and the costs associated with large-scale transformation. However, they should be seen in the context of a year in which Qantas took hard but necessary decisions to strengthen its cost base and competitive position, looking towards the Group's long-term future.

#### 2013/2014 Remuneration Outcomes

The Board recognises that Management and all employees have performed very well in accelerating the transformation agenda, in delivering record operational performance and in achieving high levels of customer satisfaction across all areas of the business. Awards under the annual incentive would normally be determined based on performance against a "scorecard" of financial and non-financial measures. Under the default design of the annual incentive, the performance against the non-financial measures could trigger a partial award. However for 2013/2014, in light of the overall financial performance of the Qantas Group, this would not have been appropriate and therefore the Board used its discretion to determine that no annual incentives be awarded.

The Board has ensured that the pay outcomes for the Executive team are closely aligned with the financial performance for the year, as follows:

- A freeze on executive pay was in place throughout the year
- No awards were made under the annual incentive
- There was no vesting of awards under the Long Term Incentive Plan (LTIP)

In addition, the CEO elected to forego five per cent of his Base Pay and the Chairman elected to forego five per cent of his Directors' fee (both from 1 January 2014). For other Directors, their fees were increased by three per cent from 1 July 2013 (the first fee increase since 1 July 2010). From 1 January 2014, they also elected to forego five per cent of their fees.

#### 2014/2015 Executive Remuneration Framework

As part of a review of the Executive Remuneration Framework, the Board has changed the "pay mix" that will apply for Executives for 2014/2015. This involves changing the relative weighting of incentive plan opportunities for Executives, with a decrease in the weighting towards annual incentives and an increase in the weighting towards long-term incentives. This is a pay mix change only and there is no increase in the "at target" pay for Executives.

In addition, participation in the 2015–2017 LTIP, which normally only applies to Senior Executives, will be extended to the broader Management population. This will involve no increase to "at target" pay for each manager, as each manager's LTIP opportunity will be offset by a decrease in their annual incentive opportunity for 2014/2015.

This change in pay mix for 2014/2015 is a one-off change that aligns the entire Management team with the immediate priorities of the transformation agenda, including the achievement of \$2 billion in cost reductions over the next three years. The performance period under the 2015–2017 LTIP is for this same three year period.

The Board remains committed to a remuneration framework that is aligned to the Qantas Group strategy, is performance based, motivates and appropriately rewards Management, meets shareholders' requirements and encourages decision making that is focused on the longer-term.



Paul Rayner  
Chairman, Remuneration Committee

## 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 and the remuneration outcomes for 2013/2014 are summarised as follows:

#### The Executive Remuneration Framework for 2013/2014

Executive Remuneration Component	Delivery	Performance Measures	2013/2014 Remuneration Outcome
<b>Base Pay</b> A guaranteed salary level inclusive of superannuation. A more detailed description is provided on pages 50 to 51.	Cash, superannuation and other benefits.	An individual's Base Pay is fixed/guaranteed element of remuneration.	No increases to the Base Pay of the CEO and KMP. Additionally, the CEO opted to forego five per cent of his Base Pay (from 1 January 2014).
<b>Annual Incentive</b> Referred to as the Short Term Incentive Plan (STIP). A more detailed description is provided on pages 51 to 55.	Two-thirds cash, one-third shares (with a two year trading restriction). 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.	A scorecard of performance measures. Underlying PBT is the primary performance measure (with a 50 per cent weighting). Other performance measures are explicitly aligned to the execution of the Qantas Group strategy, including delivering on the transformation agenda.	No awards were made under the 2013/14 STIP. Under the default design of the annual incentive, the performance against the non-financial measures could trigger a partial award. However for 2013/2014, in light of the overall financial performance of the Qantas Group, the Board used its discretion to determine that no annual incentives be awarded.
<b>Long Term Incentive</b> Referred to as the Long Term Incentive Plan (LTIP). The LTIP is described in more detail on pages 55 to 56.	Rights over Qantas shares. If performance conditions over a three year period are achieved, the Rights vest and convert to Qantas shares on a one-for-one basis.	The performance measures for each of the 2012–2014 LTIP, 2013–2015 LTIP and 2014–2016 LTIP are the relative Total Shareholder Return (TSR) performance of Qantas compared to: <ul style="list-style-type: none"> <li>– Companies with ordinary shares included in the S&amp;P/ASX 100 (ASX100), and</li> <li>– An airline peer group (Global Listed Airlines)</li> </ul>	No awards vested. LTIP awards under the 2012–2014 LTIP were tested as at 30 June 2014 and the performance hurdles were not achieved. Therefore, 2012–2014 LTIP Rights did not vest and all Rights lapsed.

#### Changes to the Executive Remuneration Framework for 2014/2015

##### Changes to Pay Mix for 2014/2015

For 2014/2015 only, the pay mix for the CEO and Executive Management will change, with a decrease in weighting towards annual incentive and an increase in weighting towards long term incentives. In addition, the broader Management population will be invited to participate in the LTIP for 2014/2015 only (generally, participation in the LTIP is limited to Senior Executives).

This one-off change aligns the entire Management team with the immediate priorities of the transformation agenda, including the achievement of \$2 billion in cost reductions over the next three years.

These changes do not increase the "at target" pay for each manager, as each manager's LTIP opportunity will be offset by a reduction in their annual incentive opportunity. For Mr Joyce, this change involves:

- Decreasing his "at target" STIP opportunity for 2014/2015 to 80 per cent of Base Pay (2013/2014: 120 per cent of Base Pay)
- Increasing his "at target" LTIP opportunity for 2014/2015 to 120 per cent of Base Pay (2013/2014: 80 per cent of Base Pay)

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

### REMUNERATION OUTCOMES FOR THE CEO IN 2013/2014

Mr Joyce's total remuneration outcome for 2013/2014 was \$2 million.

The following table outlines the remuneration outcomes for the CEO for 2013/2014.

CEO Remuneration Outcomes <sup>1</sup>	2014 \$'000	2013 \$'000	2014 At Target Pay \$'000	2014 as a Percentage of At Target pay %
Base Pay (cash)	2,054	2,109	2,125	97
STIP – cash bonus	–	775	1,700	0
STIP – deferred award	–	388	850	0
LTIP	–	–	1,700	0
Other	(45)	59	–	n/a
<b>Total</b>	<b>2,009</b>	<b>3,331</b>	<b>6,375</b>	<b>32</b>

<sup>1</sup> Detail of non-statutory remuneration methodology is explained on page 61.

The remuneration decisions and outcomes detailed in the table above are particularly useful in assessing the CEO's pay in 2013/2014 and its alignment with Qantas' performance. That is, the table reflects:

- No increase in Base Pay and that the CEO elected to forego five per cent of his Base Pay from 1 January 2014
- No award under the annual incentive for 2013/2014 (under the 2013/14 STIP)
- The long term incentive (under the 2012–2014 LTIP) did not vest based on the three year performance period to 30 June 2014

The CEO's pay is clearly linked to Qantas' performance. This is demonstrated by the CEO electing to forego a portion of his Base Pay from 1 January 2014 and by the performance measures under both the annual incentive and the long term incentive. This resulted in his 2013/2014 total remuneration outcome being:

- 40 per cent lower than his 2012/2013 outcome, due to the CEO not receiving a STIP award in 2013/2014
- 68 per cent lower than his "at target" pay

#### Base Pay

Mr Joyce did not receive an increase in Base Pay during 2013/2014 and Mr Joyce elected to forego five per cent of his Base Pay from 1 January 2014.

Base Pay (cash) is Base Pay of \$2,125,000 less Base Pay foregone of \$53,125 and less superannuation contributions of \$17,775.

#### Annual Incentive – 2013/14 STIP Outcome

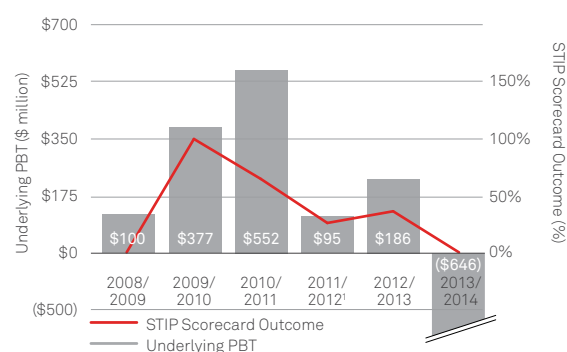
In determining outcomes under the STIP, the Board assesses performance against financial, safety and other key business measures as part of a balanced scorecard, as outlined on pages 52 to 54. While the Board sees this balanced scorecard approach as an important design element of the STIP, it also recognises that the overall STIP outcome must be considered in the context of the Group's financial performance.

In this regard, whilst satisfied that there has been significant progress on the transformation agenda and that customer, operational and safety performance was strong, the Board considered that the Group's financial performance did not warrant any awards under the 2013/14 STIP.

Therefore, the Board determined that no awards will be made under the 2013/14 STIP.

More detail on the 2013/14 STIP scorecard is provided on pages 52 to 54.

#### CEO INCENTIVE PLAN OUTCOME VS QANTAS PROFIT PERFORMANCE



<sup>1</sup> The CEO declined his award under the 2011/12 STIP in 2011/2012 despite the STIP scorecard outcome being 27 per cent.

#### Long Term Incentive – LTIP Outcome

The 2012–2014 LTIP was tested against the performance hurdles as at 30 June 2014 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 2013/2014 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 2013/2014 outlined on page 46.

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 and current 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 (although any cash bonus would be expensed in the year of scorecard performance). This creates a disconnect between statutory remuneration and the remuneration earned from the corresponding year's financial and non-financial scorecard performance.

Therefore, the statutory remuneration table includes a value of prior year STIP awards of \$155,228, even though the CEO did not receive an award under the 2013/14 STIP.

### – LTIP awards that have not vested

Accounting standards require LTIP awards 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 2013/2014 (under the 2012–2014 LTIP), 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 2013–2015 and the 2014–2016 LTIP awards. Testing will be undertaken as at 30 June 2015 and 30 June 2016 to determine whether Mr Joyce receives any shares under these awards.

As a result, an LTIP expense of \$1.808 million is included in the statutory remuneration table even though no LTIP awards vested during 2013/2014. The following is a summary of the statutory remuneration disclosures for the CEO (the full statutory table is provided on page 50).

CEO Statutory Remuneration Table	2014 \$'000	2013 \$'000	2014 At Target Pay \$'000
Base Pay (cash)	2,054	2,109	2,125
STIP – cash	–	775	1,700
STIP – share-based	155	375	850
LTIP	1,808	1,794	1,700
Other	(45)	59	–
<b>Total</b>	<b>3,972</b>	<b>5,112</b>	<b>6,375</b>

The following table reconciles the CEO's Remuneration Outcome to the CEO's Statutory Remuneration disclosure for 2013/2014.

Reconciliation of CEO's Remuneration Outcome to Statutory Remuneration Disclosure for 2013/2014	\$'000
<b>Remuneration Outcomes for the CEO for 2013/2014</b>	<b>2,009</b>
Accounting treatment of share-based payments:	
Add: Accounting value for prior year STIP award – 2010/11 STIP	33
Add: Accounting value for prior year STIP award – 2012/13 STIP	122
Add: Accounting value for LTIP award that did not vest and all Rights lapsed – 2012–2014 LTIP <sup>1</sup>	512
Add: Accounting value for LTIP award to be tested in a future year – 2013–2015 LTIP <sup>2</sup>	850
Add: Accounting value for LTIP award to be tested in a future year – 2014–2016 LTIP <sup>3</sup>	446
<b>Statutory Remuneration Disclosure for the CEO for 2013/2014</b>	<b>3,972</b>

<sup>1</sup> The 2012–2014 LTIP was tested as at 30 June 2014 and did not vest.

<sup>2</sup> The 2013–2015 LTIP is due to be tested as at 30 June 2015.

<sup>3</sup> The 2014–2016 LTIP is due to be tested as at 30 June 2016.

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

### REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2014

The Remuneration Report sets out remuneration information for Non-Executive Directors, the CEO and Executive Management.

Section 300A of the Corporations Act 2001 requires disclosure of remuneration information for Key Management Personnel (KMP), with KMP defined in AASB 124 *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The KMP for the 2013/2014 financial year includes some members of Executive Management.

#### 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 the company 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 Executives

#### 2) ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee (a Committee of the Board, whose members are detailed on pages 24 to 26) 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 Management and the broader Executive team to pursue the long-term growth and success of Qantas
- Demonstrate a clear relationship between pay and performance
- Ensure an appropriate balance between “fixed” and “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

During 2013/2014, the Remuneration Committee re-appointed Ernst & Young (EY) as its remuneration consultant. The Remuneration Committee has established protocols in relation to the appointment and use of remuneration consultants to support compliance with the Corporations Act 2001, which are incorporated into the terms of engagement with EY.

The Remuneration Committee did not request any remuneration consultants to provide a remuneration recommendation during 2013/2014.

#### 3) EXECUTIVE REMUNERATION FRAMEWORK

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

- **Base Pay** – is a guaranteed salary level inclusive of superannuation
- **Annual incentive** – referred to as the Short Term Incentive Plan (STIP)
- **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 market data including comparable roles in other listed Australian companies and in 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 OUTCOMES FOR THE YEAR ENDED 30 JUNE 2014

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

The Underlying PBT result for 2013/2014 was below the target level set by the Board for the 2013/2014 year. Whilst there was strong performance against some of the other measures under the STIP scorecard, the Board determined that the level of Group financial performance did not warrant any award under the 2013/14 STIP. Therefore, the remuneration outcome for 2013/14 STIP was nil. The STIP is detailed on pages 51 to 55.

LTIP awards did not vest during 2013/2014. The 2012–2014 LTIP was tested as at 30 June 2014. 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 2013/2014 under the LTIP was nil. The LTIP is detailed on pages 55 to 56.

The following table summarises the remuneration decisions and outcomes for the CEO and Executive KMP for the year ended 30 June 2014. 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.

**Remuneration Outcomes Table – CEO and Executive KMP<sup>1</sup>**

\$'000s		Base Pay (Cash) <sup>2</sup>	STIP Outcomes <sup>3</sup>		LTIP Outcomes <sup>4</sup>		Other Benefits <sup>5</sup>	Total
			Cash Bonus	Deferred Award	Rights Vested	Sub-total		
<b>Alan Joyce</b>	<b>2014</b>	<b>2,054</b>	–	–	–	<b>2,054</b>	<b>(45)</b>	<b>2,009</b>
Chief Executive Officer	2013	2,109	775	388	–	3,272	59	3,331
<b>Gareth Evans</b>	<b>2014</b>	<b>981</b>	–	–	–	<b>981</b>	<b>69</b>	<b>1,050</b>
Chief Financial Officer	2013	981	233	117	–	1,331	96	1,427
<b>Lesley Grant</b>	<b>2014</b>	<b>782</b>	–	–	–	<b>782</b>	<b>16</b>	<b>798</b>
CEO Group Loyalty	2013	785	178	89	–	1,052	51	1,103
<b>Simon Hickey</b>	<b>2014</b>	<b>982</b>	–	–	–	<b>982</b>	<b>(34)</b>	<b>948</b>
CEO Qantas International	2013	984	213	106	–	1,303	168	1,471
<b>Jayne Hrdlicka</b>	<b>2014</b>	<b>982</b>	–	–	–	<b>982</b>	<b>61</b>	<b>1,043</b>
CEO Jetstar	2013	984	213	106	–	1,303	63	1,366
<b>Lyell Strambi</b>	<b>2014</b>	<b>982</b>	–	–	–	<b>982</b>	<b>95</b>	<b>1,077</b>
CEO Qantas Domestic	2013	984	223	111	–	1,318	112	1,430
<b>Total</b>	<b>2014</b>	<b>6,763</b>	–	–	–	<b>6,763</b>	<b>162</b>	<b>6,925</b>
	<b>2013</b>	<b>6,827</b>	<b>1,835</b>	<b>917</b>	–	<b>9,579</b>	<b>549</b>	<b>10,128</b>

<sup>1</sup> Detail of non-statutory remuneration methodology is explained on page 61.

<sup>2</sup> Base Pay (cash) paid to each Executive during the year.

<sup>3</sup> The full value of STIP awards made to each Executive during each of the 2013/2014 and 2012/2013 financial years.

<sup>4</sup> LTIP awards did not vest in either 2013/2014 or 2012/2013, therefore nil value shown.

<sup>5</sup> Other Benefits are detailed on page 50.

Refer to section 6 of the Remuneration Report on pages 50 to 58 for detail of the Executive Remuneration Structure, a description of Base Pay, STIP and LTIP and analysis of the 2013/2014 outcomes for the STIP and LTIP.

#### 5) STATUTORY REMUNERATION DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2014

The statutory remuneration disclosures for the year ended 30 June 2014 are detailed below and are prepared in accordance with Australian Accounting Standards (AASBs) and differ significantly from the 2013/2014 remuneration decisions and outcomes outlined above.

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

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 statutory 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.

Despite no awards being made under the 2013/14 STIP, a value for STIP awards is still required to be included in the statutory remuneration table. This is due to the fact that deferred shares granted under the 2011/12 STIP and 2012/13 STIP have a future service period, during which the recipient must remain employed by the Group for the awards to vest. The 2013/2014 statutory remuneration table includes a value for part of those prior year STIP awards.

### – LTIP awards that have not vested

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

No LTIP awards vested during 2013/2014, however, an accounting value is still required by accounting standards to be included in the statutory remuneration table. 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 2013–2015 and the 2014–2016 LTIP awards, even though no LTIP awards vested during 2013/2014.

### Statutory Table – CEO and Executive KMP

		Incentive Plan – Accounting Accrual					Other Benefits				
		Share-based Payments Accounting Accrual <sup>3</sup>									
\$'000s		Base Pay (Cash) <sup>1,2</sup>	STIP Cash Bonus <sup>1</sup>	STIP	LTIP	Sub-total	Non-cash Benefits <sup>1,4</sup>	Post- employment Benefits <sup>5</sup>	Other Long- term Benefits <sup>6</sup>	Sub-total	Total
Alan Joyce	2014	2,054	–	155	1,808	4,017	38	64	(147)	(45)	3,972
Chief Executive Officer	2013	2,109	775	375	1,794	5,053	24	55	(20)	59	5,112
Gareth Evans	2014	981	–	76	520	1,577	41	42	(14)	69	1,646
Chief Financial Officer	2013	981	233	335	366	1,915	36	38	22	96	2,011
Lesley Grant	2014	782	–	54	210	1,046	8	41	(33)	16	1,062
CEO Qantas Loyalty	2013	785	178	228	162	1,353	33	34	(16)	51	1,404
Simon Hickey	2014	982	–	66	441	1,489	32	41	(107)	(34)	1,455
CEO Qantas International	2013	984	213	284	280	1,761	16	35	117	168	1,929
Jayne Hrdlicka	2014	982	–	60	439	1,481	8	41	12	61	1,542
CEO Jetstar	2013	984	213	237	224	1,658	43	35	(15)	63	1,721
Lyell Strambi	2014	982	–	72	520	1,574	50	41	4	95	1,669
CEO Qantas Domestic	2013	984	223	323	366	1,896	63	35	14	112	2,008
Total	2014	6,763	–	483	3,938	11,184	177	270	(285)	162	11,346
	2013	6,827	1,835	1,782	3,192	13,636	215	232	102	549	14,185

1 Short-term employee benefits include Base Pay (cash), non-cash benefits and STIP cash bonus.

2 Base Pay (cash) for Mr Joyce is Base Pay of \$2,125,000 (2013: \$2,125,000) less Base Pay foregone of \$53,125 less superannuation contributions of \$17,775 (2013: \$16,470).

3 A breakdown of Share-based Payments is provided on page 61.

4 Non-cash Benefits include the value of travel benefits whilst employed and other minor benefits.

5 Post-employment Benefits include superannuation and an accrual for post-employment travel of \$46,618 for Mr Joyce and \$22,809 for each other Executive (2013: \$38,714 for Mr Joyce and \$18,857 for each other Executive).

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

## 6) EXECUTIVE REMUNERATION STRUCTURE

### Base Pay

#### What is Base Pay?

Base Pay is a guaranteed salary level, inclusive of superannuation. Each year, the Remuneration Committee reviews the Base Pay for the CEO and direct reports to Executive Management. An individual's Base Pay, being a guaranteed salary level, is not related to Qantas' performance in a specific year.

Base Pay (cash), as disclosed in the remuneration tables, excludes superannuation (which is disclosed as Post-employment Benefits) and includes salary sacrifice components such as motor vehicles.



<b>Base Pay</b> <i>(continued)</i>	<p><b>How is Base Pay set?</b></p> <p>In performing a Base Pay review, the Board makes reference to external market data including comparable roles in other listed Australian companies and international airlines. The primary benchmark is a revenue based peer group of other S&amp;P/ASX companies. The Board believes this is the appropriate benchmark, as it is the comparator group whose roles best mirror the size, complexity and challenges in managing Qantas' businesses and is also the peer group with whom Qantas competes for Executive talent.</p> <p><b>Were there any changes to Base Pay for the CEO and KMP during 2013/2014?</b></p> <p>A general Management pay freeze was in place during 2013/2014 and therefore there were no increases to the Base Pay of the CEO and KMP. In addition, the CEO opted to forego five per cent of his Base Pay (from 1 January 2014).</p> <p>The Base Pay for each Executive KMP is outlined on page 57.</p>
<b>Annual Incentive</b>  Also referred to as the Short Term Incentive Plan or STIP	<p><b>What is the STIP?</b></p> <p>The STIP is the annual "at risk" incentive plan for members of Qantas Executive Management. Each year these Executives may receive an award that is a combination of cash and restricted shares to the extent that the plan's performance conditions are achieved.</p> <p><b>How are the STIP performance conditions chosen and how is performance assessed?</b></p> <p>The Board set a "scorecard" of performance conditions for the 2013/14 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.</p> <p>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.</p> <p>A detailed description of the STIP scorecard is provided on pages 52 to 54.</p> <p>The Board retains discretion over any awards made under the STIP. For example, the Board may decide to adjust the STIP scorecard outcome where it determines that it does not reflect the performance achieved during the year. 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.</p> <p>While the STIP does not have a formal "profit gate", the Board may also use its discretion to not pay a STIP award where it believes that the profit result does not warrant an award. In 2013/2014, the Board used its discretion to not make any awards under the 2013/14 STIP.</p> <p><b>How are STIP awards delivered?</b></p> <p>In 2013/2014, no STIP awards were made.</p> <p>In a year where STIP awards are made, two-thirds of the STIP award would be paid as a cash bonus, with the remaining one-third deferred into Qantas shares with a two year restriction period.</p> <p>The Board retains discretion as to how STIP awards are delivered. In each of the 2009/10 STIP, 2010/11 STIP and 2011/12 STIP, the Board exercised this discretion and determined that immediate cash bonuses would not be paid and instead deferred all awards under the STIP.</p> <p><b>How are STIP awards disclosed in the remuneration tables?</b></p> <p><i>Remuneration Decisions and Outcomes Table</i></p> <p>The full value of the STIP awarded for the corresponding year is disclosed in the table on page 49. For 2013/2014, this value was nil.</p> <p><i>Statutory Remuneration Table</i></p> <p>Disclosure of STIP awards in the statutory remuneration table on page 50 is more complicated. In the statutory remuneration table, STIP awards are disclosed as either:</p> <ul style="list-style-type: none"> <li>– A "cash incentive" for any cash bonus paid or</li> <li>– 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</li> </ul> <p>Where "share-based" STIP awards involve deferral over multiple reporting periods, they are reported against each period in accordance with accounting standards.</p>

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

Annual Incentive Also referred to as the Short Term Incentive Plan or STIP (continued)	What were the STIP measures for the year ended 30 June 2014?				
	Scorecard Category / Strategic Objective	Strategic Objective	Measures	Scorecard Weighting	Comment
	Group Financial Measures	Delivering sustainable returns to shareholders	<ul style="list-style-type: none"> <li>– Underlying PBT</li> <li>– Operating Cash Flow to Net Debt</li> </ul>	50% 10%	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 is determined based on Underlying PBT performance.
	People and Operational Safety	Safety is always our first priority	<ul style="list-style-type: none"> <li>– People safety measures</li> <li>– Operational safety</li> </ul>	10%	As safety is always our first priority, the STIP scorecard includes an assessment of both operational and people safety.  In addition, the Board retains discretion to modify the total STIP scorecard outcome to reflect the Group's overall safety performance.
	Domestic Businesses (Qantas Domestic and Jetstar Australia Domestic) and the Transformation Agenda	Profitably build on the dual domestic brands  Driving operational efficiency in all businesses	<ul style="list-style-type: none"> <li>– Unit cost</li> <li>– Punctuality</li> <li>– Net Promoter Score (NPS)</li> <li>– Domestic network and frequency advantage</li> <li>– Milestones around key transformation initiatives</li> </ul>	10%	To support these strategic objectives, STIP targets were set across financial, operational and customer measures for both the Qantas and Jetstar domestic businesses as well as milestone targets for key business transformation initiatives.
	Qantas International and Qantas Loyalty	Strengthen Qantas International and build leading partnerships  Deepen Qantas Frequent Flyer Program customer and partner engagement, whilst supporting multiple brands  Leverage existing customer relationships in new businesses	<ul style="list-style-type: none"> <li>– Unit cost</li> <li>– NPS</li> <li>– Strengthening network and alliances</li> <li>– Qantas Frequent Flyer membership numbers</li> <li>– Qantas Loyalty new revenue initiatives</li> </ul>	10%	To support these strategic objectives, STIP targets were set across the following areas: <ul style="list-style-type: none"> <li>– Financial, operational and customer measures in the Qantas International and Qantas Loyalty businesses</li> <li>– Building a stronger network and airline partnerships</li> <li>– Developing new opportunities in Qantas Loyalty</li> </ul>
	Jetstar in Asia	Positioning Jetstar for success in Asia	<ul style="list-style-type: none"> <li>– Unit cost</li> <li>– Underlying EBIT</li> <li>– NPS</li> <li>– Key business milestones</li> </ul>	10%	To support this strategic initiative, STIP targets were set across key measures of financial, operational and customer performance in the Asian-based Jetstar branded airlines as well as milestones in further developing these businesses.
	Total			100%	

**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. This is in addition to the Board's overall discretion over STIP awards. Any such decision would be made in light of the specific circumstances and following the recommendation of the Safety, Health, Environment and Security Committee.

**Additional descriptions of STIP scorecard measures***Underlying PBT*

The Underlying PBT target is based on the annual financial budget. 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 Chief Executive Officer, Executive Management 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. For reasons of commercial sensitivity, the annual Underlying PBT target is not disclosed.

Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 139 *Financial Instruments: Recognition and Measurement* which relate to other reporting periods and items which are identified by Management and reported to the chief operating decision-making bodies, as not representing the underlying performance of the business. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period.

Items not included in Underlying PBT primarily result from major transformational/restructuring initiatives, transactions involving investments and impairment of assets outside the ordinary course of business.

*Operating Cash Flow to Net Debt*

Operating cash flow to net debt is one of the Group's primary measures used to determine the optimal capital structure that maximises shareholder value, maintains creditor confidence and sustains the future development of the business. 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, the fair value of hedges related to debt and off balance sheet aircraft operating lease liabilities less cash and aircraft security deposits.

*People and Operational Safety*

The inclusion of safety targets reflects that safety is always our first priority. The Safety, Health, Environment and Security Committee performs a combined assessment of people safety performance and operational safety performance.

The objective of the people safety targets is to reduce employee injuries. For 2013/2014 this involved:

- Reducing the Total Recorded Injury Frequency Rate by eight per cent on the 2012/2013 result
- Reducing the Lost Work Case Frequency Rate by 11 per cent on the 2012/2013 result
- Reducing the Duration Rate by 13 per cent on the 2012/2013 result

Operational safety performance is assessed against outcome-based measures (including operational occurrences that pose a significant threat to the safety of employees and customers) and risk-based lead indicators commonly associated with aviation industry accidents.

*Unit Cost*

Unit Cost remains an area of focus across the business and, as a result, the STIP scorecard includes unit cost targets for each of Qantas International, Qantas Domestic, Jetstar Australia and New Zealand and Jetstar Asia. These targets are derived from the annual financial budget.

For Qantas International and Qantas Domestic, Net Underlying Unit Cost performance is calculated as net underlying expenditure (excluding fuel) divided by each business' ASKs. Net underlying expenditure is derived from passenger revenue less Underlying EBIT.

For Jetstar Australia and New Zealand and for Jetstar Asia, Unit Cost performance is measured as controllable unit cost, which is calculated as total expenses (excluding fuel) per ASK.

To ensure that these measures focus on the underlying operating activities and efficiencies, they exclude the impact of fuel price changes and items not included in Underlying PBT as described above.

*Punctuality*

Qantas Domestic targets being the most on-time major Australian domestic airline. Therefore, on-time performance of Qantas Domestic is compared to the on-time performance of its major Australian domestic competitor. As agreed with and reported to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), punctuality is measured as the number of flights operating on-time (on an on-time departure basis) as a percentage of the total number of flights operated.

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

<b>Annual Incentive</b>	<b>Customer Service – NPS</b>
Also referred to as the Short Term Incentive Plan or STIP (continued)	Customer Service is measured against NPS targets which involved a five point improvement on each business' 2012/2013 result.  This is a survey-based measure of how strongly our customers promote the services of our businesses in preference to our direct competitors. Individual NPS targets are set for Qantas Domestic, Qantas International, Qantas Frequent Flyer, Jetstar Australia Domestic, Jetstar Asia, Jetstar Japan and Jetstar Pacific.

### What was the STIP scorecard outcome for the year ended 30 June 2014?

The Board determined that despite significant progress on the transformation agenda and that customer, operational and safety performance was strong (as outlined in the table below), the Group financial performance did not warrant any awards under the 2013/14 STIP. Therefore, the STIP scorecard outcome for 2013/2014 was nil.

The table below summarises performance vs target against each scorecard category under the 2013/14 STIP.

### Scorecard Category

Group Financial Measures		The Underlying PBT and the operating cash flow to net debt results were below target.
People and Operational Safety		There was an improvement in performance against each people safety measure and the threshold target was achieved for each measure.  Operational safety performance for the year was good.
Domestic Businesses and the Transformation Agenda		Qantas Domestic achieved its punctuality targets, leading the competition in all 12 months in 2013/2014.  Qantas Domestic and Jetstar Australia Domestic customer performance was very good, achieving significantly improved NPS results during 2013/2014.  The domestic businesses (Qantas Domestic (including QantasLink) and Jetstar Domestic) achieved their network and frequency advantage objectives for 2013/2014.  Qantas Domestic achieved its unit cost target.  Key business transformation milestones were achieved across Qantas Engineering, Catering, Customer Services, Ground Operations, Freight and the Corporate Centre.
Qantas International and Qantas Loyalty		The strategic partnership with Emirates delivered significant customer benefits during 2013/2014.  Qantas expanded its Asian network via new codeshare agreements with China Southern and continued to enhance its alliance with American Airlines.  Qantas International achieved its unit cost target.  Qantas International customer performance was also very good, achieving significantly improved NPS results during 2013/2014.  Qantas Frequent Flyer has continued to grow with membership now exceeding 10 million and the program achieving significantly improved NPS results for 2013/2014.  Qantas Loyalty successfully launched two new major initiatives during the year, being Qantas Cash and the Aquire business rewards program.
Jetstar in Asia		Jetstar Asia achieved its unit cost target. Underlying EBIT targets for Jetstar Japan and Jetstar Pacific were not achieved.  Jetstar Asia, Jetstar Japan and Jetstar Pacific each achieved significantly positive customer service (NPS) scores in 2013/2014.  Continued progress was made in the growth of Jetstar branded airlines in Asia, including: <ul style="list-style-type: none"> <li>– Jetstar Japan establishing a second base in Osaka</li> <li>– Jetstar Hong Kong further delayed, but some progress made in the Hong Kong regulatory process</li> <li>– Jetstar Pacific agreeing a re-capitalisation plan and fleet expansion plan, to facilitate launching of international services</li> </ul>

Key:  Full (or above target) achievement against targets  Partial achievement against targets  No achievement against targets



<b>Annual Incentive</b> Also referred to as the Short Term Incentive Plan or STIP <i>(continued)</i>	<p><b>How are STIP awards calculated?</b></p> <p>No awards were made under the 2013/14 STIP.</p> <p>In years where STIP awards are made, the calculation is as follows:</p> $\text{Value of STIP Award} = \text{Base Pay} \times \text{"At target" Opportunity} \times \text{Scorecard Result} \times \text{Individual Performance Factor}$ <p><b>How are STIP awards delivered?</b></p> <p>No awards were made under the 2013/14 STIP.</p> <p>In years where STIP awards are made, two-thirds of the STIP award is paid as a cash bonus, with the remaining one-third deferred into Qantas shares with a two year restriction period. This is subject to the Board's overriding discretion as detailed on page 51.</p> <p><b>What is the maximum outcome under the STIP?</b></p> <p>The STIP scorecard has a hypothetical maximum outcome of 175 per cent of "at target", which could only be achieved if the maximum overdrive level of performance is achieved on every STIP performance measure. For 2013/2014, the STIP scorecard did not consider the possibility of an outcome above the "at target" amount.</p> <p>The scorecard result is then applied to an individual's "at target" opportunity and their Individual Performance Factor (IPF). Hypothetically, a STIP award to Mr Joyce equal to 252 per cent times Base Pay could result (i.e. the "at target" opportunity for 2013/2014 of 120 per cent of Base Pay multiplied by a hypothetical Scorecard Result of 175 per cent and multiplied by a hypothetical IPF of 1.2).</p> <p>The minimum outcome is nil, which would occur if the threshold level of performance is missed on each STIP measure. For 2013/2014, the Board determined that the Group financial performance did not warrant any awards under the STIP and therefore no awards were made.</p>
<b>Long Term Incentive Plan</b> Also referred to as the LTIP	<p><b>What is the LTIP?</b></p> <p>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.</p> <p>Generally, participation in the LTIP is limited to Senior Executives of the Qantas Group. For 2014/2015 only, the broader Management population will be invited to participate. This will involve no increase to "at target" pay for each manager, as each manager's LTIP opportunity will be offset by a reduction in their annual incentive opportunity for 2014/2015. This one-off change aligns the entire Management team with the immediate priorities of the transformation agenda, including the achievement of \$2 billion in cost reductions over the next three years. The performance period under the 2015–2017 LTIP is for this same three year period.</p> <p><b>What are the LTIP performance conditions and how is performance assessed?</b></p> <p>The performance measures for each of the 2012–2014 LTIP (tested as at 30 June 2014), 2013–2015 LTIP (to be tested as at 30 June 2015) and 2014–2016 LTIP (to be tested as at 30 June 2016) are:</p> <ul style="list-style-type: none"> <li>– The relative TSR of Qantas compared to companies with ordinary shares included in the ASX100, and</li> <li>– The relative TSR of Qantas compared to an airline peer group (Global Listed Airlines)</li> </ul> <p>These Rights will only vest in full if Qantas' TSR performance ranks at or above the 75th percentile compared to both the ASX100 and the Global Listed Airlines peer group.</p> <p>These performance hurdles were chosen to provide a comparison of relative shareholder returns that is relevant to most Qantas investors:</p> <ul style="list-style-type: none"> <li>– The ASX100 peer group was chosen for relevance to investors with a primary interest in the equity market for major Australian listed companies, of which Qantas is one, and</li> <li>– The Global Listed Airlines peer group was chosen for relevance to investors, including investors based outside Australia, whose focus is on the aviation industry sector</li> </ul>

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

### Long Term Incentive Plan

Also referred to as the LTIP (continued)

The vesting scale for each measure is:

#### Companies with ordinary shares included in the ASX100

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 ASX100 as follows:

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

#### Global Listed Airlines peer group

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 Global Listed Airlines peer group selected by the Board as follows:

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

The Global Listed Airlines peer group has been selected with regard to financial standing, level of government involvement and its representation of Qantas' key competitor markets. For the 2014–2016 LTIP, the Global Listed Airlines peer group contains the following full-service and value-based airlines: Air Asia, Air France/KLM, Air New Zealand, All Nippon Airways, British Airways/Iberia (International Airlines Group), Cathay Pacific, Delta Airlines, Easyjet, Japan Airlines, LATAM Airlines Group, Lufthansa, Ryanair, Singapore Airlines, Southwest Airlines, Tiger Airways and Virgin Australia. The 2012–2014 LTIP also included American Airlines (AMR Corporation) but excluded All Nippon Airways, Japan Airlines and LATAM Airlines Group from the Global Listed Airlines peer group. The 2013–2015 LTIP excluded Japan Airlines.

#### How are Rights treated on termination of employment?

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:

- The portion 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.

#### What was the LTIP outcome for the year ended 30 June 2014?

LTIP awards under the 2012–2014 LTIP were tested as at 30 June 2014 and the performance hurdles were not achieved. Therefore, 2012–2014 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, which fairly represents the negative outcome for shareholders in those companies. Comparator companies that are acquired and the continuing entity is a listed company (for which a 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 a nominated travel companion.

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 KMP and their eligible beneficiaries are also 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 is disclosed as a post-employment benefit.

**Other long-term benefits**

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

**Summary of Key Contract Terms as at 30 June 2014**

Contract Details	Alan Joyce	Gareth Evans	Lesley Grant	Simon Hickey	Jayne Hrdlicka	Lyell Strambi
Base Pay	\$2,125,000 <sup>1</sup>	\$1,000,000	\$800,000	\$1,000,000	\$1,000,000	\$1,000,000
STIP "at target" opportunity expressed as a % of Base Pay	120% for 2013/2014 (80% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)
LTIP "at target" opportunity expressed as a % of Base Pay	80% for 2013/2014 (120% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)	25% for 2013/2014 (55% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)
Travel entitlements	An annual benefit of trips for these Executives and eligible beneficiaries during employment <sup>2</sup> , at no cost to the individual, as follows:					
	4 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul
	12 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul
	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	Employment may be terminated by either the Executive or Qantas by providing six months written notice <sup>3</sup> .  Each Executive's contract includes a provision that limits any termination payment to the statutory limit prescribed under the Corporations Act 2001.					
Severance	A severance payment of six months' Base Pay applies where termination is initiated by Qantas <sup>3</sup> .					

<sup>1</sup> Base Pay for Mr Joyce is \$2,125,000. From 1 January 2014, Mr Joyce elected to forego five per cent of his Base Pay. Therefore, Base Pay was paid using an annual rate of \$2,018,750 from 1 January 2014.

<sup>2</sup> These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement arises.

<sup>3</sup> Other than for misconduct or unsatisfactory performance.

**Remuneration mix**

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

The "at target" STIP and LTIP opportunities for the CEO and KMP are detailed in the Summary of Key Contract Terms.

For 2014/2015, the Board has changed the remuneration mix for the CEO and Executive Management to further align incentives with the immediate priorities of the transformation agenda. The three year performance period of the 2015–2017 LTIP aligns with the timeframe for achieving the \$2 billion cost reductions due for completion by the end of 2016/2017.

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

This change in pay mix involves a decrease in the STIP opportunity and an increase in the LTIP opportunity for each Executive. The pay mix changes that apply to the CEO and KMP for 2014/2015 are also detailed in the Summary of Key Contract Terms on page 57. There is no increase to the total "at target" remuneration as a result of these changes as the increase in LTIP opportunity is offset by a decrease in STIP opportunity.

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

The target remuneration mix does not match the actual remuneration mix for 2013/2014, as:

- No awards were made under the 2013/14 STIP
- 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.

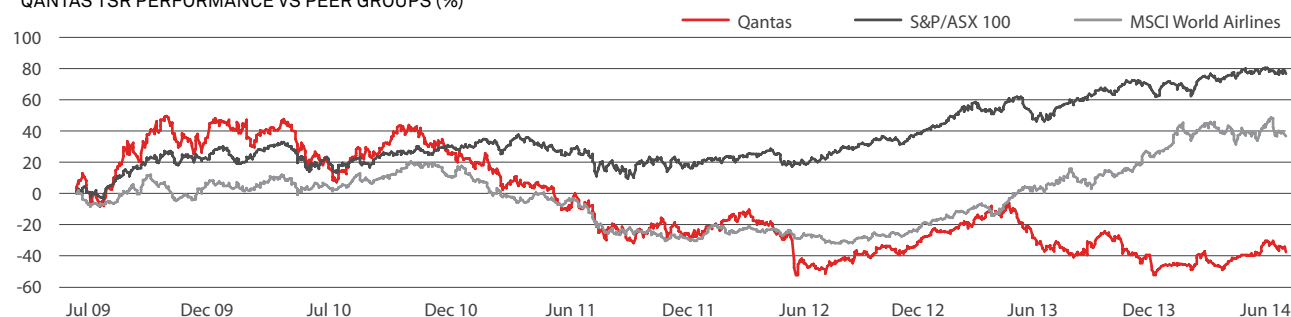
Target Remuneration Mix for 2013/2014	Base Pay %	STIP %	LTIP %
Alan Joyce	33	40	27
Gareth Evans	43	35	22
Lesley Grant	49	39	12
Simon Hickey	43	35	22
Jayne Hrdlicka	43	35	22
Lyell Strambi	43	35	22

Statutory Remuneration Mix	Base Pay & Other %	Performance Related Remuneration			
		STIP			LTIP
		Cash-based	Share-based		
		Cash Incentives %	Cash-settled %	Equity-settled %	
Alan Joyce	50	0	0	4	46
Gareth Evans	64	0	0	5	31
Lesley Grant	75	0	0	5	20
Simon Hickey	65	0	0	5	30
Jayne Hrdlicka	68	0	0	4	28
Lyell Strambi	65	0	0	4	31

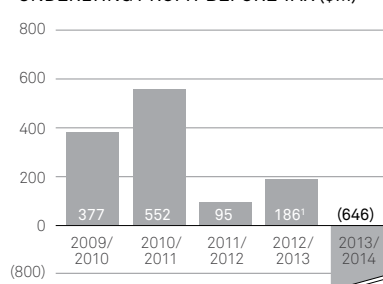
## Qantas Financial Performance History

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

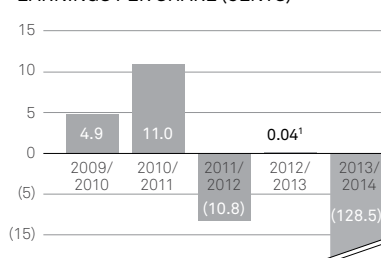
### QANTAS TSR PERFORMANCE VS PEER GROUPS (%)



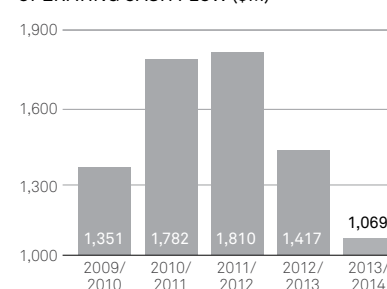
### UNDERLYING PROFIT BEFORE TAX (\$M)



### EARNINGS PER SHARE (CENTS)



### OPERATING CASH FLOW (\$M)





## 7) PERFORMANCE RELATED REMUNERATION

### STIP awards – Vesting and Forfeiture

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. The restriction period on these shares ended during 2013/2014.

One-third of the 2011/12 STIP awards (granted on 22 August 2012) were delivered to participants in deferred shares that are subject to a two-year restriction period. The restriction period on these shares applied throughout 2013/2014.

One-third of the 2012/13 STIP awards (granted on 6 September 2013) were delivered to participants in deferred shares that are subject to a two-year restriction period. The restriction period on these shares applied throughout 2013/2014.

### Number of Rights Granted, Vested, Lapsed and Forfeited in 2013/2014

Awards of Rights under the LTIP may vest and convert to Qantas shares subject to the achievement of long-term performance hurdles as described on pages 55 to 56. Any Rights that do not achieve the performance hurdles will lapse.

The following table summarises the Rights granted, vested and lapsed/forfeited in 2013/2014.

Executives	Number of rights		
	Granted	Vested	Lapsed/ Forfeited
Alan Joyce	2,151,000	–	(1,084,000)
Gareth Evans	633,000	–	(119,000)
Lesley Grant	253,000	–	(72,000)
Simon Hickey	633,000	–	(104,000)
Jayne Hrdlicka	633,000	–	–
Lyell Strambi	633,000	–	(119,000)

The Rights granted during the year (on 18 October 2013) were under the 2014–2016 LTIP, which will be tested against the performance hurdles as at 30 June 2016. The fair value of a Right on the grant date was \$0.83 per Right.

100 per cent of Rights under the 2011–2013 LTIP as disclosed in the table above lapsed during the year, following the testing of performance hurdles as at 30 June 2013. The fair value of a Right on the grant date was \$1.76 for Mr Joyce and \$1.50 for other Executives.

There was nil vesting and nil forfeiture under the 2012–2014 LTIP (granted on 23 August 2011 and 28 October 2011) and the 2013–2015 LTIP (granted on 2 November 2012). 100 per cent of Rights under the 2012–2014 LTIP lapsed subsequent to 30 June 2014 following the testing of performance hurdles as at 30 June 2014.

### 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	Future Expense by Plan					Future Expense by Financial Year		
	STIP Awards		LTIP Awards		Total \$'000	2015 \$'000	2016 \$'000	Total \$'000
	2011/12 \$'000	2012/13 \$'000	2013 – 2015 <sup>1</sup> \$'000	2014 – 2016 <sup>2</sup> \$'000				
Alan Joyce	–	143	850	1,339	2,332	1,642	690	2,332
Gareth Evans	5	43	250	394	692	489	203	692
Lesley Grant	3	33	100	157	293	210	83	293
Simon Hickey	4	39	250	394	687	484	203	687
Jayne Hrdlicka	4	39	250	394	687	484	203	687
Lyell Strambi	4	41	250	394	689	486	203	689

1 The number of Rights granted under the 2013–2015 LTIP on 2 November 2012 were determined using the fair value of a Right on 1 July 2012 (\$0.66 per Right) being the start of the measurement period. For accounting purposes, accounting standards require the share-based payment expense to be calculated using the fair value of a Right on the grant date (\$0.88 per Right).

2 The number of Rights granted under the 2014–2016 LTIP on 18 October 2013 were determined using the fair value of a Right on 1 July 2013 (\$0.79 per Right) being the start of the measurement period. For accounting purposes, accounting standards require the share-based payment expense to be calculated using the fair value of a Right on the grant date (\$0.83 per Right).

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

### 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		Number of Shares				
		Opening Balance	Granted	Forfeited	Vested and Transferred	Closing Balance
Alan Joyce	2014	375,014	284,769	–	(375,014)	284,769
	2013	958,014	–	–	(583,000)	375,014
Gareth Evans	2014	174,278	85,607	–	(111,658)	148,227
	2013	200,658	62,620	–	(89,000)	174,278
Lesley Grant	2014	107,189	65,505	–	(64,263)	108,431
	2013	140,263	42,926	–	(76,000)	107,189
Simon Hickey	2014	158,353	78,164	–	(109,119)	127,398
	2013	230,619	49,234	–	(121,500)	158,353
Jayne Hrdlicka	2014	85,784	78,164	–	(35,704)	128,244
	2013	35,704	50,080	–	–	85,784
Lyell Strambi	2014	159,373	81,889	–	(99,600)	141,662
	2013	251,100	59,773	–	(151,500)	159,373

#### (ii) Long Term Incentive Plan (LTIP)

Key Management Personnel		Number of Shares				
		Opening Balance	Granted	Lapsed/ Forfeited	Vested and Transferred	Closing Balance
Alan Joyce	2014	5,334,000	2,151,000	(1,084,000)	–	6,401,000
	2013	3,074,000	2,575,000	(315,000)	–	5,334,000
Gareth Evans	2014	1,351,731	633,000	(119,000)	–	1,865,731
	2013	674,731	757,000	(80,000)	–	1,351,731
Lesley Grant	2014	566,000	253,000	(72,000)	–	747,000
	2013	365,000	303,000	(102,000)	–	566,000
Simon Hickey	2014	1,091,545	633,000	(104,000)	–	1,620,545
	2013	481,545	757,000	(147,000)	–	1,091,545
Jayne Hrdlicka	2014	948,000	633,000	–	–	1,581,000
	2013	191,000	757,000	–	–	948,000
Lyell Strambi	2014	1,332,000	633,000	(119,000)	–	1,846,000
	2013	701,000	757,000	(126,000)	–	1,332,000

#### (iii) Performance Share Plan (PSP)

Key Management Personnel		Number of Shares				
		Opening Balance	Granted	Forfeited	Transferred	Closing Balance
Gareth Evans	2014	36,621	–	–	–	36,621
	2013	36,621	–	–	–	36,621
Lesley Grant	2014	64,989	–	–	–	64,989
	2013	64,989	–	–	–	64,989
Simon Hickey	2014	90,213	–	–	(41,213)	49,000
	2013	90,213	–	–	–	90,213
Lyell Strambi	2014	75,000	–	–	(75,000)	–
	2013	75,000	–	–	–	75,000

The above shares are vested and available to call.

## (iv) Retention Plan (RP)

Key Management Personnel		Number of Shares				Closing Balance
		Opening Balance	Granted	Forfeited	Transferred	
Simon Hickey	2014	400,000	–	–	(200,000)	200,000
	2013	400,000	–	–	–	400,000

The above shares are vested and available to call.

## (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 – Executives	Interest in Shares as at 30 June 2012	Awarded as Remuneration	Rights Converted to Shares	Other Change <sup>1</sup>	Interest in Shares as at 30 June 2013	Awarded as Remuneration	Rights Converted to Shares	Other Change <sup>1</sup>	Interest in Shares as at 30 June 2014
Alan Joyce	2,906,202	–	–	–	2,906,202	284,769	–	–	3,190,971
Gareth Evans	354,522	62,620	–	–	417,142	85,607	–	–	502,749
Lesley Grant	207,752	42,926	–	–	250,678	65,505	–	–	316,183
Simon Hickey	912,607	49,234	–	–	961,841	78,164	–	(663,607)	376,398
Jayne Hrdlicka	35,704	50,080	–	33,000	118,784	78,164	–	–	196,948
Lyell Strambi	337,300	59,773	–	(151,500)	245,573	81,889	–	(110,600)	216,862

<sup>1</sup> Other change includes shares purchased, sold or forfeited.

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.

## Additional Information – Share-based Payments

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

\$'000		STIP		LTIP	Total
		Cash Settled Share-based Payment	Equity Settled Share-based Payment	Equity Settled Share-based Payment	
Alan Joyce	2014	–	155	1,808	1,963
	2013	–	375	1,794	2,169
Gareth Evans	2014	–	76	520	596
	2013	202	133	366	701
Lesley Grant	2014	–	54	210	264
	2013	139	89	162	390
Simon Hickey	2014	–	66	441	507
	2013	159	125	280	564
Jayne Hrdlicka	2014	–	60	439	499
	2013	162	75	224	461
Lyell Strambi	2014	–	72	520	592
	2013	193	130	366	689
Total	2014	–	483	3,938	4,421
	2013	855	927	3,192	4,974

## Additional Information – Methodology used for the Remuneration Outcomes Table (Non-statutory)

Base Pay (cash) and other remuneration in the Remuneration Outcomes tables on pages 46 and 49 are the same as those reported in the statutory remuneration tables on pages 47 and 50.

The STIP amount shown in the Remuneration Outcomes tables is the full value of the STIP awarded for the corresponding year calculated as a product of Base Pay, 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 Remuneration Outcomes 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).

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

### 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 maxima 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 claw-back 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 two times Base Pay. The potential equity awards under the STIP and the LTIP will assist Executives in maintaining shareholdings in Qantas.

### Employee Share Trading Policy

The Qantas Code of Conduct and Ethics contains Qantas' Employee Share Trading Policy (Policy).

The Policy prohibits employees from dealing in Qantas securities (or securities of other listed entities) while in possession of material non-public information relevant to the entity.

In addition, nominated employees (including KMP) are:

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

### 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 2014 or prior year.

A number of KMPs and their related parties have transactions with the Qantas Group. All transactions are conducted on normal commercial arm's length terms. 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 \$25,920 (2013: \$7,440). The amount payable as at 30 June 2014 included in Current Liabilities was nil (2013: nil).

## 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 \$2.75 million (excluding industry standard travel entitlements received) was approved by shareholders at the 2013 Annual General Meeting.

Total Non-Executive Directors' remuneration (excluding industry standard travel entitlements received) for the year ended 30 June 2014 was \$2.14 million (2013: \$2.02 million), which is within the approved annual fee pool.

Non-Executive Directors' remuneration reflects the responsibilities of Non-Executive Directors. Fees are benchmarked against Non-Executive Director fees of S&P/ASX 50 companies.

The Chairman's fee did not increase during 2013/2014. Other Board fees and Committee fees increased by three per cent from 1 July 2013. From 1 January 2014, all Directors elected to forego five per cent of both their base fee and Committee fee.

	Board		Committees <sup>1</sup>	
	Chairman <sup>2</sup>	Member	Chairman	Member
Board Fees <sup>3</sup>	\$560,000	\$144,000	\$58,000	\$29,000

<sup>1</sup> Committees are the Audit Committee, Remuneration Committee, Nominations Committee and Safety, Health, Environment and Security Committee.

<sup>2</sup> The Chairman does not receive any additional fees for serving on or chairing any Board Committee.

<sup>3</sup> From 1 January 2014, all Directors elected to forego five per cent of their fees. From 1 January 2014, the Chairman was paid based on an annual fee of \$532,000; other Directors were paid based on an annual fee of \$137,000; each Committee Chairman was paid based on an annual fee of \$55,000; and each Committee member was paid based on an annual fee of \$27,500.

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 long haul trips and 12 short haul trips each calendar year and all other Non-Executive Directors are entitled to two long haul trips and six short haul 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 arises.

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

#### Remuneration for the Year Ended 30 June 2014 – Non-Executive Directors

		Short-term Employee Benefits			Post-employment Benefits			Total
		Base Pay (Cash)	Non-cash Benefits	Sub-total	Superannuation	Travel	Sub-total	
<b>Leigh Clifford</b>	<b>2014</b>	<b>511</b>	<b>37</b>	<b>548</b>	<b>35</b>	<b>23</b>	<b>58</b>	<b>606</b>
Chairman	2013	535	25	560	25	19	44	604
<b>Maxine Brenner<sup>1</sup></b>	<b>2014</b>	<b>138</b>	<b>16</b>	<b>154</b>	<b>13</b>	<b>11</b>	<b>24</b>	<b>178</b>
Non-Executive Director	2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Peter Cosgrove<sup>2</sup></b>	<b>2014</b>	<b>107</b>	<b>30</b>	<b>137</b>	<b>10</b>	<b>11</b>	<b>21</b>	<b>158</b>
Non-Executive Director	2013	180	17	197	16	9	25	222
<b>Patricia Cross<sup>3</sup></b>	<b>2014</b>	<b>72</b>	<b>4</b>	<b>76</b>	<b>6</b>	<b>11</b>	<b>17</b>	<b>93</b>
Non-Executive Director	2013	200	30	230	16	9	25	255
<b>Richard Goodmanson<sup>4</sup></b>	<b>2014</b>	<b>255</b>	<b>14</b>	<b>269</b>	<b>–</b>	<b>11</b>	<b>11</b>	<b>280</b>
Non-Executive Director	2013	244	51	295	–	9	9	304
<b>Jacqueline Hey<sup>1</sup></b>	<b>2014</b>	<b>129</b>	<b>11</b>	<b>140</b>	<b>12</b>	<b>11</b>	<b>23</b>	<b>163</b>
Non-Executive Director	2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Garry Hounsell</b>	<b>2014</b>	<b>207</b>	<b>24</b>	<b>231</b>	<b>18</b>	<b>11</b>	<b>29</b>	<b>260</b>
Non-Executive Director	2013	208	33	241	16	9	25	266
<b>William Meaney<sup>4</sup></b>	<b>2014</b>	<b>213</b>	<b>–</b>	<b>213</b>	<b>–</b>	<b>11</b>	<b>11</b>	<b>224</b>
Non-Executive Director	2013	188	1	189	–	9	9	198
<b>Paul Rayner</b>	<b>2014</b>	<b>199</b>	<b>19</b>	<b>218</b>	<b>18</b>	<b>11</b>	<b>29</b>	<b>247</b>
Non-Executive Director	2013	180	34	214	16	9	25	239
<b>Barbara Ward</b>	<b>2014</b>	<b>179</b>	<b>24</b>	<b>203</b>	<b>18</b>	<b>11</b>	<b>29</b>	<b>232</b>
Non-Executive Director	2013	180	19	199	16	9	25	224
<b>Total</b>	<b>2014</b>	<b>2,010</b>	<b>179</b>	<b>2,189</b>	<b>130</b>	<b>122</b>	<b>252</b>	<b>2,441</b>
	<b>2013</b>	<b>1,915</b>	<b>210</b>	<b>2,125</b>	<b>105</b>	<b>82</b>	<b>187</b>	<b>2,312</b>

<sup>1</sup> 2013/2014 remuneration reflects the period served by Ms Brenner and Ms Hey as Non-Executive Directors from 29 August 2013 to 30 June 2014.

<sup>2</sup> 2013/2014 remuneration reflects the period served by General Cosgrove as a Non-Executive Director from 1 July 2013 to 28 January 2014. General Cosgrove also received payments for services rendered as a Director of Qantas Superannuation Limited during the period served.

<sup>3</sup> 2013/2014 remuneration reflects the period served by Mrs Cross as a Non-Executive Director from 1 July 2013 to 18 October 2013.

<sup>4</sup> Mr Goodmanson and Mr Meaney received travel allowances of \$30,000 and \$25,000, respectively during 2013/2014 (2013: \$30,000 for Mr Goodmanson and \$30,000 for Mr Meaney). These amounts were included in their fees (cash).



# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## REMUNERATION REPORT (AUDITED) CONTINUED

### Equity Holdings and Transactions

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

Key Management Personnel – Non-Executive Directors	Interest in Shares as at 30 June 2012	Other Change <sup>1</sup>	Interest in Shares as at 30 June 2013	Other Change <sup>1</sup>	Interest in Shares as at 30 June 2014
Leigh Clifford	151,622	100,000	251,622	–	251,622
Maxine Brenner	–	–	–	–	–
Peter Cosgrove	34,565	–	34,565	–	34,565 <sup>2</sup>
Patricia Cross	30,474	5,000	35,474	–	35,474 <sup>2</sup>
Richard Goodmanson	20,000	–	20,000	–	20,000
Jacqueline Hey	–	–	–	–	–
Garry Hounsell	80,000	–	80,000	–	80,000
William Meaney	–	–	–	–	–
Paul Rayner	71,622	–	71,622	–	71,622
Barbara Ward	47,597	–	47,597	–	47,597

<sup>1</sup> Other change includes shares purchased or sold.

<sup>2</sup> The number shown is as at the date the Director ceased to be KMP.

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

## 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 and Company Secretary of Qantas against any liability incurred by that person as an officer of Qantas.

The Directors listed on page 40, the Company Secretaries listed on page 42 and certain individuals, who formerly held any of these positions, have the benefit of the indemnity in the Qantas Constitution. Members of Qantas' Executive Management team and certain former members of the Executive Management team have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board. In respect 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 2013/2014 or to the date of this Report.

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

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

## NON-AUDIT SERVICES

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

- a The non-audit services provided during 2013/2014 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 2013/2014 by KPMG as the external auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:
  - KPMG services have not involved partners or staff acting in a managerial or decision-making capacity within the Qantas Group or being involved in the processing or originating of transactions
  - KPMG non-audit services have only been provided where Qantas is satisfied that the related function or process will not have a material bearing on the audit procedures
  - KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes
  - A description of all non-audit services undertaken by KPMG and the related fees has been reported to the Board to ensure complete transparency in relation to the services provided
  - The declaration required by section 307C of the Corporations Act 2001 confirming independence has been received from KPMG

A copy of the lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 66.

Details of the amounts paid to KPMG for audit and non-audit services provided during the year are set out in Note 8 to the Financial Statements.

# DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014



## 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 2014, there have been:

- i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG  
Sydney

3 September 2014

Duncan McLennan  
Partner

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Limited liability by a scheme approved under Professional Standards Legislation

## 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

3 September 2014

Alan Joyce  
Chief Executive Officer

3 September 2014

# FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

		Qantas Group	
	Notes	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>REVENUE AND OTHER INCOME</b>			
Net passenger revenue		13,242	13,673
Net freight revenue		955	935
Other	4	1,155	1,294
<b>Revenue and other income</b>		<b>15,352</b>	<b>15,902</b>
<b>EXPENDITURE</b>			
Manpower and staff related		3,717	3,846
Fuel		4,461	4,154
Aircraft operating variable		3,142	3,061
Depreciation and amortisation		1,422	1,450
Impairment of specific assets	23	387	115
Impairment of cash generating unit	23	2,560	–
Non-cancellable aircraft operating lease rentals		520	525
Share of net loss of investments accounted for under the equity method	14	66	39
Other	4	2,849	2,514
<b>Expenditure</b>		<b>19,124</b>	<b>15,704</b>
<b>Statutory (loss)/profit before income tax expense and net finance costs</b>		<b>(3,772)</b>	<b>198</b>
Finance income	5	82	109
Finance costs	5	(286)	(296)
<b>Net finance costs</b>	5	<b>(204)</b>	<b>(187)</b>
<b>Statutory (loss)/profit before income tax expense</b>		<b>(3,976)</b>	<b>11</b>
Income tax benefit/(expense)	6	1,133	(9)
<b>Statutory (loss)/profit for the year</b>		<b>(2,843)</b>	<b>2</b>
<b>Attributable to:</b>			
Members of Qantas		(2,843)	1
Non-controlling interests		–	1
<b>Statutory (loss)/profit for the year</b>		<b>(2,843)</b>	<b>2</b>
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS</b>			
Basic/diluted (loss)/earnings per share (cents)	7	(128.5)	0.04

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

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 2014

	Qantas Group	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>Statutory (loss)/profit for the year</b>	<b>(2,843)</b>	<b>2</b>
<b>Items that are or may subsequently be reclassified to profit or loss</b>		
Effective portion of changes in fair value of cash flow hedges, net of tax	(106)	111
Transfer of hedge reserve to the Consolidated Income Statement, net of tax <sup>2</sup>	(70)	(50)
Recognition of effective cash flow hedges on capitalised assets, net of tax	(19)	21
Foreign currency translation of controlled entities	2	10
Foreign currency translation of investments accounted for under the equity method	1	(1)
<b>Items that will not subsequently be reclassified to profit or loss</b>		
Defined benefit actuarial gains, net of tax	113	311
<b>Other comprehensive (loss)/income for the year</b>	<b>(79)</b>	<b>402</b>
<b>Total comprehensive (loss)/income for the year</b>	<b>(2,922)</b>	<b>404</b>
<b>Total comprehensive (loss)/income attributable to:</b>		
Members of Qantas	(2,922)	403
Non-controlling interests	–	1
<b>Total comprehensive (loss)/income for the year</b>	<b>(2,922)</b>	<b>404</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

<sup>2</sup> These amounts were allocated to revenue of \$(110) million (2013: \$(59) million), fuel expenditure of \$10 million (2013: \$(8) million), other costs of nil (2013: \$(4) million) and income tax expense of \$30 million (2013: \$21 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 2014

		Qantas Group		
	Notes	2014 \$M	2013 Restated <sup>1</sup> \$M	2012 Restated <sup>1</sup> \$M
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	10	3,001	2,829	3,398
Receivables	11	1,196	1,436	1,111
Other financial assets	25	172	180	88
Inventories	12	317	364	376
Assets classified as held for sale	13	134	42	73
Other		112	110	121
<b>Total current assets</b>		<b>4,932</b>	<b>4,961</b>	<b>5,167</b>
<b>NON-CURRENT ASSETS</b>				
Receivables	11	158	174	472
Other financial assets	25	34	27	17
Investments accounted for under the equity method	14	143	190	457
Property, plant and equipment	15	10,500	13,827	14,139
Intangible assets	16	741	714	610
Deferred tax assets	17	548	–	–
Other		262	139	23
<b>Total non-current assets</b>		<b>12,386</b>	<b>15,071</b>	<b>15,718</b>
<b>Total assets</b>		<b>17,318</b>	<b>20,032</b>	<b>20,885</b>
<b>CURRENT LIABILITIES</b>				
Payables	18	1,851	1,844	1,865
Revenue received in advance	19	3,406	3,047	3,183
Interest-bearing liabilities	20	1,210	835	1,119
Other financial liabilities	25	182	86	369
Provisions	21	876	835	879
Liabilities classified as held for sale		–	–	12
<b>Total current liabilities</b>		<b>7,525</b>	<b>6,647</b>	<b>7,427</b>
<b>NON-CURRENT LIABILITIES</b>				
Revenue received in advance	19	1,183	1,186	1,136
Interest-bearing liabilities	20	5,273	5,245	5,430
Other financial liabilities	25	66	54	224
Provisions	21	405	435	736
Deferred tax liabilities	17	–	625	464
<b>Total non-current liabilities</b>		<b>6,927</b>	<b>7,545</b>	<b>7,990</b>
<b>Total liabilities</b>		<b>14,452</b>	<b>14,192</b>	<b>15,417</b>
<b>Net assets</b>		<b>2,866</b>	<b>5,840</b>	<b>5,468</b>
<b>EQUITY</b>				
Issued capital	22	4,630	4,693	4,729
Treasury shares		(16)	(43)	(42)
Reserves	22	(81)	128	36
Retained earnings		(1,671)	1,057	741
<b>Equity attributable to the members of Qantas</b>		<b>2,862</b>	<b>5,835</b>	<b>5,464</b>
Non-controlling interests		4	5	4
<b>Total equity</b>		<b>2,866</b>	<b>5,840</b>	<b>5,468</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

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 2014

30 June 2014 Qantas Group \$M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Non- controlling Interests	Total Equity
Balance as at 1 July 2013 restated <sup>1</sup>	4,693	(43)	49	123	(44)	1,057	5	5,840
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>								
Statutory loss for the year	–	–	–	–	–	(2,843)	–	(2,843)
<b>Other comprehensive (loss)/income</b>								
Effective portion of changes in fair value of cashflow hedges, net of tax	–	–	–	(106)	–	–	–	(106)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(70)	–	–	–	(70)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	(19)	–	–	–	(19)
Defined benefit actuarial gains, net of tax	–	–	–	–	–	113	–	113
Foreign currency translation of controlled entities	–	–	–	–	2	–	–	2
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	1	–	–	1
<b>Total other comprehensive (loss)/income</b>	–	–	–	(195)	3	113	–	(79)
<b>Total comprehensive (loss)/income for the year</b>	–	–	–	(195)	3	(2,730)	–	(2,922)
<b>TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY</b>								
<b>Contributions by and distributions to owners</b>								
Shares bought back <sup>2</sup>	(63)	–	–	–	–	–	–	(63)
Share-based payments	–	–	12	–	–	–	–	12
Shares vested and transferred to employees	–	27	(23)	–	–	(4)	–	–
Share-based payments unvested and lapsed	–	–	(6)	–	–	6	–	–
Dividends paid	–	–	–	–	–	–	(1)	(1)
<b>Total contributions by and distributions to owners</b>	<b>(63)</b>	<b>27</b>	<b>(17)</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>(1)</b>	<b>(52)</b>
<b>Total transactions with owners</b>	<b>(63)</b>	<b>27</b>	<b>(17)</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>(1)</b>	<b>(52)</b>
<b>Balance as at 30 June 2014</b>	<b>4,630</b>	<b>(16)</b>	<b>32</b>	<b>(72)</b>	<b>(41)</b>	<b>(1,671)</b>	<b>4</b>	<b>2,866</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

<sup>2</sup> 45,415,538 shares were bought back and cancelled during the year ended 30 June 2014.

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 2014

30 June 2013 Qantas Group Restated <sup>1</sup> \$M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Non- controlling Interests	Total Equity
Balance as at 1 July 2012	4,729	(42)	48	41	(53)	1,162	4	5,889
Impact of application of revised standards <sup>1</sup>	–	–	–	–	–	(421)	–	(421)
Restated balance at 1 July 2012	4,729	(42)	48	41	(53)	741	4	5,468
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>								
Statutory profit for the year	–	–	–	–	–	1	1	2
<b>Other comprehensive income</b>								
Effective portion of changes in fair value of cashflow hedges, net of tax	–	–	–	111	–	–	–	111
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(50)	–	–	–	(50)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	21	–	–	–	21
Defined benefit actuarial gains, net of tax	–	–	–	–	–	311	–	311
Foreign currency translation of controlled entities	–	–	–	–	10	–	–	10
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	(1)	–	–	(1)
<b>Total other comprehensive income</b>	–	–	–	82	9	311	–	402
<b>Total comprehensive income for the year</b>	–	–	–	82	9	312	1	404
<b>TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY</b>								
<b>Contributions by and distributions to owners</b>								
Shares bought back <sup>2</sup>	(36)	–	–	–	–	–	–	(36)
Treasury shares acquired	–	(16)	–	–	–	–	–	(16)
Share-based payments	–	–	20	–	–	–	–	20
Shares vested and transferred to employees	–	15	(15)	–	–	–	–	–
Share-based payments unvested and lapsed	–	–	(4)	–	–	4	–	–
<b>Total contributions by and distributions to owners</b>	<b>(36)</b>	<b>(1)</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>(32)</b>
<b>Total transactions with owners</b>	<b>(36)</b>	<b>(1)</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>(32)</b>
<b>Balance as at 30 June 2013</b>	<b>4,693</b>	<b>(43)</b>	<b>49</b>	<b>123</b>	<b>(44)</b>	<b>1,057</b>	<b>5</b>	<b>5,840</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

<sup>2</sup> 23,377,832 shares were bought back and cancelled during the year ended 30 June 2013.

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 2014

		Qantas Group	
	Notes	2014 \$M	2013 \$M
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		16,720	16,582
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies)		(15,288)	(15,041)
<b>Cash generated from operations</b>		<b>1,432</b>	<b>1,541</b>
Cash payments to employees for redundancies		(185)	(144)
Interest received		74	110
Interest paid		(254)	(229)
Dividends received from investments accounted for under the equity method		4	142
Income taxes paid		(2)	(3)
<b>Net cash from operating activities</b>	26	<b>1,069</b>	<b>1,417</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for property, plant and equipment and intangible assets		(1,161)	(1,247)
Interest paid and capitalised on qualifying assets	5	(34)	(61)
Payments for the acquisition of controlled entities, net of cash acquired		–	(24)
Payments for investments accounted for under the equity method		(72)	(73)
Net receipts/(payments) for aircraft assigned to investments accounted for under the equity method <sup>1</sup>		8	(12)
Proceeds from disposal of property, plant and equipment		141	32
Proceeds from sale and operating leaseback of non-current assets		–	8
Proceeds from disposal of controlled entities, net of cash disposed		70	18
Proceeds from disposal of investments accounted for under the equity method		–	189
Net (loans to)/proceeds from repayment of loans from investments accounted for under the equity method		(21)	125
<b>Net cash used in investing activities</b>		<b>(1,069)</b>	<b>(1,045)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments for shares bought back <sup>2</sup>		(63)	(36)
Payments for treasury shares		–	(16)
Proceeds from borrowings		717	846
Repayments of borrowings		(1,027)	(1,494)
Proceeds from sale and finance leaseback of non-current assets		564	83
Net payments for aircraft security deposits and hedges related to debt		(17)	(336)
Dividends paid to non-controlling interests		(1)	–
<b>Net cash provided by/(used in) financing activities</b>		<b>173</b>	<b>(953)</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		<b>173</b>	<b>(581)</b>
Cash and cash equivalents at the beginning of the year		2,829	3,398
Effects of exchange rate changes on cash and cash equivalents		(1)	12
<b>Cash and cash equivalents at the end of the year</b>	10	<b>3,001</b>	<b>2,829</b>

<sup>1</sup> Net receipts/(payments) for aircraft assigned to Jetstar Japan Co. Ltd and Jetstar Hong Kong Airways Limited.

<sup>2</sup> 45,415,538 shares were bought back and cancelled during the year ended 30 June 2014 (2013: 23,377,832 shares).

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 2014

## 1. REPORTING ENTITY

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

The Consolidated Financial Statements for the year ended 30 June 2014 comprise Qantas and its controlled entities (together referred to as the Qantas Group) and the Qantas Group's interest in investments accounted for under the equity method.

Qantas has five subsidiaries that are material to the Qantas Group in 2014 and 2013. The Parent has majority voting rights in respect of each of the material subsidiaries. Materiality has been assessed based on the contribution of statutory (loss)/profit to the Qantas Group.

The Consolidated Financial Statements of Qantas for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the Directors on 3 September 2014.

### (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 (AASB) and with 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 (IASB).

### (B) BASIS OF PREPARATION

The Consolidated Financial Statements are presented in Australian dollars, which is the functional currency of the Qantas Group, and have been prepared on the basis of historical cost except for the following material items in the Consolidated Balance Sheet:

- Derivatives at fair value through profit and loss are measured at fair value
- Assets classified as held for sale are measured at lower of cost and fair value less costs to sell
- Net defined benefit asset/(liability) are measured at fair value of plan assets less the present value of the defined benefit obligation, limited as explained in Note 30

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.

Details of the Qantas Group's accounting policies, including changes during the year are included in Notes 36 and 38.

## 2. 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 Consolidated Financial Statements and estimates with a significant risk of material adjustment in future periods are included in the following notes:

- Note 23 – Impairment of Specific Assets and Cash Generating Units
- Note 30 – Superannuation

## 3. UNDERLYING (LOSS)/PROFIT BEFORE TAX (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 Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group.

The primary reporting measure of the Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight and Jetstar Group 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 Domestic, Qantas International, Qantas Loyalty, Qantas Freight and Jetstar Group operating segments.

Refer to Note 3(D) for a description of Underlying PBT and reconciliation from Statutory (loss)/profit before tax.

**(B) OPERATING SEGMENTS**

The Qantas Group comprises the following operating segments:

**Qantas Brands**

Qantas Domestic, Qantas International, Qantas Loyalty and Qantas Freight operating segments are collectively referred to as Qantas Brands.

To drive business focus, assign accountability and monitor performance, the Qantas Brands operations are managed through four operating segments. In order to set targets and assess the performance, including accountability of the operating segments (as measured by Underlying EBIT), Qantas Domestic and Qantas International report depreciation expense for passenger aircraft and Qantas Freight reports depreciation expense for freighters.

- Qantas Domestic      The Australian domestic passenger flying business of Qantas Brands
- Qantas International      The International passenger flying business of Qantas Brands
- Qantas Loyalty      Operates the Qantas customer loyalty program for Qantas Brands (Qantas Frequent Flyer) as well as other marketing services, loyalty and recognition programs
- Qantas Freight      The air cargo and express freight business of Qantas Brands

**Jetstar Group**

The Jetstar Group comprises those operations of the Qantas Group which are dependent on the Jetstar fleet and the Jetstar Brand being the Jetstar passenger flying businesses (including Jetstar Group's investments in Jetstar branded airlines in Asia).

**Corporate/Unallocated**

Costs associated with the centralised management and governance of the Qantas Group, together with certain items which are not allocated to business segments and other businesses of the Qantas Group which are not considered to be significant reportable segments are reported in the Corporate/Unallocated segment.

**(C) ANALYSIS BY OPERATING SEGMENT<sup>1</sup>**

2014 \$M	Qantas Domestic	Qantas International	Qantas Loyalty	Qantas Freight	Eliminations	Total Qantas Brands	Jetstar Group	Corporate/ Unallocated <sup>2</sup>	Eliminations	Consolidated
<b>REVENUE AND OTHER INCOME</b>										
External segment revenue	5,284	4,658	1,192	1,074	(4)	12,204	3,073	81	(6)	15,352
Inter-segment revenue	564	639	115	10	(1,225)	103	149	(65)	(187)	–
<b>Total segment revenue and other income</b>	<b>5,848</b>	<b>5,297</b>	<b>1,307</b>	<b>1,084</b>	<b>(1,229)</b>	<b>12,307</b>	<b>3,222</b>	<b>16</b>	<b>(193)</b>	<b>15,352</b>
Share of net (loss)/profit of investments accounted for under the equity method	2	2	–	–	–	4	(70)	–	–	(66)
<b>Underlying EBITDAR<sup>3</sup></b>	<b>804</b>	<b>188</b>	<b>293</b>	<b>60</b>	<b>3</b>	<b>1,348</b>	<b>310</b>	<b>(154)</b>	<b>(2)</b>	<b>1,502</b>
Non-cancellable operating lease rentals	(203)	(33)	–	(5)	–	(241)	(279)	–	–	(520)
Depreciation and amortisation	(571)	(652)	(7)	(31)	–	(1,261)	(147)	(14)	–	(1,422)
<b>Underlying EBIT</b>	<b>30</b>	<b>(497)</b>	<b>286</b>	<b>24</b>	<b>3</b>	<b>(154)</b>	<b>(116)</b>	<b>(168)</b>	<b>(2)</b>	<b>(440)</b>
Underlying net finance costs								(206)		(206)
<b>Underlying PBT</b>								<b>(374)</b>		<b>(646)</b>

<sup>1</sup> Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight, Jetstar Group and Corporate/Unallocated are the operating segments of the Qantas Group.

<sup>2</sup> Corporate/Unallocated is the only operating segment with Underlying PBT as the primary reporting measure. The primary reporting measure of other operating segments is Underlying EBIT.

<sup>3</sup> Underlying EBITDAR represents underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 3. UNDERLYING (LOSS)/PROFIT BEFORE TAX (UNDERLYING PBT) AND OPERATING SEGMENTS CONTINUED

### (C) ANALYSIS BY OPERATING SEGMENT<sup>1</sup> continued

2013 Restated <sup>2</sup> \$M	Qantas Domestic	Qantas International	Qantas Loyalty	Qantas Freight	Eliminations	Total Qantas Brands	Jetstar Group	Corporate/ Unallocated <sup>6</sup>	Eliminations	Consolidated
<b>REVENUE AND OTHER INCOME</b>										
External segment revenue <sup>3,4</sup>	5,731	4,821	1,096	1,048	9	12,705	3,129	71	(3)	15,902
Inter-segment revenue	487	675	109	8	(1,167)	112	159	(70)	(201)	–
<b>Total segment revenue and other income</b>	<b>6,218</b>	<b>5,496</b>	<b>1,205</b>	<b>1,056</b>	<b>(1,158)</b>	<b>12,817</b>	<b>3,288</b>	<b>1</b>	<b>(204)</b>	<b>15,902</b>
Share of net (loss)/profit of investments accounted for under the equity method <sup>5</sup>	5	4	–	2	–	11	(50)	–	–	(39)
<b>Underlying EBITDAR<sup>7</sup></b>	<b>1,147</b>	<b>495</b>	<b>263</b>	<b>66</b>	<b>3</b>	<b>1,974</b>	<b>543</b>	<b>(177)</b>	<b>1</b>	<b>2,341</b>
Non-cancellable operating lease rentals	(163)	(68)	–	(5)	–	(236)	(289)	–	–	(525)
Depreciation and amortisation	(619)	(673)	(3)	(25)	–	(1,320)	(116)	(14)	–	(1,450)
<b>Underlying EBIT</b>	<b>365</b>	<b>(246)</b>	<b>260</b>	<b>36</b>	<b>3</b>	<b>418</b>	<b>138</b>	<b>(191)</b>	<b>1</b>	<b>366</b>
Underlying net finance costs								(180)		(180)
<b>Underlying PBT</b>								<b>(371)</b>		<b>186</b>

1 Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight, Jetstar Group and Corporate/Unallocated are the operating segments of the Qantas Group.

2 Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

3 External segment revenue includes the impact of the change in accounting estimates – passenger revenue of \$134 million (Qantas Domestic \$80 million and Qantas International \$54 million).

4 Includes settlement income of \$125 million following the restructure of the Boeing 787 aircraft delivery schedule (reported equally across Qantas Domestic, Qantas International and Jetstar Group).

5 Share of net profit of investments accounted for under the equity method as reported by Qantas Domestic and Qantas International, before rounding is \$4.5 million and \$4.5 million, respectively.

6 Corporate/Unallocated is the only operating segment with Underlying PBT as the primary reporting measure. The primary reporting measure of other segments is Underlying EBIT.

7 Underlying EBITDAR represents Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.

### Basis of Preparation

Underlying EBIT of the Qantas Group's operating segments is prepared and presented on the basis that reflects the revenue earned and the expenses incurred by each operating segment.

All revenues earned and expenses incurred by Qantas Loyalty, Qantas Freight and Jetstar Group are reported directly by these segments. For Qantas Airlines where revenues earned and expenses incurred are directly attributable to either Qantas International or Qantas Domestic they have been reported as such. Where revenues earned and expenses incurred by Qantas Airlines are not individually attributable to either Qantas International or Qantas Domestic, they are reported by these operating segments using an appropriate allocation methodology.

The significant accounting policies applied in implementing this basis of preparation are set out on the following page.

These accounting policies have been consistently applied to all periods presented in the Consolidated Financial Statements.

Segment Performance Measure	Basis of Preparation
External segment revenue	<p>External segment revenue is reported by operating segments as follows:</p> <ul style="list-style-type: none"> <li>– Net passenger revenue is reported by the operating segment which operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process.</li> <li>– Net freight revenue includes air cargo and express freight revenue and is reported by the Qantas Freight operating segment.</li> <li>– Frequent Flyer redemption revenue, marketing revenue, membership fees and other related revenue is reported by the Qantas Loyalty operating segment.</li> <li>– Other revenue is reported by the operating segment that earned the revenue.</li> </ul>
Inter-segment revenue	<p>Inter-segment revenue for Qantas Domestic, Qantas International and Jetstar Group operating segments primarily represents:</p> <ul style="list-style-type: none"> <li>– Net passenger revenue arising from the redemption of frequent flyer points for Qantas Group flights by Qantas Loyalty</li> <li>– Net Freight revenue from the utilisation of Qantas Brands and Jetstar Group's aircraft bellyspace by Qantas Freight</li> </ul> <p>Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of frequent flyer points to Qantas Domestic, Qantas International and Jetstar Group.</p> <p>Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices.</p> <p>Qantas Loyalty does not derive net profit from inter-segment transactions relating to Frequent Flyer point issuances and redemptions.</p>
Share of net (loss)/profit of investments accounted for under the equity method	<p>Share of net (loss)/profit of investments accounted for under the equity method is reported by the operating segment which is accountable for the management of the investment. The share of net (loss)/profit of investments accounted for under the equity method for Qantas Airlines' investments has been equally shared between Qantas Domestic and Qantas International.</p>
Underlying EBITDAR	<p>The significant expenses impacting Underlying EBITDAR are as follows:</p> <ul style="list-style-type: none"> <li>– Manpower and staff related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by Qantas Domestic and Qantas International using an appropriate allocation methodology.</li> <li>– Fuel expenditure is reported by the segment that consumes the fuel in its operations.</li> <li>– Aircraft operating variable costs are reported by the segment that incurs these costs.</li> <li>– All other expenditure is reported by the operating segment to which they are directly attributable or, in the case of Qantas Airlines, between Qantas Domestic and Qantas International using an appropriate allocation methodology. To apply this accounting policy, where necessary expenditure is recharged between operating segments as a cost recovery.</li> </ul>
Depreciation and amortisation	<p>Qantas Domestic, Qantas International and Jetstar Group report depreciation expense for passenger aircraft owned by the Qantas Group and flown by the segment.</p> <p>Qantas Freight reports depreciation expense for freight aircraft owned by the Qantas Group.</p> <p>Other depreciation and amortisation is reported by the segment that uses the related asset.</p>
Non-cancellable aircraft operating lease rentals	<p>Qantas Domestic, Qantas International and Jetstar Group report non-cancellable aircraft operating lease rentals for passenger aircraft externally leased by the Qantas Group and flown by the segment.</p> <p>Qantas Freight reports non-cancellable aircraft operating lease rentals for freighter aircraft externally leased by the Qantas Group.</p>

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 3. UNDERLYING (LOSS)/PROFIT BEFORE TAX (UNDERLYING PBT) AND OPERATING SEGMENTS CONTINUED

### (D) DESCRIPTION OF UNDERLYING PBT AND RECONCILIATION FROM 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 Chief Executive Officer, Group Management 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 before tax 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 revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments and impairments of specific assets or CGUs outside the ordinary course of business.



**(iii) Underlying EBIT**

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

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

	Qantas Group	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>Statutory (loss)/profit before tax</b>	<b>(3,976)</b>	<b>11</b>
<b>Adjusted for ineffectiveness and non-designated derivatives relating to other reporting periods</b>		
– Exclude current year derivative mark-to-market movements relating to underlying exposures in future years	(58)	26
– Exclude current year derivative mark-to-market movements relating to capital expenditure	21	12
– Include prior years' derivative mark-to-market movements relating to underlying exposures in the current year	(27)	(71)
– Include adjustment for implied depreciation expense relating to excluded capital expenditure mark-to-market movements	(6)	(6)
– Exclude ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs	(2)	7
	<b>(72)</b>	<b>(32)</b>
<b>Other items not included in Underlying PBT</b>		
– Impairment of Qantas International CGU	2,560	–
– Redundancies, restructuring and other transformation costs	428	118
– Fleet restructuring costs <sup>2</sup>	394	90
– Net impairment of other intangible assets	9	24
– Net gain on disposal of investments accounted for under the equity method	–	(30)
– Net gain on sale of controlled entity and related assets	(62)	–
– Net impairment of investments	50	(2)
– B787 introduction costs	14	–
– Other	9	7
	<b>3,402</b>	<b>207</b>
<b>Underlying PBT</b>	<b>(646)</b>	<b>186</b>

1 Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

2 Fleet restructuring costs including impairment of aircraft, together with other aircraft associated property, plant and equipment, inventory and other related costs.

**(E) UNDERLYING PBT PER SHARE**

	Qantas Group	
	2014 cents	2013 Restated <sup>1</sup> cents
<b>Basic/diluted Underlying PBT per share</b>	<b>(29.2)</b>	<b>8.3</b>

1 Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

Refer to Note 7 for the weighted average number of shares used in the calculation of basic/diluted Underlying PBT per share.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 3. UNDERLYING (LOSS)/PROFIT BEFORE TAX (UNDERLYING PBT) AND OPERATING SEGMENTS CONTINUED

### (F) ANALYSIS BY GEOGRAPHICAL AREAS

#### (i) Revenue and other income by geographic areas

	Notes	Qantas Group	
		2014 \$M	2013 \$M
<b>Net passenger and freight revenue</b>			
Australia		10,558	10,864
Overseas		3,639	3,744
<b>Total net passenger and freight revenue</b>		<b>14,197</b>	<b>14,608</b>
Other revenue/income	4	1,155	1,294
<b>Total revenue and other income</b>		<b>15,352</b>	<b>15,902</b>

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

#### (ii) Non-current assets by geographic areas

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

## 4. OTHER REVENUE/INCOME AND OTHER EXPENDITURE

	Notes	Qantas Group	
		2014 \$M	2013 \$M
<b>OTHER REVENUE/INCOME</b>			
Frequent Flyer marketing revenue, membership fees and other revenue		300	268
Frequent Flyer store and other redemption revenue <sup>1</sup>		275	257
Contract work revenue		227	296
Retail, advertising and other property revenue		156	148
Other		197	325
<b>Total other revenue/income</b>		<b>1,155</b>	<b>1,294</b>
<b>OTHER EXPENDITURE</b>			
Selling and marketing		636	598
Computer and communication		394	418
Redundancies <sup>2</sup>		370	92
Capacity hire		331	311
Non-aircraft operating lease rentals		238	229
Property		245	261
Airport security charges		161	145
Inventory write-off		61	5
Contract work materials		57	65
Net gain on sale of investments accounted for under the equity method		–	(30)
Ineffective and non-designated derivatives		(8)	76
Net gain on sale of controlled entity	27	(62)	–
Other		426	344
<b>Total other expenditure</b>		<b>2,849</b>	<b>2,514</b>

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

<sup>2</sup> Redundancies include defined benefit curtailment expenses of \$36 million (2013: nil).

## 5. NET FINANCE COSTS

	Qantas Group	
	2014 \$M	2013 \$M
<b>FINANCE INCOME</b>		
Interest income on financial assets measured at amortised cost	73	99
Interest income from investments accounted for under the equity method	6	5
Unwind of discount on receivables	3	5
<b>Total finance income</b>	<b>82</b>	<b>109</b>
<b>FINANCE COSTS</b>		
Interest expense on financial liabilities measured at amortised cost	280	326
<b>Fair value hedges</b>		
Fair value adjustments on hedged items	(10)	(2)
Fair value adjustments on derivatives designated in a fair value hedge	8	3
Interest paid and capitalised on qualifying assets <sup>1</sup>	(34)	(61)
<b>Total finance costs on financial liabilities</b>	<b>244</b>	<b>266</b>
<b>Unwind of discount on provisions and other liabilities</b>		
Employee benefits	27	17
Other provisions and other liabilities	15	13
<b>Total unwind of discount on provisions and other liabilities</b>	<b>42</b>	<b>30</b>
<b>Total finance costs</b>	<b>286</b>	<b>296</b>
<b>Net finance costs</b>	<b>(204)</b>	<b>(187)</b>

1 The borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities being 5.7 per cent (2013: 6.2 per cent).

## 6. INCOME TAX

	Qantas Group	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT</b>		
<b>Current income tax expense</b>		
Current year	–	–
Adjustments for prior year	–	–
	–	–
<b>Deferred income tax expense</b>		
Origination and reversal of temporary differences	(716)	87
Benefit of tax losses recognised	(417)	(78)
	<b>(1,133)</b>	<b>9</b>
<b>Total income tax (benefit)/expense in the Consolidated Income Statement</b>	<b>(1,133)</b>	<b>9</b>

1 Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 6. INCOME TAX CONTINUED

	Qantas Group	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>RECONCILIATION BETWEEN INCOME TAX (BENEFIT)/EXPENSE AND STATUTORY (LOSS)/PROFIT BEFORE INCOME TAX</b>		
<b>Statutory (loss)/profit before income tax (benefit)/expense</b>	<b>(3,976)</b>	<b>11</b>
Income tax (benefit)/expense using the domestic corporate tax rate of 30 per cent	(1,193)	3
<b>Add/(less) adjustments for:</b>		
Non-deductible share of net loss for investments accounted for under the equity method	20	14
Non-deductible foreign branch losses	–	4
Non-deductible losses and derecognition of previously recognised losses	15	–
Utilisation and recognition of previously unrecognised capital losses	–	(5)
Write-down of investments	15	–
Recognition of previously unrecognised deferred tax liability on investments	11	–
Other net non-deductible/(non-assessable) items	8	(4)
Prior period differences	(9)	(3)
<b>Income tax (benefit)/expense</b>	<b>(1,133)</b>	<b>9</b>
<b>RECOGNISED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>		
Cash flow hedges	(86)	35
Defined benefit actuarial gains	46	134
<b>Income tax (benefit)/expense recognised directly in the Consolidated Statement of Comprehensive Income</b>	<b>(40)</b>	<b>169</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

## 7. (LOSS)/EARNINGS PER SHARE

	Qantas Group	
	2014 cents	2013 Restated <sup>1</sup> cents
<b>Basic/diluted (loss)/earnings per share</b>	<b>(128.5)</b>	<b>0.04</b>
	\$M	\$M
<b>Statutory (loss)/profit attributable to members of Qantas</b>	<b>(2,843)</b>	<b>1</b>
	Number M	Number M
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b>		
Issued shares as at 1 July	2,242	2,265
Shares bought back and cancelled	(46)	(23)
<b>Issued shares as at 30 June</b>	<b>2,196</b>	<b>2,242</b>
<b>Weighted average number of shares (basic and diluted) as at 30 June</b>	<b>2,212</b>	<b>2,249</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

## 8. AUDITOR'S REMUNERATION

	Qantas Group	
	2014 \$'000	2013 \$'000
<b>AUDIT AND AUDIT RELATED SERVICES</b>		
Auditors of Qantas – KPMG		
– Audit and review of Financial Report	3,202	3,225
– Other regulatory audit services	44	92
<b>Total audit and audit related services</b>	<b>3,246</b>	<b>3,317</b>
<b>OTHER SERVICES</b>		
Auditors of Qantas – KPMG		
– In relation to other assurance, taxation and due diligence services	778	1,309
– Other non-audit services	34	346
<b>Total other services</b>	<b>812</b>	<b>1,655</b>
<b>Total auditor's remuneration</b>	<b>4,058</b>	<b>4,972</b>

## 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 2014.

For the year ended 30 June 2014, \$1 million dividends (2013: nil) were declared and paid to non-controlling interest shareholders by non-wholly owned controlled entities.

### (B) FRANKING ACCOUNT

	Qantas Group	
	2014 \$M	2013 \$M
<b>Total franking account balance at 30 per cent</b>	<b>84</b>	<b>84</b>

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	
	2014 \$M	2013 \$M
Cash balances	206	265
Cash at call	137	166
Short-term money market securities and term deposits	2,658	2,398
<b>Total cash and cash equivalents</b>	<b>3,001</b>	<b>2,829</b>

Short-term money market securities of \$33 million (2013: \$14 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 2014

## 11. RECEIVABLES

	Qantas Group	
	2014 \$M	2013 \$M
<b>CURRENT</b>		
<b>Trade debtors</b>		
Trade debtors	739	901
Provision for impairment losses	(3)	(3)
	<b>736</b>	<b>898</b>
Sundry debtors	460	538
<b>Total current receivables</b>	<b>1,196</b>	<b>1,436</b>
<b>NON-CURRENT</b>		
Sundry debtors	158	174
<b>Total non-current receivables</b>	<b>158</b>	<b>174</b>
The ageing of trade debtors, net of provision for impairment losses, at 30 June was:		
Not past due	600	753
Past due 1–30 days	48	77
Past due 31–120 days	67	29
Past due 121 days or more	21	39
<b>Total trade debtors</b>	<b>736</b>	<b>898</b>

## 12. INVENTORIES

	Qantas Group	
	2014 \$M	2013 \$M
Engineering expendables	245	301
Consumable stores	52	56
Work in progress	20	7
<b>Total inventories</b>	<b>317</b>	<b>364</b>

## 13. ASSETS CLASSIFIED AS HELD FOR SALE

	Qantas Group	
	2014 \$M	2013 \$M
<b>Assets</b>		
Property, plant and equipment	134	42
<b>Total assets classified as held for sale</b>	<b>134</b>	<b>42</b>

The non-recurring fair value measurement for property, plant and equipment has been categorised under the fair value hierarchy as Level 3 based on the inputs to the valuation technique used. Refer to Note 36 for a definition of the fair value hierarchy.

Remeasurement of assets held for sale down to fair value less costs to sell resulted in an impairment of \$30 million. The fair value less costs to sell for the individual assets was determined with reference to recent sale transactions.

## 14. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	Qantas Group	
	2014 \$M	2013 \$M
<b>Carrying amount of investments accounted for under the equity method</b>	<b>143</b>	<b>190</b>
Share of losses from continuing operations	(66)	(39)
Share of other comprehensive income	1	(1)

## 15. PROPERTY, PLANT AND EQUIPMENT

Qantas Group \$M	2014			2013		
	At Cost	Accumulated Depreciation and Impairment	Net Book Value	At Cost	Accumulated Depreciation and Impairment	Net Book Value
Freehold land	50	–	50	50	–	50
Buildings	305	203	102	317	203	114
Leasehold improvements	1,651	1,067	584	1,695	1,075	620
Plant and equipment	1,481	1,003	478	1,496	960	536
Aircraft and engines	17,131	8,658	8,473	18,486	7,411	11,075
Aircraft spare parts	757	365	392	885	468	417
Aircraft deposits	551	130	421	1,029	14	1,015
<b>Total property, plant and equipment at net book value</b>	<b>21,926</b>	<b>11,426</b>	<b>10,500</b>	<b>23,958</b>	<b>10,131</b>	<b>13,827</b>

Qantas Group 2014 \$M	Opening Net Book Value	Additions <sup>1</sup>	Acquisition of Controlled Entity	Disposals	Transfers <sup>2</sup>	Transferred to Assets Classified as Held for Sale	Depreciation	Impairment	Other <sup>3</sup>	Closing Net Book Value
<b>Reconciliations</b>										
Freehold land	50	–	–	–	–	–	–	–	–	50
Buildings	114	–	–	(3)	5	–	(14)	–	–	102
Leasehold improvements	620	74	–	(40)	(18)	–	(47)	(11)	6	584
Plant and equipment	536	82	–	(38)	–	–	(81)	(24)	3	478
Aircraft and engines <sup>4</sup>	11,075	355	–	(21)	1,065	(141)	(1,161)	(2,696)	(3)	8,473
Aircraft spare parts	417	56	–	(9)	4	(9)	(48)	(11)	(8)	392
Aircraft deposits	1,015	505	–	–	(1,113)	–	–	(116)	130	421
<b>Total property, plant and equipment</b>	<b>13,827</b>	<b>1,072</b>	<b>–</b>	<b>(111)</b>	<b>(57)</b>	<b>(150)</b>	<b>(1,351)</b>	<b>(2,858)</b>	<b>128</b>	<b>10,500</b>

2013  
\$M

<b>Reconciliations</b>										
Freehold land	50	–	–	–	–	–	–	–	–	50
Buildings	126	–	–	–	–	–	(12)	–	–	114
Leasehold improvements	589	107	5	–	(5)	–	(52)	(2)	(22)	620
Plant and equipment	523	85	15	(10)	1	–	(83)	–	5	536
Aircraft and engines <sup>4</sup>	11,278	493	–	(11)	572	(26)	(1,175)	(56)	–	11,075
Aircraft spare parts	442	49	–	(2)	(9)	–	(61)	–	(2)	417
Aircraft deposits	1,131	499	–	(8)	(673)	–	–	(14)	80	1,015
<b>Total property, plant and equipment</b>	<b>14,139</b>	<b>1,233</b>	<b>20</b>	<b>(31)</b>	<b>(114)</b>	<b>(26)</b>	<b>(1,383)</b>	<b>(72)</b>	<b>61</b>	<b>13,827</b>

<sup>1</sup> Additions include capitalised interest of \$34 million (2013: \$61 million).<sup>2</sup> Transfers include transfers between categories of property, plant and equipment and transfers to other balance sheet accounts.<sup>3</sup> Other includes foreign exchange movements and non-cash additions of \$130 million (2013: \$115 million) relating to finance leases (refer to Note 20).<sup>4</sup> Aircraft and engines include finance leased assets with a net book value of \$1,933 million (2013: \$2,875 million).

## 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 \$5,934 million (2013: \$8,582 million).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 16. INTANGIBLE ASSETS

Qantas Group \$M	2014			2013		
	At Cost	Accumulated Depreciation and Impairment	Net Book Value	At Cost	Accumulated Depreciation and Impairment	Net Book Value
Goodwill	195	–	195	197	–	197
Airport landing slots	35	–	35	35	–	35
Software	1,048	573	475	950	512	438
Brand names and trademarks	22	–	22	22	–	22
Customer contracts/relationships	27	13	14	27	5	22
<b>Total intangible assets</b>	<b>1,327</b>	<b>586</b>	<b>741</b>	<b>1,231</b>	<b>517</b>	<b>714</b>

Qantas Group 2014 \$M	Opening Net Book Value	Additions	Acquisition of Controlled Entity	Transfers <sup>1</sup>	Amortisation	Other <sup>2</sup>	Closing Net Book Value
<b>Reconciliations</b>							
Goodwill	197	–	–	–	–	(2)	195
Airport landing slots	35	–	–	–	–	–	35
Software	438	99	–	11	(63)	(10)	475
Brand names and trademarks	22	–	–	–	–	–	22
Customer contracts/relationships	22	–	–	–	(8)	–	14
<b>Total intangible assets</b>	<b>714</b>	<b>99</b>	<b>–</b>	<b>11</b>	<b>(71)</b>	<b>(12)</b>	<b>741</b>

2013  
\$M

<b>Reconciliations</b>							
Goodwill	146	–	49	–	–	2	197
Airport landing slots	35	–	–	–	–	–	35
Software	405	112	8	–	(63)	(24)	438
Brand names and trademarks	20	–	–	–	–	2	22
Customer contracts/relationships	4	–	22	–	(4)	–	22
<b>Total intangible assets</b>	<b>610</b>	<b>112</b>	<b>79</b>	<b>–</b>	<b>(67)</b>	<b>(20)</b>	<b>714</b>

<sup>1</sup> Includes transfers between categories of intangible assets and transfers to other balance sheet accounts.<sup>2</sup> Other includes foreign exchange movements and impairment of intangible assets of \$9 million (2013: \$24 million).

## 17. DEFERRED TAX ASSETS/(LIABILITIES)

	Qantas Group	
	2014 \$M	2013 Restated <sup>1</sup> \$M
Deferred tax assets/(liabilities)	548	(625)
<b>Total deferred tax assets/(liabilities)</b>	<b>548</b>	<b>(625)</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

Qantas Group 2014 \$M	Opening Balance	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Acquisition of Controlled Entity	Closing Balance
<b>Reconciliations</b>					
Inventories	(16)	1	–	–	(15)
Property, plant and equipment and intangible assets	(1,856)	708	–	–	(1,148)
Payables	38	(13)	–	–	25
Revenue received in advance	639	35	–	–	674
Interest-bearing liabilities	(83)	(2)	–	–	(85)
Other financial assets/liabilities	(99)	(32)	86	–	(45)
Provisions	335	14	–	–	349
Other items	(138)	5	(46)	–	(179)
Tax value of recognised tax losses <sup>1</sup>	555	417	–	–	972
<b>Total deferred tax assets/(liabilities)</b>	<b>(625)</b>	<b>1,133</b>	<b>40</b>	<b>–</b>	<b>548</b>

<sup>1</sup> A deferred tax asset of \$548 million has been recognised for income tax losses. Based on management forecast of taxable profit and the reversal of taxable temporary differences the Group considers it probable this deferred tax asset will be recovered.

Qantas Group 2013 \$M	Opening Balance	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Acquisition of Controlled Entity	Closing Balance
<b>Reconciliations</b>					
Inventories	(15)	(1)	–	–	(16)
Property, plant and equipment and intangible assets	(1,797)	(59)	–	–	(1,856)
Payables	48	(10)	–	–	38
Revenue received in advance	619	20	–	–	639
Interest-bearing liabilities	(82)	(1)	–	–	(83)
Other financial assets/liabilities	(35)	(29)	(35)	–	(99)
Provisions	352	(33)	–	16	335
Other items	(31)	26	(134)	1	(138)
Tax value of recognised tax losses	477	78	–	–	555
<b>Total deferred tax assets/(liabilities)</b>	<b>(464)</b>	<b>(9)</b>	<b>(169)</b>	<b>17</b>	<b>(625)</b>

#### UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised with respect to the following items against which the Qantas Group can utilise these benefits:

	Qantas Group	
	2014 \$M	2013 \$M
Tax losses – New Zealand operations	14	17
Tax losses – Singapore operations	25	8
Tax losses – Hong Kong operations	9	7
<b>Total unrecognised deferred tax assets – tax losses</b>	<b>48</b>	<b>32</b>

#### 18. PAYABLES

	Qantas Group	
	2014 \$M	2013 \$M
Trade creditors	613	640
Other creditors and accruals	1,238	1,204
<b>Total payables</b>	<b>1,851</b>	<b>1,844</b>

#### 19. REVENUE RECEIVED IN ADVANCE

	Qantas Group	
	2014 \$M	2013 \$M
<b>CURRENT</b>		
Unavailed passenger revenue	2,487	2,216
Unredeemed Frequent Flyer revenue	897	816
Other revenue received in advance	22	15
<b>Total current revenue received in advance</b>	<b>3,406</b>	<b>3,047</b>
<b>NON-CURRENT</b>		
Unredeemed Frequent Flyer revenue	1,135	1,186
Other revenue received in advance	48	–
<b>Total non-current revenue received in advance</b>	<b>1,183</b>	<b>1,186</b>

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 20. INTEREST-BEARING LIABILITIES

	Qantas Group	
	2014 \$M	2013 \$M
<b>CURRENT</b>		
Bank loans – secured	459	545
Bank loans – unsecured	450	–
Other loans – unsecured	69	47
Lease and hire purchase liabilities – secured (refer to Note 28)	232	243
<b>Total current interest-bearing liabilities</b>	<b>1,210</b>	<b>835</b>
<b>NON-CURRENT</b>		
Bank loans – secured	2,313	2,740
Bank loans – unsecured	546	992
Other loans – unsecured	1,336	880
Lease and hire purchase liabilities – secured (refer to Note 28)	1,078	633
<b>Total non-current interest-bearing liabilities</b>	<b>5,273</b>	<b>5,245</b>

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 15). During the year there were non-cash financing activities relating to additions of property, plant and equipment under finance leases of \$130 million (2013: \$115 million).

## 21. PROVISIONS

	Qantas Group	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>CURRENT</b>		
Employee benefits:		
– Annual leave	259	315
– Long service leave	316	330
– Redundancies and other employee benefits	206	85
<b>Total current employee benefits</b>	<b>781</b>	<b>730</b>
Onerous contracts	23	29
Make good on leased assets	10	10
Insurance, legal and other	62	66
<b>Total other current provisions</b>	<b>95</b>	<b>105</b>
<b>Total current provisions</b>	<b>876</b>	<b>835</b>
<b>NON-CURRENT</b>		
<b>Total non-current employee benefits</b>	<b>61</b>	<b>59</b>
Onerous contracts	3	25
Make good on leased assets	177	120
Insurance, legal and other	164	231
<b>Total other non-current provisions</b>	<b>344</b>	<b>376</b>
<b>Total non-current provisions</b>	<b>405</b>	<b>435</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

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

Qantas Group 2014 \$M	Opening Balance	Provisions Made	Provisions Utilised	Unwind of Discount	Other <sup>1</sup>	Closing Balance	Current	Non- current	Total
<b>Reconciliations</b>									
Onerous contracts	54	6	(35)	1	–	26	23	3	26
Make good on leased assets	130	77	(23)	3	–	187	10	177	187
Insurance, legal and other	297	52	(96)	9	(36)	226	62	164	226
<b>Total</b>	<b>481</b>	<b>135</b>	<b>(154)</b>	<b>13</b>	<b>(36)</b>	<b>439</b>	<b>95</b>	<b>344</b>	<b>439</b>

<sup>1</sup> Other includes transfers to other balance sheet accounts and disposals of controlled entities.

## 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 and onerous customer contracts.

### 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 claims and litigation in the normal course of business.

## 22. CAPITAL AND RESERVES

	Qantas Group	
	2014 \$M	2013 \$M
<b>ISSUED CAPITAL</b>		
Issued and paid-up capital: 2,196,330,250 (2013: 2,241,745,788) ordinary shares, fully paid	<b>4,630</b>	<b>4,693</b>

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 2014, 8,230,499 (2013: 23,055,878) shares were held in trust and classified as treasury shares.

### RESERVES

Employee compensation reserve	32	49
Hedge reserve (refer to Note 25(C))	(72)	123
Foreign currency translation reserve	(41)	(44)
<b>Total reserves</b>	<b>(81)</b>	<b>128</b>

## 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.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 22. CAPITAL AND RESERVES CONTINUED

### 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.

## 23. IMPAIRMENT OF SPECIFIC ASSETS AND CASH GENERATING UNITS

### Impairment of Specific Assets

As part of the Accelerated Qantas Transformation program, the Group has performed a detailed review of its fleet and network including accelerating the retirement of legacy fleet. This Program has resulted in specific impairments of \$328 million relating to property, plant and equipment being classified as held for sale and impaired to their fair value less costs to sell. These impairments primarily relate to accelerated retirement of the non-reconfigured B747-400, B767-300 and B737-400 fleet and other property, plant and equipment associated with these fleet types. Impairment of other specific assets (investments and intangible assets) amounted to \$59 million.

### Impairment of Cash Generating Units

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

At the Board meeting on 28 August 2014, the Group concluded its Structural Review, the commencement of which was announced on 5 December 2013 and was ongoing as at 30 June 2014. As a result of the Board's decision to create a new holding structure and corporate entity for Qantas International to increase the potential for future external investment and create long-term options for Qantas International to participate in partnership and consolidation opportunities, the Qantas Brands CGU is required to be separated into individual CGUs for Qantas International, Qantas Domestic, Qantas Freight and Qantas Loyalty for the purpose of assessing the carrying value of the Group's assets. This constitutes an adjusting subsequent event.

The recoverable amounts of CGUs were determined based on their value in use. While there are significant surpluses in Qantas Loyalty, Qantas Domestic and Qantas Freight CGUs, impairment of \$2,560 million arose in the stand-alone Qantas International CGU in respect of aircraft and engines. In allocating the impairment to individual aircraft assets their recoverable amount was not reduced below their fair value less costs to sell. The size of the impairment loss recognised is largely the result of wide body aircraft being purchased through a period where the Australian dollar was significantly weaker against the US dollar compared to recent years.

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

Assumption	How determined
<b>Cash Flows</b>	<p>Cash flows were projected based on the Financial Plan covering a three year period. Cash flows to determine a terminal value were extrapolated using a constant growth rate of 2.5 per cent per annum, which does not exceed the long-term average growth rate for the industry.</p> <p>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.</p>
<b>Discount Rate</b>	A pre-tax discount rate of 10.5 per cent per annum has been used in discounting the projected cash flows of the CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2013: 10.5 per cent per annum). The discount rate is based on the risk-free rate for 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.
<b>Fuel</b>	The fuel into-plane price is assumed to be US\$128 per barrel (2013: US\$127) and was set with regard to the forward fuel curve and commodity analyst expectations.
<b>Currency</b>	The US\$:A\$ exchange rate is assumed to be \$0.92 (2013: \$0.96).

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

	Qantas Group	
	2014 \$M	2013 \$M
<b>Goodwill</b>		
Qantas Domestic	10	10
Qantas Loyalty	5	5
Qantas Freight	49	51
Jetstar Group	131	131
	<b>195</b>	<b>197</b>
<b>Other intangible assets with indefinite useful lives</b>		
Qantas International	35	35
Jetstar Group	22	22
	<b>57</b>	<b>57</b>

## 24. SHARE-BASED PAYMENTS

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 44 to 64.

The total equity settled share-based payment expense for the year was \$12 million (2013: \$20 million). The total cash settled share-based payment expense for the year was \$nil (2013: \$1 million).

### (A) LONG TERM INCENTIVE PLAN (LTIP)

Generally, participation in the LTIP is limited to Senior Executives of the Qantas Group in key roles or other participants who have been identified as high potential Executives. All Rights are redeemable on a one-for-one basis for Qantas shares, subject to the achievement of performance hurdles. Dividends are not payable on the Rights. For more information on the operation of the LTIP, see pages 55 to 56.

Performance Rights reconciliation	Number of Rights	
	2014	2013
Rights outstanding as at 1 July	28,174,047	18,631,168
Rights granted	13,790,000	15,969,000
Rights forfeited	(4,571,000)	(2,066,000)
Rights lapsed	(3,755,000)	(4,343,801)
Rights exercised	(58,615)	(16,320)
<b>Rights outstanding as at 30 June</b>	<b>33,579,432</b>	<b>28,174,047</b>
<b>Rights exercisable as at 30 June</b>	<b>216,432</b>	<b>275,047</b>

During the year, 13,790,000 Rights were granted on 18 October 2013 (2013: 15,640,000 Rights were granted on 2 November 2012 and 329,000 Rights were granted on 13 June 2013). 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 2014 were tested as at 30 June 2014. As a result, 7,014,000 Rights from the 2012–2014 LTIP award will lapse subsequent to 30 June 2014.

During the year, 58,615 Rights were exercised (2013: 16,320).

At 30 June 2014, 14,860 Rights are available to be exercised at the request of the Executive under the 2004/05 Performance Rights Plan (2004/05 PRP), 44,682 Rights under the 2005/2006 award and a further 156,890 Rights under the 2006/2007 award (2013: 23,590 Rights under the 2004/2005 award, 63,246 Rights under 2005/2006 award and 188,211 Rights under the 2006/2007 award).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 24. SHARE-BASED PAYMENTS CONTINUED

### FAIR VALUE CALCULATION

The estimated value of Rights granted was determined at grant date using a Monte Carlo model.

The weighted average fair value of Rights granted during the year was \$0.83 (2013: \$0.88).

Inputs into the models	2014	2013	
	18 October 2013	13 June 2013	2 November 2012
Weighted average share value	\$1.43	\$1.36	\$1.30
Expected volatility	35%	35%	40%
Dividend yield	1.5%	2.5%	0.5%
Risk-free interest rate	2.9%	2.6%	2.6%

The expected volatility for the 2012–2014 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 of Qantas shares were made under the STIP during the year ended 30 June 2014:

	2014		2013	
	Number of Shares	Weighted Average Fair Value \$	Number of Shares	Weighted Average Fair Value \$
Shares granted				
2013/14 STIP shares granted – 6 September 2013	794,470	1.36	–	–
2011/12 STIP shares granted – 22 August 2012	–	–	438,243	1.17

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 two year restriction period. For further detail on the operation of the STIP, see pages 51 to 55.

### (C) MANAGER INCENTIVE PLAN (MIP)

There were no awards of Qantas shares made under the MIP during the year ended 30 June 2014.

	2014		2013	
	Number of Shares	Weighted Average Fair Value \$	Number of Shares	Weighted Average Fair Value \$
2013/14 MIP shares granted	–	–	–	–
2011/12 MIP shares granted	–	–	12,152,320	1.17

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.

## 25. DERIVATIVES AND HEDGING INSTRUMENTS

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

### (A) OTHER FINANCIAL ASSETS AND LIABILITIES

	Qantas Group	
	2014 \$M	2013 \$M
<b>NET OTHER FINANCIAL ASSETS/(LIABILITIES)</b>		
<b>Derivatives</b>		
Designated as cash flow hedges	(98)	48
Designated as fair value hedges	(10)	(20)
De-designated derivatives	(7)	3
Not qualifying for hedge accounting (including time value of options)	73	36
<b>Net other financial assets/(liabilities)</b>	<b>(42)</b>	<b>67</b>
<b>Net other financial assets/(liabilities) included in the Consolidated Balance Sheet</b>		
Other financial assets – current	172	180
Other financial assets – non-current	34	27
Other financial liabilities – current	(182)	(86)
Other financial liabilities – non-current	(66)	(54)
<b>Net other financial assets/(liabilities)</b>	<b>(42)</b>	<b>67</b>

### (B) OFFSETTING OTHER FINANCIAL ASSETS AND LIABILITIES

The Group enters into contractual arrangements such as the International Swaps and Derivatives Association (ISDA) Master Agreement where, upon the occurrence of a credit event (such as default) a termination value is calculated and only a single net amount is payable in settlement of all transactions that are capable of offset under the contractual terms.

The ISDA agreements do not meet the criteria for offsetting in the Consolidated Balance Sheet. This is because the Group does not have any current legal enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events.

The following table sets out the carrying amounts of recognised financial assets and liabilities that are subject to the above agreements.

Qantas Group \$M	2014			2013		
	Amounts Presented in the Consolidated Balance Sheet	Amounts Subject to Netting	Net Amount	Amounts Presented in the Consolidated Balance Sheet	Amounts Subject to Netting	Net Amount
<b>Financial assets</b>						
Other financial assets	206	(114)	92	207	(61)	146
<b>Financial liabilities</b>						
Other financial liabilities	(248)	114	(134)	(140)	61	(79)
<b>Total</b>	<b>(42)</b>	<b>–</b>	<b>(42)</b>	<b>67</b>	<b>–</b>	<b>67</b>

### (C) HEDGE RESERVE

At 30 June 2014, 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)

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 25. DERIVATIVES AND HEDGING INSTRUMENTS CONTINUED

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 36(C). The periods in which the related cash flows are expected to occur are summarised below:

Qantas Group 2014 \$M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
<b>Contracts to hedge</b>				
Future foreign currency receipts and payments	(47)	(2)	–	(49)
Future aviation fuel payments	(1)	–	–	(1)
Future interest payments	(12)	(28)	(5)	(45)
Future capital expenditure payments	(8)	–	–	(8)
	<b>(68)</b>	<b>(30)</b>	<b>(5)</b>	<b>(103)</b>
Tax effect				31
<b>Total net loss included within hedge reserve</b>				<b>(72)</b>

2013 \$M				
<b>Contracts to hedge</b>				
Future foreign currency receipts and payments	132	51	–	183
Future aviation fuel payments	(1)	–	–	(1)
Future interest payments	(8)	(29)	(6)	(43)
Future capital expenditure payments	23	14	–	37
	<b>146</b>	<b>36</b>	<b>(6)</b>	<b>176</b>
Tax effect				(53)
<b>Total net gain included within hedge reserve</b>				<b>123</b>

### (D) 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 liabilities are recognised immediately in the Consolidated Income Statement for the financial period as it does not form part of a hedging relationship.

	Qantas Group	
	2014 \$M	2013 \$M
<b>INEFFECTIVE AND NON-DESIGNATED DERIVATIVES</b>		
Ineffective portion of cash flow hedges	110	(5)
Components of derivatives not hedge accounted (including time value of options)	(102)	(71)
<b>Ineffective and non-designated derivatives expense</b>	<b>8</b>	<b>(76)</b>

## 26. NOTES TO THE CASH FLOW STATEMENT

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

	Qantas Group	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>Statutory (loss)/profit for the year</b>	<b>(2,843)</b>	<b>2</b>
Adjustments for:		
Depreciation and amortisation	1,422	1,450
Share-based payments	12	20
Impairment of specific assets	387	115
Impairment of cash generating unit	2,560	–
Net gain on disposal of investments accounted for under the equity method	–	(30)
Net (gain)/loss on disposal of property, plant and equipment	1	(1)
Net gain on disposal of controlled entities	(62)	–
Changes in fair value of financial instruments	(109)	68
Amortisation of deferred financing fees	24	26
Amortisation of deferred lease benefits	(6)	(7)
Interest payments on liabilities held at fair value	(27)	(56)
Realised hedging gains on operating cash flows	(22)	(87)
Share of net loss of investments accounted for under the equity method	66	39
Dividends received from investments accounted for under the equity method	4	142
Inventory write off	61	5
Other items	32	13
Movements in operating assets and liabilities:		
– Change in receivables	274	(18)
– Change in inventories	(28)	5
– Change in other assets	35	34
– Change in payables	17	(41)
– Change in revenue received in advance	360	(88)
– Change in provisions	46	(173)
– Change in tax provision	(2)	–
– Change in deferred tax assets/(liabilities)	(1,133)	(1)
<b>Net cash from operating activities</b>	<b>1,069</b>	<b>1,417</b>

1 Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 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	
	2014 \$M	2013 \$M
<b>FINANCING FACILITIES</b>		
<b>Committed bank overdraft</b>		
Facility available	7	7
Amount of facility used	–	–
<b>Amount of facility unused</b>	<b>7</b>	<b>7</b>
<b>Committed secured funding</b>		
Facility available	500	52
Amount of facility used	–	–
<b>Amount of facility unused</b>	<b>500</b>	<b>52</b>
<b>Committed revolving facility<sup>1</sup></b>		
Facility available	630	630
Amount of facility used	–	–
<b>Amount of facility unused</b>	<b>630</b>	<b>630</b>
<b>Commercial paper and medium-term notes (subject to Dealer Panel participation)</b>		
Facility available	1,000	1,000
Amount of facility used	(950)	(250)
<b>Amount of facility unused</b>	<b>50</b>	<b>750</b>

<sup>1</sup> The revolving facility includes \$400 million with a term of three years from 5 October 2012 and \$230 million with a term of four years from 26 April 2013.

The bank overdraft facility 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. This facility may be terminated without notice.

## 27. DISPOSAL OF CONTROLLED ENTITIES

### DISPOSAL OF QANTAS DEFENCE SERVICES PTY LTD

On 28 February 2014, Qantas sold its wholly owned subsidiary Qantas Defence Services Pty Limited (QDS) and related assets to Northrop Grumman Australia, part of global aviation firm Northrop Grumman Corporation. The Group received cash of \$80 million and recognised a gain on sale of \$62 million during the year ended 30 June 2014 for the business and other related assets.

## 28. COMMITMENTS

### (A) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	Qantas Group	
	2014 \$M	2013 \$M
<b>AS LESSEE</b>		
<b>Finance lease and hire purchase liabilities included in the Consolidated Financial Statements</b>		
<b>Aircraft and engines – payable:</b>		
Not later than one year	262	257
Later than one year but not later than five years	402	345
Later than five years	946	439
	<b>1,610</b>	<b>1,041</b>
Less: future lease and hire purchase finance charges and deferred lease benefits	(300)	(165)
<b>Total finance lease and hire purchase liabilities</b>	<b>1,310</b>	<b>876</b>

	Qantas Group	
	2014 \$M	2013 \$M
<b>Finance lease and hire purchase liabilities included in the Consolidated Financial Statements</b>		
Current liabilities (refer to Note 20)	232	243
Non-current liabilities (refer to Note 20)	1,078	633
<b>Total finance lease and hire purchase liabilities</b>	<b>1,310</b>	<b>876</b>

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

	Qantas Group	
	2014 \$M	2013 \$M
<b>AS LESSEE</b>		
<b>Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements</b>		
<b>Aircraft and engines – payable:</b>		
No later than one year	456	505
Later than one year but not later than five years	930	1,250
Later than five years	140	227
	<b>1,526</b>	<b>1,982</b>
<b>Non-aircraft – payable:</b>		
No later than one year	200	195
Later than one year but not later than five years	598	577
Later than five years but not later than 10 years	246	285
Later than 10 years	259	249
	<b>1,303</b>	<b>1,306</b>
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	(4)	(4)
	<b>1,299</b>	<b>1,302</b>
	<b>2,825</b>	<b>3,284</b>

#### (C) CAPITAL EXPENDITURE COMMITMENTS

	Qantas Group	
	2014 \$M	2013 \$M
<b>Capital expenditure commitments contracted but not provided for in the Consolidated Financial Statements, payable, in relation to:</b>		
No later than one year	700	1,097
Later than one year but not later than five years	3,305	4,618
Later than five years	4,627	3,444
	<b>8,632</b>	<b>9,159</b>

The Qantas Group has certain rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure. The Qantas Group also has the opportunity to assign ordered aircraft to its investments accounted for under the equity method.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 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.

### GUARANTEES

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

### 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 counterparties that have a minimum credit rating of A-/A3, the Qantas Group may be required to make payment under these guarantees.

### LITIGATION

#### 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.

#### Other Claims and Litigation

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

## 30. SUPERANNUATION

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

The Qantas Group makes contributions to defined benefit plans that provide defined benefit amounts for employees upon retirement. Under the plans, employees are entitled to retirement benefits determined, at least in part, by reference to a formula based on years of membership and salary levels.

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

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

- Investment risk: historically the investment strategy of the QSP's defined benefit plan was to invest in a significant proportion of growth assets to match the growth in the plan liabilities. If the plan assets underperform by more than expected, the Group may be required to provide additional funding to the plan. In April 2013, Qantas and the Trustee of the QSP adopted a plan to progressively de-risk the defined benefit investment portfolio as the plan's funding position improves over time.
- Interest rate risk: changes in bond yields, such as a decrease in State Government Bond yields will increase defined benefit liabilities through the discount rate assumed.
- Inflation risk: the defined benefit liabilities are linked to salary inflation, and higher inflation will lead to higher liabilities.

### (A) FUNDING

Employer contributions to the defined benefit plans are based on recommendations by the plans' actuaries. It is estimated that \$98 million of normal employer contributions will be paid by the Qantas Group to its defined benefit plans in 2014/2015.

In May 2013, a revised additional funding plan (effective from 1 July 2013), which addresses the requirements of APRA Prudential Standards, was agreed with the Trustee of the QSP. The determination of Qantas' additional employer contributions under the funding plan is triggered where the Defined Benefit Vested Benefits Index (DB VBI) is below 100 per cent. The DB VBI is the ratio of the QSP's assets attributable to the defined benefit liabilities to the total defined benefit amount that the QSP would be required to pay if all members were to voluntarily leave the plan on the funding valuation date. The additional funding plan also triggers further contributions being made where the amount of any retrenchment benefit paid from the plan is in excess of the funded benefit at the time of payment. Qantas contributed an additional \$8 million to the QSP during the year ended 30 June 2014 (2013: \$35 million).

The QSP's financial position is monitored by the Trustee each quarter. The actuary recommends the amounts of additional contributions to be made each quarter, as required under the agreed additional funding plan.

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

The following table shows a reconciliation of the defined benefit (asset)/liability.

	Qantas Group					
	Present Value of Obligation \$M		Fair Value of Plan Assets \$M		Net Defined Benefit (Asset)/ Liability \$M	
	2014	2013	2014	2013	2014	2013
<b>Balance as at 1 July</b>	<b>2,223</b>	<b>2,390</b>	<b>(2,339)</b>	<b>(2,082)</b>	<b>(116)</b>	<b>308</b>
<b>Included in the Consolidated Income Statement</b>						
Current service cost	140	159	–	–	140	159
Past service cost	36 <sup>1</sup>	–	–	–	36	–
Interest expense/(income)	117	107	(118)	(92)	(1)	15
Contributions by plan participants	–	–	(23)	(25)	(23)	(25)
<b>Total amount included in manpower and staff related expenditure</b>	<b>293</b>	<b>266</b>	<b>(141)</b>	<b>(117)</b>	<b>152</b>	<b>149</b>
<b>Included in the Consolidated Statement of Comprehensive Income</b>						
Remeasurements:						
– Return on plan assets, excluding interest income	–	–	(101)	(157)	(101)	(157)
– (Gain)/loss from change in demographic assumptions	(34)	–	–	–	(34)	–
– (Gain)/loss from change in financial assumptions	51	(235)	–	–	51	(235)
– Experience (gains)/losses	(76)	(54)	–	–	(76)	(54)
Exchange differences on foreign plans	7	12	(6)	(11)	1	1
<b>Total amount recognised in other comprehensive income</b>	<b>(52)</b>	<b>(277)</b>	<b>(107)</b>	<b>(168)</b>	<b>(159)</b>	<b>(445)</b>
Contributions by employer	–	–	(110)	(135)	(110)	(135)
Benefit payments	(292)	(213)	292	213	–	–
Liabilities/(assets) acquired in a business combination	–	57	–	(50)	–	7
<b>Balance as at 30 June</b>	<b>2,172</b>	<b>2,223</b>	<b>(2,405)</b>	<b>(2,339)</b>	<b>(233)</b>	<b>(116)</b>

<sup>1</sup> Past service cost of \$36 million for defined benefit curtailment expenses relates to a significant reduction in employees covered by the QSP's defined benefit plan as a result of transformation initiatives.

**(C) PLAN ASSETS**

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

	Qantas Group	
	2014 %	2013 %
Australian equity <sup>1</sup>	18	21
Global equity <sup>1</sup>		
– United States	11	9
– Europe	9	8
– Japan	2	2
– Other	7	7
Private equity	5	4
Fixed interest <sup>1</sup>		
– Government bonds	12	9
– Other	7	9
Credit <sup>1</sup>		
– Corporate debt	7	10
– Other	2	1
Hedge funds	10	1
Property and infrastructure	9	9
Cash and cash equivalents <sup>1</sup>	1	7
Derivatives <sup>1</sup>	–	3
	<b>100</b>	<b>100</b>

<sup>1</sup> Majority of these plan assets have a quoted market price in an active market.

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 30. SUPERANNUATION CONTINUED

### (D) ACTUARIAL ASSUMPTIONS AND SENSITIVITY

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

	Qantas Group	
	2014 %	2013 %
Discount rate (Australia)	4.4	5.2
Future salary increases (Australia)	3.0 <sup>1</sup>	3.0

<sup>1</sup> Nil salary increase in year 2 and year 3 and three per cent in all other years for the remaining duration of the Plan.

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.

The weighted average duration of the QSP's defined benefit obligation as at 30 June 2014 was 12.6 years (2013: 12.6 years).

The sensitivity of the defined benefit obligation to changes in the significant assumption as at 30 June 2014 is as follows:

	Change in Assumption	Impact on Defined Benefit Obligation	
		Increase in Assumption	Decrease in Assumption
Discount rate	1%	Decrease by 11.5%	Increase by 11.6%
Future salary increase	1%	Increase by 10.3%	Decrease by 10.7%

### Defined contribution fund

The Qantas Group's results include \$173 million (2013: \$165 million) of expenses in relation to defined contribution funds.

## 31. RELATED PARTIES

### (A) REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

	Qantas Group	
	2014 \$'000	2013 \$'000
Short-term employee benefits	9,129	11,344
Post-employment benefits	522	463
Other long-term benefits	(285)	118
Share-based payments	4,421	4,974
	<b>13,787</b>	<b>16,899</b>

Further details in relation to the remuneration of KMPs is included in the Directors' Report from pages 44 to 64.

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

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

Transactions between the Qantas Group and associates include:

- The Qantas Group provides airline seats on domestic and international routes to Helloworld Ltd for sale through its travel agency network
- The Qantas Group sells Frequent Flyer points to Helloworld Ltd and redeems vouchers on the Qantas Frequent Flyer store
- The Qantas Group provides aircraft sourcing for Jetstar Japan Co. Ltd. and Jetstar Hong Kong Airways Limited
- The Qantas Group established a business service agreement with Jetstar branded airlines in Japan, Hong Kong and Vietnam for the provision of business services to enable the low cost airline to operate a consistent customer experience for the Jetstar brand

Transactions and balances with investments accounted for under the equity method are included in the Consolidated Financial Statements as follows:

	Qantas Group	
	2014 \$M	2013 \$M
Revenue and other income	61	56
Finance income	6	5
Expenditure	49	71
Receivables	292	314
Payables	5	11

## 32. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) (Class Order), the wholly owned entities identified below are relieved from the Corporations Act requirements for preparation, audit, distribution and lodgement of Financial Statements and Directors' Reports.

AAL Aviation Limited	Network Aviation Holdings Pty Ltd	Qantas Group Flight Training Pty Limited
Airlink Pty Limited	Network Aviation Pty Ltd	Qantas Group Flight Training (Australia) Pty Limited
Australian Air Express Pty Ltd	Network Holding Investments Pty Ltd	Qantas Information Technology Ltd
Australian Airlines Limited	Network Turbine Solutions Pty Ltd	Qantas Road Express Pty Limited
Australian Regional Airlines Pty. Ltd.	Osnet Jets Pty Ltd	QF Cabin Crew Australia Pty Limited
Eastern Australia Airlines Pty. Limited	Q Catering Limited	Regional Airlines Charter Pty Limited
Express Freighters Australia Pty Limited	Q H Tours Ltd	Second Brisbane Airport Proprietary Limited
Express Freighters Australia (Operations) Pty Limited	Qantas Asia Investment Company Pty Ltd	Snap Fresh Pty Limited
First Brisbane Airport Proprietary Limited	Qantas Catering Group Limited	Southern Australia Airlines Pty Ltd
Impulse Airlines Australia Pty Ltd	Qantas Courier Limited	Sunstate Airlines (Qld) Pty. Limited
Impulse Airlines Holdings Proprietary Limited	Qantas Defence Services Pty Limited*	TAA Aviation Pty. Ltd.
Jetstar Airways Pty Limited	Qantas Domestic Pty Limited	The Network Holding Trust
Jetstar Asia Holdings Pty Limited	Qantas Freight Enterprises Limited	The Network Trust
Jetstar Group Pty Limited	Qantas Frequent Flyer Limited	Wishlist Holdings Limited
Jetstar Services Pty Limited	Qantas Frequent Flyer Operations Pty Limited	
Loyalty Magic Pty. Ltd	Qantas Ground Services Pty Limited	

\* Qantas Defence Services Pty Limited ceased to be wholly owned on 28 February 2014.

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, 13 October 2011 and 20 November 2012.

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 that are not party to the Deed are carried at cost less any accumulated impairment
- Dividends received from investments are recognised as income

	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>CONDENSED INCOME STATEMENT</b>		
<b>Statutory (loss)/profit before income tax expense</b>	<b>(3,851)</b>	<b>195</b>
Income tax (expense)/benefit	1,049	(9)
<b>Statutory (loss)/profit for the year</b>	<b>(2,802)</b>	<b>186</b>
Retained earnings as at 1 July	1,139	638
Defined benefit actuarial gains, net of tax	113	311
Shares unvested and lapsed	2	4
<b>Retained earnings as at 30 June</b>	<b>(1,548)</b>	<b>1,139</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 32. DEED OF CROSS GUARANTEE CONTINUED

	Consolidated		
	2014 \$M	2013 Restated <sup>1</sup> \$M	2012 Restated <sup>1</sup> \$M
<b>BALANCE SHEET</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2,899	2,693	3,178
Receivables	1,526	1,776	1,229
Other financial assets	172	180	88
Inventories	317	364	376
Assets classified as held for sale	134	42	73
Other	104	101	106
<b>Total current assets</b>	<b>5,152</b>	<b>5,156</b>	<b>5,050</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	1,743	1,891	2,307
Other financial assets	34	27	17
Investments	430	400	696
Property, plant and equipment	10,447	13,776	14,089
Intangible assets	654	637	544
Deferred tax asset	461	–	–
Other	239	116	–
<b>Total non-current assets</b>	<b>14,008</b>	<b>16,847</b>	<b>17,653</b>
<b>Total assets</b>	<b>19,160</b>	<b>22,003</b>	<b>22,703</b>
<b>CURRENT LIABILITIES</b>			
Payables	1,898	1,922	1,861
Revenue received in advance	3,330	2,959	3,106
Interest-bearing liabilities	1,389	1,020	1,294
Other financial liabilities	182	86	369
Provisions	854	817	838
Liabilities classified as held for sale	–	–	12
<b>Total current liabilities</b>	<b>7,653</b>	<b>6,804</b>	<b>7,480</b>
<b>NON-CURRENT LIABILITIES</b>			
Revenue received in advance	1,183	1,186	1,136
Interest-bearing liabilities	6,852	6,956	7,254
Other financial liabilities	66	54	224
Provisions	380	413	723
Deferred tax liabilities	–	629	474
<b>Total non-current liabilities</b>	<b>8,481</b>	<b>9,238</b>	<b>9,811</b>
<b>Total liabilities</b>	<b>16,134</b>	<b>16,042</b>	<b>17,291</b>
<b>Net assets</b>	<b>3,026</b>	<b>5,961</b>	<b>5,412</b>
<b>EQUITY</b>			
Issued capital	4,630	4,693	4,729
Treasury shares	(16)	(43)	(42)
Reserves	(40)	172	87
Retained earnings	(1,548)	1,139	638
<b>Total equity</b>	<b>3,026</b>	<b>5,961</b>	<b>5,412</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

### 33. 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 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 2014 \$M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
<b>FINANCIAL LIABILITIES</b>				
Trade creditors	613	–	–	<b>613</b>
Bank loans – secured <sup>1</sup>	556	1,616	1,039	<b>3,211</b>
Bank loans – unsecured <sup>1</sup>	486	611	–	<b>1,097</b>
Other loans – unsecured <sup>1</sup>	168	693	1,096	<b>1,957</b>
Lease and hire purchase liabilities <sup>1</sup>	262	402	946	<b>1,610</b>
Derivatives – inflows	(122)	(409)	(19)	<b>(550)</b>
Derivatives – outflows	152	459	29	<b>640</b>
Net other financial assets/liabilities – outflows	(14)	(8)	–	<b>(22)</b>
<b>Total financial liabilities</b>	<b>2,101</b>	<b>3,364</b>	<b>3,091</b>	<b>8,556</b>

2013 \$M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
<b>FINANCIAL LIABILITIES</b>				
Trade creditors	640	–	–	<b>640</b>
Bank loans – secured <sup>1</sup>	663	1,787	1,400	<b>3,850</b>
Bank loans – unsecured <sup>1</sup>	50	1,107	–	<b>1,157</b>
Other loans – unsecured <sup>1</sup>	107	767	283	<b>1,157</b>
Lease and hire purchase liabilities <sup>1</sup>	257	345	439	<b>1,041</b>
Derivatives – inflows	(186)	(846)	(27)	<b>(1,059)</b>
Derivatives – outflows	223	928	44	<b>1,195</b>
Net other financial assets/liabilities – outflows	(127)	(14)	–	<b>(141)</b>
<b>Total financial liabilities</b>	<b>1,627</b>	<b>4,074</b>	<b>2,139</b>	<b>7,840</b>

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 33. FINANCIAL RISK MANAGEMENT CONTINUED

### (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.

#### (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 using a floating versus fixed rate debt framework. The relative mix of fixed and floating interest rate funding is managed by using interest rate swaps, forward rate agreements and options.

For the year ended 30 June 2014, interest-bearing liabilities amounted to \$6,483 million (2013: \$6,080 million). The fixed/floating split is 31 per cent and 69 per cent respectively (2013: 19 per cent and 81 per cent).

For the year ended 30 June 2014, other financial assets and liabilities included derivative financial instruments relating to debt obligations and future interest payments totalling \$64 million (liability) (2013: \$74 million (liability)). Of these amounts, the derivatives relating to recognised debt obligations total \$7 million (liability) (2013: \$4 million (asset)).

#### (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.

As at 30 June 2014, total unrealised exchange gains on hedges of net revenue designated to service long-term debt were \$54 million (2013: \$115 million).

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.

For the year ended 30 June 2014, other financial assets and liabilities included derivative financial instruments used to hedge foreign currency, including hedging of future capital and operating expenditure payments, totalling \$98 million (net liability) (2013: \$124 million (net asset)). 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. Fuel consumption out to two years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board. For the year ended 30 June 2014, other financial assets and liabilities include fuel derivatives totalling \$120 million (asset) (2013: \$17 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 (2013: 100 basis points) increase and decrease in all relevant interest rates
- 20 per cent (2013: 20 per cent) USD depreciation and USD appreciation
- 20 per cent (2013: 20 per cent) increase and decrease in all relevant fuel indices
- Sensitivity analysis assumes hedge designations as at 30 June 2014 remain unchanged and that all designations are effective
- 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

Qantas Group \$M	Profit Before Tax		Equity (Before Tax)	
	2014	2013	2014	2013
<b>100bps increase in interest rates</b>				
Variable rate interest-bearing instruments (net of cash)	(18)	(25)	–	–
Derivatives designated in a cash flow hedge relationship	–	–	25	30
Derivatives and fixed rate debt in a fair value hedge relationship	–	(14)	–	–
<b>100bps decrease in interest rates</b>				
Variable rate interest-bearing instruments (net of cash)	18	25	–	–
Derivatives designated in a cash flow hedge relationship	–	–	(26)	(32)
Derivatives and fixed rate debt in a fair value hedge relationship	–	15	–	–
<b>20% movement in foreign currency pairs</b>				
20% (2013: 20%) USD depreciation	(26)	(101)	(452)	(350)
20% (2013: 20%) USD appreciation	19	101	845	728
<b>20% movement in fuel indices</b>				
20% (2013: 20%) increase per barrel in fuel indices	(51)	60	466	200
20% (2013: 20%) decrease per barrel in fuel indices	(80)	(70)	(122)	(51)

### (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 2014 trade debtors amounted to \$736 million (2013: \$898 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 2014:

		Qantas Group	
	Notes	2014 \$M	2013 \$M
On Consolidated Balance Sheet			
Cash and cash equivalents	10	3,001	2,829
Trade debtors	11	736	898
Sundry debtors	11	618	712
Other financial assets	25	206	207

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 2014, the credit risk of the Qantas Group to counterparties in relation to other financial assets, cash and cash equivalents, and other financial liabilities amounted to \$3,057 million (2013: \$3,037 million). Refer to Note 25(B) for offsetting disclosures of contractual arrangements. Excluding receivables from investments accounted for under the equity method of \$292 million (refer to Note 31), the Qantas Group's credit exposure is with counterparties that have a minimum credit rating of A–/A3, unless individually approved by the Board.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 33. FINANCIAL RISK MANAGEMENT CONTINUED

### (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. Refer to Note 36 for a definition of the fair value hierarchy.

		2014		2013	
Qantas Group \$M	Notes	Carrying Amount	Fair Value Total	Carrying Amount	Fair Value Total
<b>Financial assets</b>					
Cash and cash equivalents	10	3,001	3,011	2,829	2,837
Trade debtors	11	736	736	898	898
Sundry debtors	11	618	618	712	712
Other financial assets <sup>1</sup>	25	206	206	207	207
<b>Financial liabilities</b>					
Trade creditors	18	613	613	640	640
Other creditors and accruals	18	1,238	1,238	1,204	1,204
Bank loans – secured	20	2,772	2,608	3,285	3,393
Bank loans – unsecured	20	996	1,022	992	1,056
Other loans – unsecured	20	1,405	1,469	927	1,065
Other financial liabilities <sup>1</sup>	25	248	248	140	140
Lease and hire purchase liabilities	20	1,310	1,293	876	942

<sup>1</sup> Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet in accordance with AASB 139. These derivative financial instruments have been measured at fair value using Level 2 inputs in estimating their fair values. The different methods of estimating the fair value of financial instruments measured at fair value are defined in Note 36.

### (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. The Qantas Group targets a capital structure consistent with an investment grade credit rating while maintaining adequate liquidity.

The difficult operating environment resulted in the Qantas Group being downgraded to sub-investment grade. Despite the credit rating downgrade, the Qantas Group has maintained access to debt markets, both secured and unsecured, allowing it to refinance maturing unsecured debt facilities and extend the maturity profile of unsecured debt facilities.

Strengthening the capital base remains a key priority. Net debt including operating lease liabilities<sup>1</sup> was reduced by \$0.1 billion during the year ended 30 June 2014, with further reductions targeted. During the year ended 30 June 2015, the Qantas Group plans to spend \$0.7 billion on net investing activities (inclusive of off balance sheet aircraft leases) predominantly relating to asset replacement and product enhancements. This level of investment is consistent with the Qantas Group's stated target of achieving positive free cashflow to allow further debt reduction. The Qantas Group retains flexibility to reduce investment further if required.

The Board is committed to the resumption of dividend payments, however, given the difficult operating environment, the Board considers it prudent not to pay a dividend for the year ended 30 June 2014, instead retaining funds to reduce debt and invest in accelerated cost transformation to deliver sustainable returns to shareholders.

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 costs of capital over the long term while growing the business.

<sup>1</sup> Operating lease liability is the present value of minimum lease payments for aircraft operating leases which in accordance with AASB 117: Leases is not recognised on balance sheet. This operating lease liability has been calculated in accordance with Standard and Poor's methodology using an assumed interest rate of seven per cent

### 34. EVENTS SUBSEQUENT TO BALANCE DATE

On 28 August 2014, the Board approved the outcome of the Structural Review that was ongoing as at 30 June 2014.

A comprehensive Group structural review was announced in December 2013, and has now been completed. The outcomes from the review are both structural and strategic for the future direction of the Qantas Group:

- Non-core assets identified and valued, including terminals, land and property holdings. The Group will continue to assess opportunities to sell, with proceeds to repay debt
- Detailed assessment of potential for Qantas Loyalty minority sale undertaken. After careful consideration, the decision has been made that Loyalty continues to offer major profitable growth opportunities and there was no justification for a partial sale
- No new Jetstar ventures to be established while Group focused on Transformation. Substantial value exists across Jetstar Group Airlines, to be realised over time
- Following partial repeal of Qantas Sale Act foreign ownership limits, the decision has been made to establish a new holding structure and corporate entity for Qantas International to increase the potential for future external investment, and creates long-term options for Qantas International to participate in partnership and consolidation opportunities. This change to the Group's organisational structure resulted in the write-down of the Qantas International fleet

The outcome of the Structural Review resulted in the reassessment of the Group's identified CGUs. Consequently the Qantas Brands CGU was separated into individual CGUs for each of Qantas Domestic, Qantas International, Qantas Freight and Qantas Loyalty. As such the 30 June 2014 impairment test was updated and undertaken on the basis of the newly identified CGUs.

While there are significant surpluses in Qantas Loyalty, Qantas Domestic and Qantas Freight CGUs, impairment of \$2,560 million arose in the stand-alone Qantas International CGU in respect of aircraft and engines. This non-cash impairment charge has been reflected in the Consolidated Financial statements for the year ended 30 June 2014 as an adjusting subsequent event.

Other than as disclosed above, there has not arisen in the interval between 30 June 2014 and the date of this Report any other event that would have had a material effect on the Consolidated Financial Statements as at 30 June 2014.

### 35. PARENT ENTITY DISCLOSURES FOR QANTAS AIRWAYS LIMITED (QANTAS)

#### (A) CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	Qantas	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>CONDENSED INCOME STATEMENT</b>		
Revenue and other income	10,143	11,650
Expenditure	(13,874)	(10,888)
<b>Statutory (loss)/profit before income tax expense and net finance costs</b>	<b>(3,731)</b>	<b>762</b>
Net finance costs	(190)	(176)
<b>Statutory (loss)/profit before income tax benefit/(expense)</b>	<b>(3,921)</b>	<b>586</b>
Income tax benefit	1,073	104
<b>Statutory (loss)/profit for the year</b>	<b>(2,848)</b>	<b>690</b>

	Qantas	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>CONDENSED STATEMENT OF COMPREHENSIVE INCOME</b>		
<b>Statutory (loss)/profit for the year</b>	<b>(2,848)</b>	<b>690</b>
Effective portion of changes in fair value of cash flow hedges, net of tax	(97)	106
Transfer of hedge reserve to the Income Statement, net of tax	(70)	(50)
Recognition of effective cash flow hedges on capitalised assets, net of tax	(19)	21
Defined benefit actuarial gains, net of tax	109	311
<b>Total other comprehensive (loss)/income for the year</b>	<b>(77)</b>	<b>388</b>
<b>Total comprehensive (loss)/income for the year</b>	<b>(2,925)</b>	<b>1,078</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 35. PARENT ENTITY DISCLOSURES FOR QANTAS AIRWAYS LIMITED (QANTAS) CONTINUED

	Qantas	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>CONDENSED BALANCE SHEET</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,897	2,655
Receivables	3,535	3,835
Inventories	232	292
Other	372	286
<b>Total current assets</b>	<b>7,036</b>	<b>7,068</b>
<b>Non-current assets</b>		
Receivables	1,735	1,874
Property, plant and equipment	8,986	12,240
Intangible assets	419	382
Other	1,599	706
<b>Total non-current assets</b>	<b>12,739</b>	<b>15,202</b>
<b>Total assets</b>	<b>19,775</b>	<b>22,270</b>
<b>Current liabilities</b>		
Payables	3,517	3,255
Revenue received in advance	2,847	2,515
Interest-bearing liabilities	1,389	1,020
Other	907	757
<b>Total current liabilities</b>	<b>8,660</b>	<b>7,547</b>
<b>Non-current liabilities</b>		
Revenue received in advance	1,183	1,186
Interest-bearing liabilities	6,852	6,956
Other	434	959
<b>Total non-current liabilities</b>	<b>8,469</b>	<b>9,101</b>
<b>Total liabilities</b>	<b>17,129</b>	<b>16,648</b>
<b>Net assets</b>	<b>2,646</b>	<b>5,622</b>
<b>Equity</b>		
Issued capital	4,630	4,693
Treasury shares	(16)	(43)
Reserves	(50)	153
Retained earnings	(1,918)	819
<b>Total equity</b>	<b>2,646</b>	<b>5,622</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 38.

**(B) CAPITAL EXPENDITURE COMMITMENTS**

	Qantas	
	2014 \$M	2013 Restated <sup>1</sup> \$M
<b>Capital expenditure commitments contracted but not provided for in the Financial Statements, payable:</b>		
No later than one year	690	1,029
Later than one year but not later than five years	3,305	4,618
Later than five years	4,627	3,444
	<b>8,622</b>	<b>9,091</b>

Qantas has a number of cancellation and deferral rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure. The Company has the ability to place ordered aircraft with its investments accounted for under the equity method.

**(C) FINANCING FACILITIES**

The financing facilities held by the parent entity are the same as those held by the Group as disclosed in Note 26(B).

**(D) CONTINGENT LIABILITIES**

The contingent liabilities held by the parent entity are the same as those held by the Group as disclosed in Note 29.

**(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 32.

**(F) INTEREST-BEARING LIABILITIES**

The parent entity has total interest-bearing liabilities of \$8,241 million (2013: \$7,976 million), of which \$3,532 million (2013: \$3,960 million) represent lease and hire purchase liabilities payable to controlled entities. Of the \$4,709 million (2013: \$4,016 million) payable to other parties, \$2,314 million (2013: \$2,097 million) represents secured bank loans and lease liabilities with the remaining balance representing unsecured loans and deferred lease benefits.

**36. SIGNIFICANT ACCOUNTING POLICIES**

Except for the changes explained in Note 38, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

**(A) PRINCIPLES OF CONSOLIDATION****Controlled Entities**

Controlled entities are entities controlled by Qantas. Control exists when Qantas is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Financial Statements of controlled entities are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 36. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Equity accounted investments

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

Investments in associates are accounted for under 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' post-acquisition profit or loss is recognised in the Consolidated Income Statement from the date that significant influence commences until the date that significant influence 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, 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.

Unrealised gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in the associate.

### (B) 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 accounted for under the equity method, 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 investment accounted for under the equity method 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.

### (C) 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 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.

The different methods of estimating the fair value of these items have been defined in the Consolidated Financial Statements as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

#### **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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 36. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (D) REVENUE RECOGNITION

#### Passenger and Freight 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 revenue and freight revenue is recognised when passengers or freight are uplifted. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket, historic trends and experience.

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

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

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

#### 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).

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 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.

Tours and travel revenue is recognised when tours and travel air tickets and land content are utilised.

#### 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.

**(E) 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.

**(F) 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**

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

**Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, 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 for unused tax losses, tax credits and deductible temporary differences 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.

**(G) TAX CONSOLIDATION**

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

**(H) 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 36. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (I) 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 36(D), 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.

### (J) 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. Net realisable value is the estimated selling price in the ordinary course of business.

### (K) IMPAIRMENT

#### Non-financial Assets

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

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Assets which primarily generate cash flows as a group, such as aircraft, are assessed on a cash generating unit (CGU) basis, inclusive of related infrastructure and intangible assets and compared to net cash inflows for the CGU. Estimated net cash flows used in determining recoverable amount are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Identification of an asset's CGU requires judgement, as it requires identification of the lowest aggregation of assets that generate largely independent cash inflows. As a result of the outcome of the Structural Review the Group's identified CGUs has changed for the year ended 30 June 2014. In Management's judgement, following the outcome of the Structural Review, the lowest aggregation of assets, which give rise to CGUs as defined by AASB 136: *Impairment of Assets* are the Qantas Domestic CGU, Qantas International CGU, Qantas Loyalty CGU, Qantas Freight CGU and the Jetstar Group CGU.

#### 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.

### (L) 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.

### (M) 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. Subsequent expenditure is capitalised when it is probable that future economic benefits associated with the expenditure will flow to the Group.

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 36(C).

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 recognised 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, 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 <sup>1</sup>
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

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

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

### 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 36. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (M) PROPERTY, PLANT AND EQUIPMENT *continued*

#### 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 when 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 recognised 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 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.

### (N) 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.

**(O) PAYABLES**

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

**(P) 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 State Government Bond 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.

**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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 36. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (P) EMPLOYEE BENEFITS continued

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### Employee Termination Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

### (Q) 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 Safety, Rehabilitation and Compensation Act 1988, 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.

### (R) 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.

### (S) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, cash at call and short-term money market securities and term deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

**(T) 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 costs are recognised in the Consolidated Income Statement as incurred, except where interest costs relate to qualifying assets in which case they are capitalised to the cost of the assets. Qualifying assets are assets that necessarily take a substantial period of time to be made ready for intended use. Where funds are borrowed generally, borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities.

**(U) 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 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.

**(V) SHARE CAPITAL****Ordinary Shares**

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

**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.

**(W) COMPARATIVES**

Where applicable, various comparative balances have been reclassified to align with current period presentation. A provision for long service leave which is expected to be settled beyond the next 12 months is measured as the present value of expected future payments to be made in respect of services provided by employees up to period end. Notwithstanding this pattern of expected future payments, for 30 June 2014, the provision is presented as a current liability in the Consolidated Balance Sheet if the employees' entitlements have vested (i.e. the employee has reached the minimum period of service required to become entitled to long service leave). For comparability, current provisions for 30 June 2013 have been reclassified on a consistent basis resulting in an increase in current provisions of \$277 million with a corresponding decrease in non-current provisions (30 June 2012: \$309 million).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 37. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following table details the standards, amendments to standards and interpretations that 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 2014, but have not been applied in preparing these Consolidated Financial Statements.

Topic	Key requirements	Effective date for Qantas
Accounting Standards and Interpretations Not Yet Adopted		
AASB 9 <i>Financial instruments</i> (2013), AASB 9 <i>Financial Instruments</i> (2010) and AASB 9 <i>Financial Instruments</i> (2009)	<p>AASB 9 (2013) introduces a new hedge accounting model to simplify hedge accounting requirements and more closely align hedge accounting with risk management activities.</p> <p>AASB 9 (2011) added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139.</p> <p>AASB 9 (2010) introduces new requirements for the classification and measurement of financial assets. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.</p>	AASB 9 (2013, 2010 and 2009) will become mandatory for the Qantas Group's 30 June 2019 Financial Statements.
IFRS 15 <i>Revenue from Contracts with Customers</i>	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services and IAS 11, which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.	IFRS 15 will become mandatory for the Qantas Group's 30 June 2019 Financial Statements.

## 38. APPLICATION OF NEW OR REVISED ACCOUNTING STANDARDS

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 36 to all periods presented in these Consolidated Financial Statements.

The Group has adopted the following new standards and amendments to standards with a date of initial application of 1 July 2013.

### Subsidiaries

AASB 10 *Consolidated Financial Statements* introduced a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The application of AASB 10 had no impact on the Qantas Group.

### Joint Arrangements

Under AASB 11 *Joint Arrangements*, the classification as either joint operations or joint ventures depends on the rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

The application of AASB 11 had no impact on the Qantas Group.

### Fair Value Measurement

AASB 13 *Fair Value Measurement* establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures*.

In accordance with the transitional provisions of AASB 13, the disclosures for the year ended 30 June 2014 have been provided in Notes 13 and 33. The application of AASB 13 had no significant impact on the measurements of the Group's carrying value of assets and liabilities.

### Offsetting of Financial Assets and Financial Liabilities

AASB 2012-2 Amendments to AASB7 *Financial Instruments: Disclosures*, requires the Group to expand its disclosures about the offsetting of financial assets and financial liabilities (see Note 25(B)).

### Disclosures of Recoverable Amount for Non-Financial Assets

The Group has early adopted the 2013-3 Amendments to AASB 136 *Impairment of Assets*. As a result, the Group has expanded its disclosures of recoverable amounts when they are based on fair value less costs to sell and an impairment is recognised (see Note 23).

### Post-Employment Defined Benefit Superannuation Plans

As a result of the mandatory application of AASB 119 *Employee Benefits* (2011), the Group has changed its accounting policy with respect to the basis of accounting for defined benefit superannuation plans.

The revised standard eliminated the use of the “corridor approach” and instead mandates immediate recognition of all remeasurements of a defined benefit liability and defined benefit assets (including actuarial gains or losses) in other comprehensive income. In addition, it changes the measurement principles for the expected return on planned assets and the basis for determining the income or expense relating to defined benefits.

The Qantas Group's previous accounting policy for defined benefit superannuation plans utilised the “corridor approach” to account for actuarial gains/losses. Under that policy, accumulated actuarial gains/losses were carried off balance sheet unless they exceeded 10 per cent of the defined benefit assets or obligations, in which case they were recognised through the income statement over the average life of the plan.

Under the revised AASB 119 (2011), these accumulated actuarial gains or losses are recognised on-balance sheet. Subsequent actuarial gains or losses are recognised on-balance sheet through other comprehensive income.

Upon application of the amended AASB 119 (2011), the Group has applied the transition provisions in the Standard requiring retrospective application and as a result the following have been restated:

- Consolidated Balance Sheet as at 30 June 2012 (Condensed Opening Balance Sheet);
- Consolidated Balance Sheet as at 30 June 2013 (Condensed Comparative Balance Sheet);
- Consolidated Income Statement (Condensed) for the 12 months ended 30 June 2013; and
- Consolidated Statement of Comprehensive Income (Condensed) for the 12 months ended 30 June 2013

For the restated Comparative Results refer to Note 38(A) – Restatement of Comparative Results

The impact of the revised standard on the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year ended 30 June 2014 has been presented in Note 38(B) – Impact of Revised Standard on the Current Reporting Period's Results.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 38. APPLICATION OF NEW OR REVISED ACCOUNTING STANDARDS CONTINUED

### (A) RESTATEMENT OF COMPARATIVE RESULTS

#### (i) Restatement of Consolidated Balance Sheet as at 30 June 2012 (Condensed Opening Balance Sheet)

	30 June 2012 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2012 Restated \$M
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3,398	–	3,398
Receivables	1,111	–	1,111
Other financial assets	88	–	88
Inventories	376	–	376
Assets classified as held for sale	73	–	73
Other	414	(293)	121
<b>Total current assets</b>	<b>5,460</b>	<b>(293)</b>	<b>5,167</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	472	–	472
Other financial assets	17	–	17
Investments accounted for under the equity method	457	–	457
Property, plant and equipment	14,139	–	14,139
Intangible assets	610	–	610
Other	23	–	23
<b>Total non-current assets</b>	<b>15,718</b>	<b>–</b>	<b>15,718</b>
<b>Total assets</b>	<b>21,178</b>	<b>(293)</b>	<b>20,885</b>
<b>CURRENT LIABILITIES</b>			
Payables	1,865	–	1,865
Revenue received in advance	3,183	–	3,183
Interest-bearing liabilities	1,119	–	1,119
Other financial liabilities	369	–	369
Provisions	879	–	879
Liabilities classified as held for sale	12	–	12
<b>Total current liabilities</b>	<b>7,427</b>	<b>–</b>	<b>7,427</b>
<b>NON-CURRENT LIABILITIES</b>			
Revenue received in advance	1,136	–	1,136
Interest-bearing liabilities	5,430	–	5,430
Other financial liabilities	224	–	224
Provisions	428	308	736
Deferred tax liabilities	644	(180)	464
<b>Total non-current liabilities</b>	<b>7,862</b>	<b>128</b>	<b>7,990</b>
<b>Total liabilities</b>	<b>15,289</b>	<b>128</b>	<b>15,417</b>
<b>Net assets</b>	<b>5,889</b>	<b>(421)</b>	<b>5,468</b>
<b>EQUITY</b>			
Issued capital	4,729	–	4,729
Treasury shares	(42)	–	(42)
Reserves	36	–	36
Retained earnings	1,162	(421)	741
Non-controlling interests	4	–	4
<b>Total equity</b>	<b>5,889</b>	<b>(421)</b>	<b>5,468</b>

<sup>1</sup> Refer to Note 36(W).

## (ii) Restatement of Consolidated Balance Sheet as at 30 June 2013 (Condensed Comparative Balance Sheet)

	30 June 2013 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2013 Restated \$M
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2,829	–	2,829
Receivables	1,436	–	1,436
Other financial assets	180	–	180
Inventories	364	–	364
Assets classified as held for sale	42	–	42
Other	394	(284)	110
<b>Total current assets</b>	<b>5,245</b>	<b>(284)</b>	<b>4,961</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	174	–	174
Other financial assets	27	–	27
Investments accounted for under the equity method	190	–	190
Property, plant and equipment	13,827	–	13,827
Intangible assets	714	–	714
Other	23	116	139
<b>Total non-current assets</b>	<b>14,955</b>	<b>116</b>	<b>15,071</b>
<b>Total assets</b>	<b>20,200</b>	<b>(168)</b>	<b>20,032</b>
<b>CURRENT LIABILITIES</b>			
Payables	1,844	–	1,844
Revenue received in advance	3,047	–	3,047
Interest-bearing liabilities	835	–	835
Other financial liabilities	86	–	86
Provisions	835	–	835
<b>Total current liabilities</b>	<b>6,647</b>	<b>–</b>	<b>6,647</b>
<b>NON-CURRENT LIABILITIES</b>			
Revenue received in advance	1,186	–	1,186
Interest-bearing liabilities	5,245	–	5,245
Other financial liabilities	54	–	54
Provisions	441	(6)	435
Deferred tax liabilities	673	(48)	625
<b>Total non-current liabilities</b>	<b>7,599</b>	<b>(54)</b>	<b>7,545</b>
<b>Total liabilities</b>	<b>14,246</b>	<b>(54)</b>	<b>14,192</b>
<b>Net assets</b>	<b>5,954</b>	<b>(114)</b>	<b>5,840</b>
<b>EQUITY</b>			
Issued capital	4,693	–	4,693
Treasury shares	(43)	–	(43)
Reserves	128	–	128
Retained earnings	1,171	(114)	1,057
Non-controlling interests	5	–	5
<b>Total equity</b>	<b>5,954</b>	<b>(114)</b>	<b>5,840</b>

1 Refer to Note 36(W).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

## 38. APPLICATION OF NEW OR REVISED ACCOUNTING STANDARDS CONTINUED

### (iii) Restatement of Consolidated Income Statement (Condensed) for the year ended 30 June 2013

	30 June 2013 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2013 Restated \$M
Revenue and other income	15,902	–	15,902
Expenditure			
Manpower and staff related	3,840	6	3,846
Other	11,858	–	11,858
Statutory profit before income tax expense and net finance costs	204	(6)	198
Net finance costs	(187)	–	(187)
Statutory profit before income tax expense	17	(6)	11
Income tax expense	(11)	2	(9)
Statutory profit after income tax expense	6	(4)	2

<sup>1</sup> Refer to Note 36(W).

### (iv) Restatement of Consolidated Statement of Comprehensive Income (Condensed) for the year ended 30 June 2013

	30 June 2013 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2013 Restated \$M
Statutory profit for the period	6	(4)	2
Items that are or may be subsequently reclassified to profit or loss			
Effective portion of changes in fair value of cash flow hedges, net of tax	111	–	111
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	(50)	–	(50)
Recognition of effective cash flow hedges on capitalised assets, net of tax	21	–	21
Foreign currency translation of controlled entities	10	–	10
Foreign currency translation of investments accounted for under the equity method	(1)	–	(1)
Items that will not subsequently be reclassified to profit or loss			
Defined benefit actuarial gains, net of tax	–	311	311
Other comprehensive income for the period	91	311	402
Total comprehensive income for the period	97	307	404

<sup>1</sup> Refer to Note 36(W).

## (B) IMPACT OF REVISED STANDARD ON THE CURRENT REPORTING PERIOD'S RESULTS

The impact of the revised standard on the current reporting period's results is as follows:

The Consolidated Income Statement for the year ended 30 June 2014 included an increase in manpower and staff related expenses of \$56 million and an increase in income tax benefit of \$17 million resulting in an increase in statutory loss for the period of \$39 million.

In addition, the Consolidated Statement of Comprehensive Income for the year ended 30 June 2014 included an increase in other comprehensive income of \$113 million for the recognition of defined benefit actuarial gains, net of tax. These adjustments resulted in a net increase in total other comprehensive income of \$74 million.

The Consolidated Balance Sheet as at 30 June 2014 included a decrease in other non-current assets of \$58 million, a decrease in deferred tax liabilities of \$17 million and a decrease in retained earnings of \$41 million.

# DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2014

- 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 44 to 64 in the Directors' Report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Qantas Group as at 30 June 2014 and of its performance for the financial year ended on that date;
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - (b) There are reasonable grounds to believe that Qantas will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that Qantas and the controlled entities will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between Qantas and those controlled entities pursuant to ASIC 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 2014.
- 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

3 September 2014



Alan Joyce  
Chief Executive Officer

3 September 2014

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2014



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 2014, 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 38 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 2014 and of its performance for the year ended on that date; and
  - (ii) Complying with Australian Accounting Standards 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 2014. 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 2014, complies with Section 300A of the Corporations Act 2001.

KPMG

Duncan McLennan  
Partner  
Sydney  
3 September 2014

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 24 July 2014.

## TWENTY LARGEST SHAREHOLDERS

Shareholders	Ordinary Shares Held	% of Issued Shares
1 J P Morgan Nominees Australia Ltd	556,251,712	25.33
2 HSBC Custody Nominees (Australia) Limited	480,417,062	21.87
3 National Nominees Limited	306,964,333	13.98
4 Citicorp Nominees Pty Limited	164,520,472	7.49
5 Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	118,487,300	5.39
6 BNP Paribas Noms Pty Ltd	40,758,787	1.86
7 HSBC Custody Nominees (Australia) Limited (NT Commonwealth Super Corp A/C)	22,990,360	1.05
8 AMP Life Limited	8,946,214	0.41
9 QIC Limited	8,717,519	0.40
10 Merrill Lynch (Australia) Nominees Pty Limited	8,544,675	0.39
11 Pacific Custodians Pty Limited	5,409,452	0.25
12 Kilby Pty Ltd	4,000,000	0.18
13 USB Nominees Pty Ltd	3,028,617	0.14
14 Pacific Custodians Pty Limited	2,783,980	0.13
15 HSBC Custody Nominees (Australia) Limited-GSCO ECA	2,362,488	0.11
16 HSBC Custody Nominees (Australia) Limited – AC 3	2,347,257	0.11
17 Bond Street Custodians Limited	2,222,582	0.10
18 Mr Don Lazzaro & Mrs Ann Lazzaro	2,000,000	0.09
19 HSBC Custody Nominees (Australia) Limited	1,976,592	0.09
20 Alan Joyce Pty Ltd	1,948,188	0.09
<b>Total</b>	<b>1,744,677,590</b>	<b>79.46</b>

## 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 <sup>1</sup>	21,747,644	47,994	0.99
1,001–5,000	139,424,357	55,898	6.35
5,001–10,000	70,465,229	9,942	3.21
10,001–100,000	142,800,369	6,248	6.50
100,001 and over	1,821,892,651	283	82.95
<b>Total</b>	<b>2,196,330,250</b>	<b>120,365</b>	<b>100.00</b>

<sup>1</sup> 18,802 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
Franklin Resources, Inc. <sup>1</sup>	409,820,005	18.66
Commonwealth Bank of Australia <sup>2</sup>	212,083,192	9.46
The Capital Group Companies, Inc. <sup>3</sup>	144,379,632	6.57
National Australia Bank Limited <sup>4</sup>	139,942,919	6.37
UBS AG and its related bodies corporate <sup>5</sup>	134,983,635	6.15
Westpac Banking Corporation Group <sup>6</sup>	115,904,167	5.18
AXA SA <sup>7</sup>	109,855,940	5.00

<sup>1</sup> Substantial shareholder notice dated 4 April 2014.

<sup>2</sup> Substantial shareholder notice dated 6 September 2013.

<sup>3</sup> Substantial shareholder notice dated 27 January 2014.

<sup>4</sup> Substantial shareholder notice dated 25 November 2013.

<sup>5</sup> Substantial shareholder notice dated 9 September 2013.

<sup>6</sup> Substantial shareholder notice dated 9 September 2013.

<sup>7</sup> Substantial shareholder notice dated 16 December 2013.

# FINANCIAL CALENDAR AND ADDITIONAL INFORMATION

2014		2015	
27 February	Half year result announcement	26 February	Half year result announcement
30 June	Year end	11 March	Record date for interim dividend*
28 August	Preliminary final result announcement	14 April	Interim dividend payable*
24 October	Annual General Meeting	30 June	Year end
		20 August	Preliminary final result announcement
		3 September	Record date for final dividend*
		6 October	Final dividend payable*
		23 October	Annual General Meeting

\* Subject to a dividend being declared by the Board.

## 2014 ANNUAL GENERAL MEETING

The 2014 AGM of Qantas Airways Limited will be held at 11:00am on Friday 24 October in Melbourne.

Further details are available in the Investors section on the Qantas website ([www.qantas.com](http://www.qantas.com))

## COMPANY PUBLICATIONS

In addition to the Annual Report the following publications can be accessed from [www.qantas.com](http://www.qantas.com)

- Databook;
- Sustainability Report;
- Traffic and Sustainability Statistics; and
- Workplace Gender Equality Report

## REGISTERED OFFICE

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Facsimile +61 2 9490 1888

[www.qantas.com](http://www.qantas.com)

## QANTAS SHARE REGISTRY

Link Market Services Limited

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Locked Bag A14, Sydney South NSW 1235 Australia

Telephone 1800 177 747 (toll free within Australia)

International +61 2 8280 7390

Facsimile +61 2 9287 0303

Email [registry@qantas.com](mailto:registry@qantas.com)

## STOCK EXCHANGE

Australian Securities Exchange

Exchange Centre, 20 Bridge Street, Sydney NSW 2000 Australia

## DEPOSITARY FOR AMERICAN DEPOSITARY RECEIPTS

BNY Mellon

Depositary Receipts Division

22nd Floor, 101 Barclay Street, New York NY 10286 USA

Telephone +1 212 815 2293

Facsimile +1 212 571 3050

## ADDITIONAL SHAREHOLDER INFORMATION

Using your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of your registered address you are able to view your holding online through Qantas' share registry, Link Market Services, by logging on through their website at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au), where you will have the option to:

- view your holding balance;
- retrieve holding statements;
- review your dividend payment history; and
- access shareholder forms.

The Investor Centre also allows you to update or add details to your shareholding, including the following:

- change or amend your address if your are registered with an SRN;
- nominate or amend your direct credit payment instructions;
- set up or amend your DRP instructions;
- sign up for electronic communications; and
- add/change TFN/ABN details.

## Company Secretaries

Andrew Finch

Sarah Udy

John Morris

An electronic copy of this Annual Report is available at [www.qantas.com](http://www.qantas.com)





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