QANTAS ANNUAL REPORT 2017

# POSITIONING FOR SUSTAINABILITY AND GROWTH

QANTAS

# Contents

# Financial Performance[1]

Qantas reported an Underlying Profit Before Tax of $1,401 million in 2016/17 — the second highest performance in our 97 year history.

This result shows the Qantas Group's margin advantage over local and global competitors, which has been underpinned by completion of its three year transformation program.

In the domestic market, Qantas and Jetstar combined reached a record $865 million Underlying EBIT, making them again the two most profitable Australian airlines.

Qantas International, which has faced high levels of capacity growth in the broader market, saw an improvement of conditions in the second half; it posted an Underlying EBIT of $327 million.

Continued strength in its core markets helped the Jetstar Group deliver the second highest profit in its 13 years of operation at $417 million of Underlying EBIT.

Qantas Loyalty booked a record $369 million Underlying EBIT on a 4 per cent increase in revenue as it continued to diversify its earnings.

A drop in the Group's statutory profit before tax of $243 million reflects that our 2015/16 result included the gain on sale from the Sydney Domestic Terminal.

In total, his performance means Qantas is able to reward shareholders, recognise the hard work of its people and invest for customers.

## FINANCIAL HIGHLIGHTS

**Underlying Profit Before Tax: $1,401 million**
(second highest in Qantas' history)

**Statutory Profit Before Tax: $1,181 million**

**Statutory Earnings Per Share: 46c**

**Return On Invested Capital: 20.1%**

**Net free cash flow: $1,309 million**

**Up to $500 million shareholder return**:
announced 7 cents per share ordinary unfranked dividend, plus an on-market buy-back of up to $373 million

**Qantas Domestic**
**$645m**
Underlying EBIT. Up 12%

**Qantas International**
**$327m**
Underlying EBIT. Down 36%

**Jetstar Group**
**$417m**
Underlying EBIT. Down 8%

**Qantas Freight**
**$47m**
Underlying EBIT. Down 27%

**Qantas Loyalty**
**$369m**
Underlying EBIT. Up 7%

[1] Refer to the Review of Operations section in the Qantas Annual Report 2017 for definitions and explanations of non-statutory measures. Unless otherwise stated, amounts are reported on an underlying basis.

# Financial Framework

Qantas' Financial Framework continues to guide how we create value for our shareholders. Our overarching goal is to achieve maintainable earnings-per-share growth through the cycle, and in turn deliver total shareholder returns in the top quartile of global airline peers and the ASX100.

The three core objectives of the framework are:

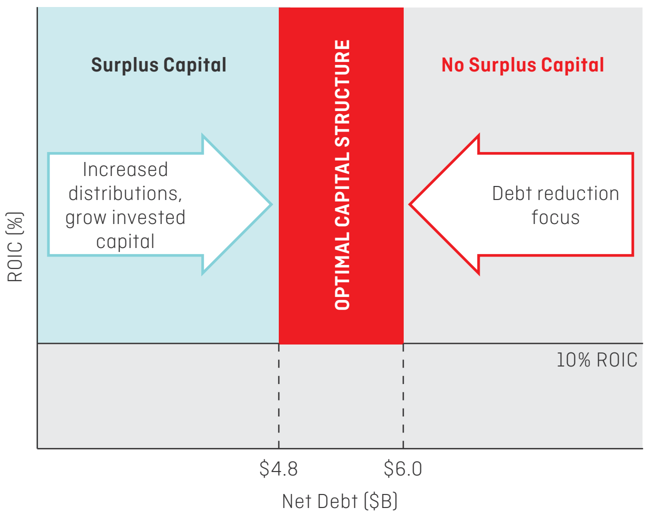
- Maintaining an optimal capital structure that minimises the Group's cost of capital;
- Achieving return on invested capital (ROIC) above 10 per cent through the cycle; and
- Growing invested capital with disciplined investment, returning any surplus to shareholders.

Our performance against each of these objectives in 2016/17 is outlined below.

### Optimal capital structure

In 2016/17 the Group further strengthened its capital position through sustained positive free cash flow. Net debt fell by $434 million to $5.2 billion compared to the prior year, which is at the lower end of the target range. More than 60 per cent of the Group's fleet is now debt-free, representing an unencumbered asset base of around US$3.8 billion.

Short term liquidity remains strong at $1.8 billion of cash, plus another $1 billion in undrawn facilities.



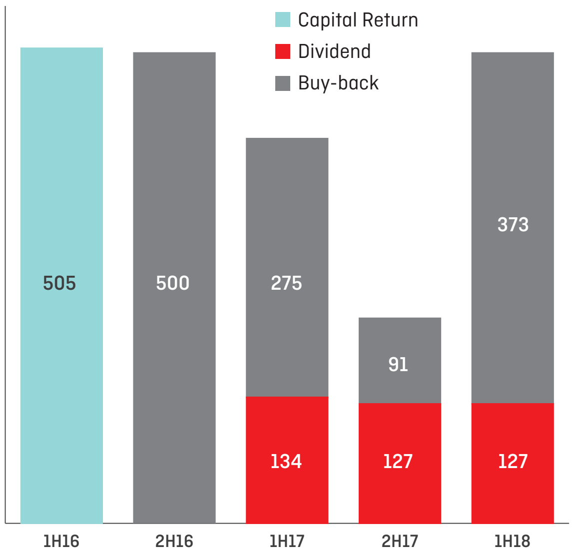

> Where debt is within the target range and surplus capital exists, it will be returned to shareholders.

### Improving return on invested capital

All parts of the Group delivered a return above their weighted average cost of capital. As a whole, the Group achieved a 12-month return on invested capital of 20.1 per cent. This is supported by disciplined capacity management and improved fleet utilisation across Qantas and Jetstar, as well as new businesses within Qantas Loyalty providing new revenue streams.

Another $470 million in transformation benefits were delivered in 2016/17, completing the three year program and outperforming the $2 billion target by $125 million

**Track Record of Delivering Shareholder Returns ($m)**




### Shareholder returns

In 2016/17 a total of $627 million was distributed to shareholders in through an on-market share buy-back and ordinary dividends.

In August 2017, the Directors declared an unfranked final dividend of 7 cents per share and announced a further on-market share buyback of up to $373 million. Once this latest buyback is completed, the number of Qantas shares is expected to have been reduced by more than 20 per cent since October 2015.

# Chairman's Report

The Qantas Group posted the second highest profit in its long history for 2016/17. This follows on from the record profit the prior year and comes despite some challenges in our international markets that have pushed some of our global peers into losses.

The result coincides with the successful completion of the Qantas Transformation Program. This three year initiative delivered $2.1 billion in benefits and achieved our goal of putting the Group in a more stable financial position, enabling us to remain sustainably profitable through the economic cycle.

## Benefits of the turnaround

The turnaround of Qantas over the past few years has been remarkable. It's a testament to the strategy executed by Alan Joyce and his Management team, and to the 30,000 people working across the Group to make it better every day.

These efforts have delivered significant benefits for our shareholders and customers. Since the start of transformation, the Group has generated $3.5 billion in cumulative underlying profit and returned more than $9 billion to shareholders through buybacks, dividends and share price appreciation. Qantas was the top performing company on the ASX100 in 2016/17.

Customers have benefited from our continued investment in better product and service, from new aircraft to new lounges.

Our people have also shared in the benefits. As part of our financial results, we announced a Turnaround Bonus of $2,500 for 25,000 non-executive staff. This is the third bonus in as many years for our frontline employees, worth a cumulative total of more than $220 million.

## Drivers of performance

Beyond Transformation, the drivers of the Group's performance in 2016/17 remained its diversified portfolio.

In the domestic aviation market, Qantas and Jetstar combined had around 90 per cent of the profit pool from just over 60 per cent of the market share. This outperformance was achieved by the competitive strength of the network we offer, record levels of customer satisfaction and a constant focus on cost control.

Internationally, we increased our focus on Asia as the fastest growing aviation market in the world. The Group now has more than 50 per cent of its capacity directed towards Asia in response to the strong demand we're seeing in the region.

Qantas Loyalty continued to expand into new enterprises using the common currency of Qantas Points. This is opening up new revenue streams in a range of segments, including financial services, health insurance and online retail.

Underpinning the Group's performance is our continued commitment to safety. Operational safety remained strong. However, we didn't meet all our targets on occupational safety. This will continue to be an area of focus in the year ahead.

The turnaround of Qantas over the past few years has been remarkable. It's a testament to the strategy executed by Alan Joyce and his Management team, and to the 30,000 people working across the Group to make it better every day.

### Board developments

I was pleased to announce Richard Goyder AO will join the Board as a Non-Executive Director from November 2017, pending shareholder approval at the Annual General Meeting. Richard has worked for many years at the highest levels of Australian business and his experience will be a significant asset to the Qantas Board.

### Looking ahead

Our forward strategy is shaped by the four global forces that we believe will influence our operating environment into the future — the growth of Asia, big data, shifting customer expectations and the implications of resource constraints like energy. The Annual Review maps out some of the ways we are responding to these trends.

Discipline towards our Financial Framework remains key. This means balancing our capital expenditure with returning surplus funds to shareholders and keeping debt within our target range. Maintaining strong free cash flow is critical. We are targeting an average of $400 million in benefits per year as part of our ongoing Transformation to help achieve this.

This will keep the Qantas Group on a path of sustainable, profitable growth.

**Leigh Clifford AO**

# CEO's Report

Three years ago we started an ambitious turnaround plan at the Qantas Group. It saw us tackle some difficult structural issues, become a lot more efficient and improve what we offer to our customers.

Those efforts — which are an absolute credit to our people — have certainly paid off.

In 2016/17, Qantas Domestic and Qantas Loyalty recorded their best ever financial results. For Jetstar and Qantas International it was their second highest. Qantas Freight, while posting a lower profit than the year prior, performed well in a challenging market.

The Group's strong financial performance was coupled with record levels of customer satisfaction and employee engagement — two key indicators that are deeply linked.

## Investing for future performance

These strong foundations mean we can continue investing in the future. And the pipeline of projects that is improving the experience for our customers as well as the return on investment for our shareholders is very exciting.

Our Airbus A380 fleet will receive a major upgrade, with plans to install next generation seats from 2019 onwards. This refit will also improve the overall economics of the aircraft through smarter use of space and an overall increase in premium seating.

We are accelerating the rollout of inflight Wi-Fi across our domestic A330 and 737 aircraft. This follows a successful trial that showed very positive customer feedback and potential productivity gains in flight planning and disruption management.

We're welcoming the game-changing Dreamliner into Qantas International — an aircraft that will open up unique routes, such as Perth–London direct, and deliver significantly lower operating costs.

Jetstar is upgrading the cabins of the A320 aircraft that make up the backbone of its fleet, increasing capacity by 3 per cent without compromising interior comfort.

All of these improvements are designed to contribute to the Qantas Group's margin advantage in key markets, which is central to driving our future financial performance.

We have now set our sights on a new horizon. We plan to offer direct services from the east coast of Australia to London and New York by 2022, and we have challenged the aircraft manufacturers to provide an aircraft with the range to do so.

### Leveraging our strengths

With the balance of economic power in our region shifting increasingly to Asia, the Qantas Group is well positioned. In 2016/17 we opened new markets, including Sydney–Beijing and Melbourne–Ho Chi Minh, as well as adding capacity on existing routes. The strength of Jetstar-branded airlines in Japan, Singapore and Vietnam is a platform for further growth as these markets develop.

### Accountability and integrity

The Qantas Group is conscious of the social, economic and environmental footprint of our operations. We took several important steps in 2016/17 in this regard, including formalising our support for the United Nations Global Compact on human rights, labour, environment and anti-corruption. We are committed to the ten principles laid out in the Compact and this Annual Review outlines some of the ways these principles are embedded into how we do business.

### Towards 100 years of Qantas

Qantas has been serving Australia for almost a century. Innovation has been at the heart of our success throughout that time — from the invention of business class to creating Jetstar. We have now set our sights on a new horizon. We plan to offer direct services from the east coast of Australia to London and New York by 2022, and we have challenged the aircraft manufacturers to provide an aircraft with the range to do so.

This is the kind of pioneering spirit that the national carrier is built on. And it's the kind of spirit that we want to take us forward.

**Alan Joyce AC**

# Board of Directors

For the year ended 30 June 2017

## LEIGH CLIFFORD AO

**BEng, MEngSci**

**Chairman and Independent Non-Executive Director**

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

He is Chairman of the Nominations Committee.

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

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

Age: 70

## ALAN JOYCE AC

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

**Chief Executive Officer**

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

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

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

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

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

Age: 51

# Board of Directors continued

For the year ended 30 June 2017

## MAXINE BRENNER

**BA, LLB**

**Independent Non-Executive Director**

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

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

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

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

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

Age: 55

## RICHARD GOODMANSON

**BCom, BEc, MBA, MCE**

**Independent Non-Executive Director**

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

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

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

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

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

Age: 70

## 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 Chair of its Technology and Change Committee and is a Member of its Governance and HR Committee. She is also a Director of AGL Energy Limited, the Australian Foundation Investment Company Limited, Melbourne Business School and Cricket Australia.

Ms Hey was also formerly a Director of the Special Broadcasting Service from 2011 to 2016 and a Member of the ASIC Directory Advisory Panel from 2013 to 2016.

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

Age: 51

# Board of Directors continued

For the year ended 30 June 2017

### MICHAEL L'ESTRANGE AO

**BA (Syd), MA (Oxon)**

**Independent Non-Executive Director**

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

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

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

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

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

Age: 64

### WILLIAM MEANEY

**BSc, MEng, 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 Rensselaer Polytechnic Institute.

Mr Meaney was formerly the Chief Executive Officer of The Zuellig Group. 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: 57

### PAUL RAYNER

**BEc, MAdmin, FAICD**

**Independent Non-Executive Director**

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

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

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

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

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

Age: 63

# Board of Directors continued

For the year ended 30 June 2017

## TODD SAMPSON

**MBA, BA(Hons)**

**Independent Non-Executive Director**

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

He is a Member of the Remuneration Committee.

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

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

Age: 47

## BARBARA WARD AM

**BEc, MPolEc**

**Independent Non-Executive Director**

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

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

Ms Ward is a Director of Caltex Australia Limited, 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, Multiplex Limited, Data Advantage Limited, O'Connell Street Associates Pty Ltd, Allco Finance Group Limited, Rail Infrastructure Corporation, Delta Electricity, Ausgrid, Endeavour Energy and Essential Energy. She was also Chairman of Country Energy, NorthPower and HWW Limited, a Board Member of Allens Arthur Robinson 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: 63

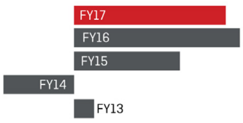
# Review of Operations

For the year ended 30 June 2017

## RESULT HIGHLIGHTS

**Underlying Profit Before Tax**

**1,401** $M




| | |
|---|---|
| **FY17** | **1,401** |
| FY16 | 1,532 |
| FY15 | 975 |
| FY14 | (646) |
| FY13 | 186 |

**Statutory Profit After Tax**

**853** $M


| | |
|---|---|
| **FY17** | **853** |
| FY16 | 1,029 |
| FY15 | 560 |
| FY14 | (2,843) |
| FY13 | 2 |

**Twelve-month Return on Invested Capital**

**20.1** %


| | |
|---|---|
| **FY17** | **20.1%** |
| FY16 | 22.7% |
| FY15 | 16.2% |
| FY14 | (1.5%) |

The Qantas Group reported an Underlying Profit Before Tax[1] of $1,401 million for the 12 months ended 30 June 2017, a decline of $131 million from the record result of the 2015/16 financial year. The Group's Statutory Profit After Tax of $853 million was down $176 million from the prior year, primarily due to financial year 2015/16 including the one-off benefit of the gain on sale of the Sydney Domestic Terminal. The Statutory result for this financial year included $220 million of costs which were not included in Underlying PBT[1]. These costs included redundancies, restructuring and other costs associated with the Qantas Transformation Program.

The Group is delivering against its strategy to maximise long-term shareholder value, building on our leading position in domestic Australia, building a more resilient Qantas International, growing non-cyclical earnings at Qantas Loyalty, aligning Qantas and Jetstar with the rise of Asia and investing in our people and our customers. Over 2016/17, strategic highlights included:

— The second highest Underlying Profit Before Tax in the Group's 97 year history[2]
— Continued strong Return on Invested Capital (ROIC) at 20.1 per cent[3] with all segments[4] delivering ROIC greater than the weighted average cost of capital (WACC)
— All Qantas Transformation targets were delivered
— Record earnings[5] were achieved by Qantas Domestic and Group Domestic[6]
— Second highest earnings[5] for Qantas International and Jetstar Group
— Record earnings[5] for Qantas Loyalty
— Record levels of customer advocacy[7]
— Record people engagement[8]

Three years ago the Group set out an ambitious plan to successfully turnaround the business. The turnaround program is complete and has achieved a significant improvement in financial performance, record customer advocacy and record employee engagement. Through the program, the Group has demonstrated its ability to deliver sustainable financial performance and is positioned for a strong future. Importantly, the Group has embedded a culture of transformation and continuous improvement to ensure it will deliver sustainable returns well into the future.

The Group's Financial Framework continues to guide our strategy. Our balance sheet strength and disciplined approach to capital allocation has allowed us to invest in the business while delivering returns to shareholders. Some key achievements include:

— Net debt[9] of $5.2 billion, towards the low end of the target range of $4.8 billion to $6 billion[10]
— Credit rating from Moody's Investor Services upgraded to Baa2 and maintained a BBB- rating from Standard & Poor's
— Cost of capital minimised by continuing to use cash in excess of short-term requirements to refinance operating leases
— $627 million returned to shareholders in 2016/17 through dividends totalling 14 cents per share and an on-market share buy-back totalling $366 million
— Additional capital management initiatives announced, including an unfranked seven cents per share ordinary dividend totalling $127 million and the announcement of an on-market share buy-back of up to $373 million
— $425 million Australian Dollar bond issuance, extending debt tenor

1 Underlying Profit Before Tax (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, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying Earnings Before Net Finance Costs and Income Tax Expense (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying PBT to Statutory Profit/(Loss) Before Tax.
2 Underlying PBT has been the Group's primary performance reporting measure since financial year 2008/09. For periods prior to financial year 2008/09, comparison is to Statutory PBT adjusted for disclosed extraordinary items.
3 Calculated as ROIC EBIT for the 12 months ended 30 June 2017, divided by the 12 months Average Invested Capital.
4 Qantas Domestic, Qantas International, Jetstar Group, Qantas Freight and Qantas Loyalty.
5 Underlying Earnings Before Net Finance Costs and Income Tax Expense (Underlying EBIT).
6 Includes Qantas Domestic and Jetstar Domestic.
7 Record Net Promoter Score (NPS) achieved at Qantas Domestic, Qantas International and Qantas Loyalty.
8 Five percentage point improvement from financial year 2012/13 to financial year 2016/17.
9 Net debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis akin to a finance lease.
10 Target range calculated on current Invested Capital of approximately $9 billion.

# Review of Operations continued

For the year ended 30 June 2017

The Group's strong result was achieved in mixed global trading conditions, with a two per cent decrease in Unit Revenue[11] partially offset by a total unit cost[12] improvement of one per cent.

Domestic Australia experienced a stable competitive environment with a 1.1 per cent increase in market demand[13] through:
— Healthy demand in price driven segments
— Strengthening business market demand
— Strong east coast performance from both business and leisure markets

This resulted in a Group Domestic Unit Revenue increase of two per cent in financial year 2016/17.

The Group's international operating environment was very competitive, with competitor capacity growth and sharper pricing activity seen on key routes. Competitor capacity[14] of 11 per cent was added in the first-half of the financial year. This moderated to an 8.5 per cent increase for the full year, providing some relief from the competitive pressure on airfares. Jetstar benefited from the strong demand in the growing Asian markets. Group International Unit Revenue decreased five per cent in financial year 2016/17.

## FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

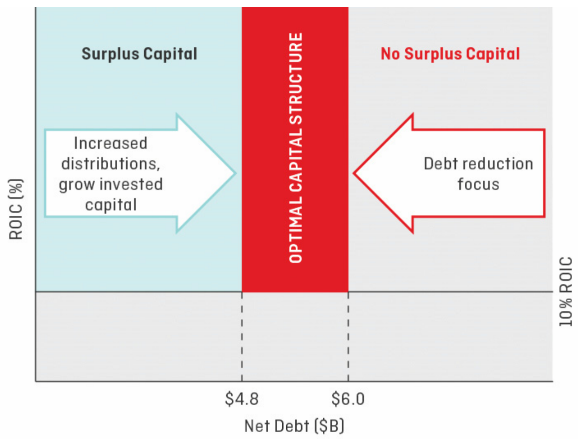
Qantas' Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings per Share (EPS) growth over the cycle, which in turn should translate into Total Shareholder Return (TSR) in the top quartile of the ASX100 and a basket of global airlines[15], the Financial Framework has three clear priorities and associated long-term targets:

| 1. Maintaining an Optimal Capital Structure | 2. ROIC > WACC[16] Through the Cycle | 3. Disciplined Allocation of Capital |
|---|---|---|
| Minimise cost of capital by targeting a net debt range of $4.8 billion to $6 billion | Deliver ROIC > 10 per cent through the cycle | Grow Invested Capital with disciplined investment, return surplus capital |

**MAINTAINABLE EPS GROWTH OVER THE CYCLE**

**TOTAL SHAREHOLDER RETURN IN THE TOP QUARTILE**

### Maintaining an Optimal Capital Structure




— The Group's Financial Framework targets an optimal capital structure with a net debt range of between $4.8 billion and $6 billion, based on the current Average Invested Capital of approximately $9 billion. This capital structure lowers the Group's cost of capital, preserves financial strength and therefore enhances long-term shareholder value. In financial year 2016/17, Group net debt of $5.2 billion, was towards the low end of the target range of $4.8 billion to $6 billion.
— Capital allocation decisions, including distributions to shareholders, are sized to ensure net debt remains within the target net debt range on a forward looking basis. Within this range, the Group's cost of capital is minimised and balance sheet strength maintained against a range of earnings scenarios.
— The Group's optimal capital structure is consistent with investment grade credit metrics. The Group is rated BBB- with Standard & Poor's and Baa2 with Moody's Investor Services.

11 Unit Revenue (RASK) is calculated as ticketed passenger revenue per available seat kilometre (ASK).
12 Total unit cost is calculated as Underlying PBT less ticketed passenger revenue per available seat kilometre (ASK).
13 Measured by Revenue Passenger Kilometres (RPK). Source BITRE for the 12 months ending May 2017.
14 Source: BITRE data for July 2016-April 2017. Diio Mi forecast data for May 2017-June 2017. Excludes Qantas Group.
15 Target Total Shareholder Return within the top quartile of the ASX100 and global listed airline peer group as stated in the 2016 Annual Report, with reference to the 2017-2019 Long Term Incentive Plan (LTIP).
16 Weighted Average Cost of Capital (WACC) calculated on a pre-tax basis.

# Review of Operations continued

For the year ended 30 June 2017

## ROIC > WACC Through the Cycle

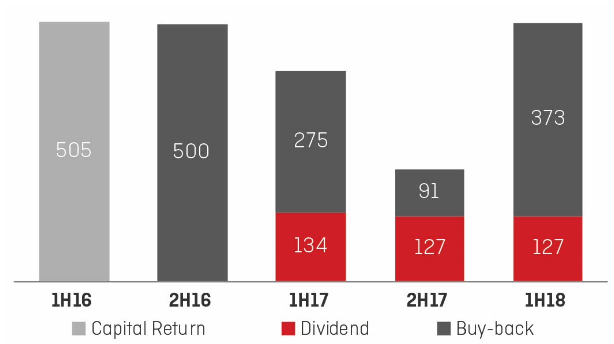
**Twelve-month Return on Invested Capital**

**20.1** %


| **FY17** | **20.1%** |
|---|---|
| FY16 | 22.7% |
| FY15 | 16.2% |
| FY14 | (1.5%) |

Return on Invested Capital (ROIC) of 20.1 per cent was above the Group's threshold ROIC of 10 per cent.

## Disciplined Allocation of Capital




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

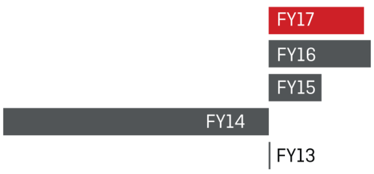
- Net capital expenditure[17] of $1.5 billion was invested during the financial year, in line with guidance
- $627 million was distributed to shareholders in 2016/17 through an on-market share buy-back and ordinary dividends

In August 2017, the Directors declared an unfranked final dividend of seven cents per ordinary share for the period, totalling $127 million and announced an on-market share buy-back of up to $373 million.

## Maintainable EPS Growth Over the Cycle

**Statutory Earnings Per Share**

**46.0** cents




| **FY17** | **46.0** |
|---|---|
| FY16 | 49.4 |
| FY15 | 25.4 |
| FY14 | (128.5) |
| FY13 | 0.0 |

Statutory earnings per share was 46 cents per share. The decrease from 2015/16 was driven by a reduction in Statutory Profit After Tax offset by an 11 per cent reduction in weighted average shares on issue. Shares on issue were reduced through the $366 million on-market share buy-back completed in 2016/17.

17 Net capital expenditure of $1.5 billion is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) and the impact to invested capital of commencing new aircraft operating leases.

# Review of Operations continued

For the year ended 30 June 2017

## UNDERLYING PBT

The Qantas Group's full-year 2016/17 Underlying PBT was $1,401 million, compared to a record Underlying PBT of $1,532 million in 2015/16. The benefits of lower fuel prices captured by the Group's disciplined hedging program, and benefits (net of inflation) from the Qantas Transformation Program, were offset by the reduction in net passenger revenue and expenses associated with the increase in flying activity.

Net passenger revenue decreased by one per cent, as competitive pressures in international markets and the ramp up of new routes outweighed the improved Unit Revenue from the domestic businesses and revenue benefits from the Qantas Transformation Program. A reduction in the Group's fuel expense resulted from lower AUD fuel prices and fuel efficiency measures in the Qantas Transformation Program which offset the increase in consumption associated with the additional flying activity.

| **Group Underlying Income Statement Summary**[18] | June 2017 $M | June 2016 $M | Change $M | Change % |
|---|---|---|---|---|
| Net passenger revenue | 13,857 | 13,961 | (104) | (1) |
| Net freight revenue | 808 | 850 | (42) | (5) |
| Other revenue | 1,392 | 1,389 | 3 | – |
| **Revenue and Other Income** | **16,057** | **16,200** | **(143)** | **(1)** |
| Operating expenses (excluding fuel) | (9,683) | (9,529) | (154) | (2) |
| Fuel | (3,039) | (3,235) | 196 | 6 |
| Depreciation and amortisation | (1,382) | (1,224) | (158) | (13) |
| Non-cancellable aircraft operating lease rentals | (356) | (461) | 105 | 23 |
| Share of net loss of investments accounted for under the equity method | (7) | – | (7) | (>100) |
| **Total Expenditure** | **(14,467)** | **(14,449)** | **(18)** | **–** |
| **Underlying EBIT** | **1,590** | **1,751** | **(161)** | **(9)** |
| Net finance costs | (189) | (219) | 30 | 14 |
| **Underlying PBT** | **1,401** | **1,532** | **(131)** | **(9)** |

| **Operating Statistics** | | June 2017 | June 2016 | Change | Change % |
|---|---|---|---|---|---|
| Available Seat Kilometres (ASK)[19] | M | 150,323 | 148,691 | 1,632 | 1 |
| Revenue Passenger Kilometres (RPK)[20] | M | 121,178 | 119,054 | 2,124 | 2 |
| Passengers carried | '000 | 53,659 | 52,681 | 978 | 2 |
| Revenue seat factor[21] | % | 80.6 | 80.1 | 0.5pts | 1 |
| Operating margin[22] | % | 9.9 | 10.8 | (0.9) pts | (8) |
| Unit Revenue (RASK) | c/ASK | 7.93 | 8.08 | (0.2) | (2) |
| Total unit cost | c/ASK | (7.00) | (7.05) | 0.1 | 1 |
| Ex-fuel unit cost | c/ASK | (4.99) | (4.79) | (0.2) | (4) |

Group capacity (Available Seat Kilometres) increased by one per cent, and demand (Revenue Passenger Kilometres) increased by two per cent, resulting in a 0.5 percentage point increase in revenue seat factor. Unit Revenue decreased two per cent in 2016/17 with a decline of five per cent in the first-half of 2016/17 and an increase in Unit Revenue in the second-half of 2016/17 as the oversupply of capacity in both the domestic and international markets moderated. The Group's total unit cost improved five cents per ASK or one per cent.

18 Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT such as those items identified by Management as not representing the underlying performance of the business and adjustments of the impacts of AASB 9 which relate to other reporting periods. Refer to the reconciliation on page 22.
19 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
20 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
21 Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.
22 Group Underlying EBIT divided by Group total revenue.

# Review of Operations continued

For the year ended 30 June 2017

## TURNAROUND COMPLETE, TRANSFORMATION ONGOING

In 2014, the Group embarked upon an ambitious plan to turnaround the business and sustainably reposition Qantas as one of the most successful airline groups in the world and one of the best performing companies in the ASX 100. The Group's balanced scorecard for the Qantas Transformation Program ensured a benefit for the customer in addition to permanent cost reductions.

Customer highlights include:
— Record customer advocacy (NPS) results for Qantas Domestic, Qantas International and Qantas Loyalty[23]
— Completion of the reconfiguration of the A330 fleet, adding 'Business Suites' with lie-flat beds
— Launch of the FlexiBiz product at Jetstar, targeting price conscious small businesses
— Continuation of the global lounge upgrade program, with new lounges completed in Brisbane and updates in London, Perth and Melbourne announced
— Digital innovation focused on enhancing the customer experience and growing revenue

The Qantas Transformation Program, announced in 2013/14 is now complete with all targets met on time, including the achievement of the increased target of $2.1 billion in benefits.

In 2016/17 Transformation benefits of $470 million consisted of:
— Cost reduction of $335 million, including $35 million of fuel efficiency benefits
— Net revenue benefits of $135 million

| | | Target | | Outcome |
|---|---|---|---|---|
| | | Metric | Timeframe | |
| ACHIEVING OUR TARGETS | Accelerated Transformation Benefits | $2.1 billion gross benefits<br>>10 per cent[24] Group ex-fuel expenditure reduction | 2016/17 | $2.13 billion benefits realised<br>Ex-fuel expenditure reduced by 10 per cent[24] |
| | | 5 per cent unit cost gap to domestic competitor[25] | 2016/17 | 3 per cent gap[26] |
| | | 5,000 FTE | 2016/17 | 5000+ fewer FTE[27] |
| | Deleverage Balance Sheet | >$1 billion debt reduction[28] | 2014/15 | Delivered on schedule |
| | | Debt/EBITDA[29]<3.5 times<br>FFO/net debt[30] > 45 per cent | 2016/17 | Delivered ahead of schedule |
| | Cash Flow | Sustainable positive free cash flow[31] | 2014/15 | Delivered on schedule |
| | Fleet Simplification | 11 fleet types to seven | 2015/16 | Eight fleet types<br>Retaining two non-reconfigured 747 (to be retired, first in July 2017) |
| | Customer and Brand | Customer Advocacy (NPS) | 2016/17 | NPS record achieved at Qantas Domestic, Qantas International and Qantas Loyalty |
| | | Maintain premium on-time performance at Qantas Domestic | 2016/17 | Premium on-time performance at 88 per cent[32] for 2016/17 |
| | Engagement | Maintain employee engagement | 2016/17 | Up from 75 per cent (2012/13) to 80 per cent (2016/17) |

23 Measured as Net Promoter Score. Average 2016/17 compared to average 2015/16. Based on Qantas internal reporting.
24 Includes underlying operating expenses (excluding fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable aircraft operating lease rentals, adjusted for movements in FX rates and capacity. 2016/17 compared to annualised first-half 2014/15.
25 Qantas Domestic compared to Virgin Australia Domestic.
26 Source: Published data and Qantas internal estimates.
27 Net Full Time Equivalent (FTE) employee reduction after adjusting for activity and new businesses as at 30 June 2017.
28 Reduction in net debt including capitalised operating lease liabilities.
29 Management's estimate based on Moody's methodology.
30 Management's estimate based on Standard and Poor's methodology.
31 Net free cash flow – operating cash flows less investing cash flows (excluding aircraft operating lease refinancing). 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.
32 Qantas mainline operations (excluding QantasLink) for the period 2016/17. Measured as departures within 15 minutes of scheduled departure time. Source: BITRE.

# Review of Operations continued

For the year ended 30 June 2017

The Group-wide policy of implementing an 18-month wage freeze has helped to offset inflation, build a more competitive and sustainable wage position going forward and closes the gap to our major domestic competitors. 41 agreements have been closed with the wage freeze, covering nearly 23,000 employees. This ongoing reduction of the Group's cost is in addition to the extended $2.1 billion Transformation target. In August 2017, the Group announced a non-executive bonus of $2,500 for full-time and $2,000 for part-time employees, for the successful completion of the turnaround program, subject to the employee group having signed up to the 18-month wage freeze. This bonus will be recognised in 2017/18 as an item outside of Underlying PBT.

From financial year 2017/18, the Group is targeting an annual average of $400 million in gross cost and revenue benefits. This new target focuses on continuous improvement, driving cost and revenue benefits from new technology, creating more efficient operations, and ensuring that the Group holds and strengthens its competitive position in the market.

## CASH GENERATION

| Cash Flow Summary | June 2017 $M | June 2016 $M | Change $M | Change % |
|---|---|---|---|---|
| Operating cash flows | 2,704 | 2,819 | (115) | (4) |
| Investing cash flows (excluding aircraft operating lease refinancing) | (1,395) | (1,145) | (250) | (22) |
| **Net free cash flow** | **1,309** | **1,674** | **(365)** | **(22)** |
| Aircraft operating lease refinancing | (651) | (778) | 127 | 16 |
| Financing cash flows | (854) | (1,825) | 971 | 53 |
| Cash at beginning of year | 1,980 | 2,908 | (928) | (32) |
| Effect of foreign exchange on cash | (9) | 1 | (10) | (>100) |
| **Cash at end of year** | **1,775** | **1,980** | **(205)** | **(10)** |

| Debt Analysis | | June 2017 | June 2016 | Change | Change % |
|---|---|---|---|---|---|
| Net on balance sheet debt[33] | $M | 3,062 | 2,880 | 182 | 6 |
| Capitalised operating lease liabilities[34] | $M | 2,150 | 2,766 | (616) | (22) |
| **Net debt[35]** | | **5,212** | **5,646** | **(434)** | **(8)** |
| FFO/net debt[36] | % | 58 | 52 | 6 pts | |
| Debt/EBITDA[37] | times | 2.3 | 2.5 | (0.2 times) | |

Operating cash flows were strong at $2.7 billion, reflecting cost and revenue benefits realised through the Qantas Transformation Program and lower AUD fuel prices.

Net capital expenditure[38] of $1.5 billion included investment in replacement fleet such as the progress payments for the Boeing 787-9 for Qantas International and customer experience initiatives including lounges, the continuation of the Airbus A330 reconfiguration program and Wi-Fi installation on the Qantas Domestic fleet. Qantas generated $1.3 billion of net free cash flow in the period, facilitating net debt reduction and returns to shareholders of $627 million.

With reduced financial leverage and minimal near-term refinancing risk, the Group has continued to optimise the mix of liquidity with less requirement for short-term liquidity held in cash. The Group used $651 million cash in excess of its short-term requirements to purchase 19 aircraft out of maturing operating leases. Using the Group's existing cash balance in this way achieved the following benefits:

— Reduced gross debt and cost of carry with minimal impact to net debt
— Greater fleet and maintenance planning flexibility
— Reduced exposure to USD lease rentals
— Increased unencumbered aircraft to 62 per cent of the fleet with an approximate value of US$3.8 billion[39]

Qantas 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 and earnings scenarios. At 30 June 2017, the Group's leverage metrics were well within investment grade metrics (BBB/Baa) with FFO/net debt of 58 per cent and Debt/EBITDA of 2.3 times.

33 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents.
34 Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate.
35 Net debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.
36 Management's estimate based on Standard and Poor's methodology.
37 Management's estimate based on Moody's methodology.
38 Net capital expenditure of $1.5 billion is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) and the impact to invested capital of commencing new aircraft operating leases.
39 Based on AVAC market values.

# Review of Operations continued

For the year ended 30 June 2017

## FLEET

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

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

During the year, the Group continued to cross utilise the A330-200 and 737-800 aircraft between Qantas Domestic and Qantas International, optimising capacity to match demand. These aircraft were released from Qantas Domestic through capacity right sizing in markets impacted by the decline in resources market activity. This included the down gauging of 737-800 services to 717 services, and the down gauging of 717 services to F100 and Q400 services.

At 30 June 2017, the Qantas Group fleet[40] totalled 309 aircraft. During 2016/17, the Group purchased three passenger aircraft and one freighter and leased two additional passenger aircraft:
— QantasLink –three F100s
— Qantas Freight – one 737-400SF
— Jetstar – two A321-200s

## SEGMENT PERFORMANCE

| Segment Performance Summary | June 2017 $M | June 2016 $M | Change $M | Change % |
|---|---|---|---|---|
| Qantas Domestic | 645 | 578 | 67 | 12 |
| Qantas International | 327 | 512 | (185) | (36) |
| Jetstar Group | 417 | 452 | (35) | (8) |
| Qantas Freight | 47 | 64 | (17) | (27) |
| Qantas Loyalty | 369 | 346 | 23 | 7 |
| Corporate | (173) | (168) | (5) | (3) |
| Unallocated/Eliminations | (42) | (33) | (9) | (27) |
| **Underlying EBIT** | **1,590** | **1,751** | **(161)** | **(9)** |
| Net finance costs | (189) | (219) | 30 | 14 |
| **Underlying PBT** | **1,401** | **1,532** | **(131)** | **(9)** |

## QANTAS DOMESTIC

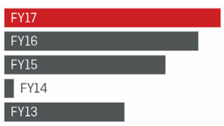
**Revenue**

**5,632** $M


| | |
|---|---|
| **FY17** | **5,632** |
| FY16 | 5,710 |
| FY15 | 5,828 |
| FY14 | 5,848 |
| FY13 | 6,218 |

**Underlying EBIT**

**645** $M




| | |
|---|---|
| **FY17** | **645** |
| FY16 | 578 |
| FY15 | 480 |
| FY14 | 30 |
| FY13 | 365 |

**Operating Margin**

**11.5** %


| | |
|---|---|
| **FY17** | **11.5%** |
| FY16 | 10.1% |
| FY15 | 8.2% |
| FY14 | 0.5% |
| FY13 | 5.9% |

| Metrics | | June 2017 | June 2016 | Change |
|---|---|---|---|---|
| ASKs | M | 35,231 | 36,260 | (2.8)% |
| Seat factor | % | 76.4 | 75.2 | 1.2pts |

Qantas Domestic reported a record Underlying EBIT of $645 million, up 12 per cent from the previous record result in 2015/16. Through the second half there was an improving revenue trend with full-year Unit Revenue up three per cent compared to 2015/16. Right sizing in the resources market and targeted east coast growth resulted in a net three per cent capacity reduction.

40 Includes Qantas Airways, Jetstar Australia and New Zealand, Jetstar Asia, Qantas Freight and Network Aviation, and excludes aircraft operated by Jetstar Japan and Jetstar Pacific.

# Review of Operations continued

For the year ended 30 June 2017

The dual brand strategy together with the benefits of transformation and investment in our customers continues to deliver leading margins in the Australian domestic market, with the operating margin for Qantas Domestic up 1.4 percentage points to 11.5 per cent.

Qantas Domestic saw strong performance in all key operational metrics including:
— On-time performance at premium levels of 87.6 per cent[41]
— Customer advocacy (NPS)[42] increased to record levels with a 23 point premium to its main competitor[43]
— Passenger seat factor increased 1.2 percentage points to 76.4 per cent

## QANTAS INTERNATIONAL

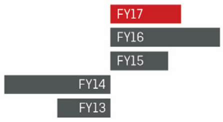
**Revenue**

**5,708** $M


| | |
|---|---|
| **FY17** | **5,708** |
| FY16 | 5,750 |
| FY15 | 5,467 |
| FY14 | 5,297 |
| FY13 | 5,496 |

**Underlying EBIT**

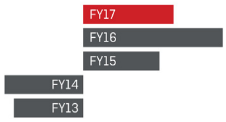
**327** $M




| | |
|---|---|
| **FY17** | **327** |
| FY16 | 512 |
| FY15 | 267 |
| FY14 | (497) |
| FY13 | (246) |

**Operating Margin**

**5.7** %




| | |
|---|---|
| **FY17** | **5.7%** |
| FY16 | 8.9% |
| FY15 | 4.9% |
| FY14 | (9.4%) |
| FY13 | (4.5%) |

| Metrics | | June 2017 | June 2016 | Change |
|---|---|---|---|---|
| ASKs | M | 66,389 | 63,599 | 4.4% |
| Seat factor | % | 81.0 | 81.7 | (0.7)pts |

The three year Qantas Transformation Program that delivered over $850 million in benefits has helped to build a more resilient Qantas International. Underlying EBIT of $327 million represents the second highest earnings result, beaten only by the record performance in 2015/16. Qantas International also achieved a strong margin of 5.7 per cent and Return on Invested Capital greater than its weighted average cost of capital in a very competitive market.

Key drivers of the result included:
— Unit Revenue decline of 6.5 per cent across the full year, and four per cent in the second half as competitor capacity additions moderated
— Growth in capacity of 4.4 per cent achieved through leveraging existing Group fleet in response to demand shifts

Consistent with the Group's strategic priority of aligning its international airlines with Asia's growth, these surplus aircraft have allowed Qantas International to grow services to attractive international markets in Asia without significantly increasing the Group's Invested Capital.

Through continued investment in product and service, Qantas International achieved another record customer advocacy score[42]. The Brisbane International lounge was completed during the first half of the financial year and the London lounge and Perth integrated hub lounge are due for completion during the next financial year, ready for commencement of the landmark Perth to London 787-9 Dreamliner service. The first Dreamliner is due in October 2017 with four delivered by March 2018.

41 On-time performance (OTP) of Qantas Domestic Mainline (excluding QantasLink) operations. Measured as departures within 15 minutes of scheduled departure time. Source: BITRE.
42 Average 2016/17 Net Promotor Score based on internal Qantas reporting.
43 Competitor refers to Virgin Australia. Based on Qantas internal reporting.

# Review of Operations continued

For the year ended 30 June 2017

## JETSTAR GROUP

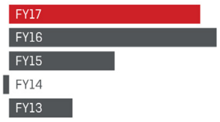
**Revenue**

**3,600** $M


| | |
|---|---|
| **FY17** | **3,600** |
| FY16 | 3,636 |
| FY15 | 3,464 |
| FY14 | 3,222 |
| FY13 | 3,288 |

**Underlying EBIT**

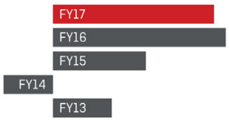
**417** $M




| | |
|---|---|
| **FY17** | **417** |
| FY16 | 452 |
| FY15 | 230 |
| FY14 | (116) |
| FY13 | 138 |

**Operating Margin**

**11.6** %




| | |
|---|---|
| **FY17** | **11.6** |
| FY16 | 12.4% |
| FY15 | 6.6% |
| FY14 | (3.6%) |
| FY13 | 4.2% |

| Metrics | | June 2017 | June 2016 | Change |
|---|---|---|---|---|
| ASKs | M | 48,703 | 48,832 | (0.3)% |
| Seat factor | % | 83.1 | 81.5 | 1.6pts |

Jetstar Group reported Underlying EBIT of $417 million, the second highest earnings result in its 13 year history as it was able to partially offset the impact of booking and service fee changes and softer freight yields.

Key highlights of the Jetstar Group result include:

— Highest margin Australian airline
— Jetstar Domestic Unit Revenue increased by two per cent on flat capacity
— Strong profit contribution from Jetstar International
— The performance of Jetstar's Asian portfolio continues to improve with Jetstar Asia (Singapore) remaining profitable in a highly competitive market and Jetstar Japan maintaining its Low Cost Carrier (LCC) leadership position. Jetstar Pacific's performance continues to be challenged by intense competition through aggressive competitor capacity growth.

Jetstar continues to invest in the customer experience, rolling out comprehensive service training to more than 4,000 team members. Meanwhile, investments in digital transformation are improving its data analytics capability and innovative customer experience offerings such as straight to gate mobile check-in and the new small business product offering.

## QANTAS FREIGHT

**Revenue**

**938** $M


| | |
|---|---|
| **FY17** | **938** |
| FY16 | 982 |
| FY15 | 1,067 |
| FY14 | 1,084 |
| FY13 | 1,056 |

**Underlying EBIT**

**47** $M


| | |
|---|---|
| **FY17** | **47** |
| FY16 | 64 |
| FY15 | 114 |
| FY14 | 24 |
| FY13 | 36 |

**Operating Margin**

**5.0** %


| | |
|---|---|
| **FY17** | **5.0%** |
| FY16 | 6.5% |
| FY15 | 10.7% |
| FY14 | 2.2% |
| FY13 | 3.4% |

| Metrics | | June 2017 | June 2016 | Change |
|---|---|---|---|---|
| International capacity[44] | B | 3.4 | 3.3 | 3.0% |
| International load[45] | % | 54.2 | 53.4 | 0.8pts |

Qantas Freight reported an Underlying EBIT of $47 million, down 27 per cent on the prior year as Transformation benefits partially offset softer demand and adverse foreign exchange on revenue. The new 737-400 freighter will enable further growth opportunities in the domestic market.

Customer advocacy[46] continues to improve, with further investment in next generation digital platforms expected to enhance the customer experience.

44 International capacity measured as international available freight tonne kilometres.
45 International load is measured as international revenue freight tonne kilometres divided by international Available Freight Tonne Kilometres.
46 Measured as Net Promoter Score. Based on Qantas internal reporting.

# Review of Operations continued

For the year ended 30 June 2017

## QANTAS LOYALTY

**Revenue**

**1,505** $M


| | |
|---|---|
| **FY17** | **1,505** |
| FY16 | 1,454 |
| FY15 | 1,362 |
| FY14 | 1,306 |
| FY13 | 1,205 |

**Underlying EBIT**

**369** $M


| | |
|---|---|
| **FY17** | **369** |
| FY16 | 346 |
| FY15 | 315 |
| FY14 | 286 |
| FY13 | 260 |

**Operating Margin**

**24.5** %


| | |
|---|---|
| **FY17** | **24.5%** |
| FY16 | 23.8% |
| FY15 | 23.1% |
| FY14 | 21.9% |
| FY13 | 21.6% |

| Metrics | | June 2017 | June 2016 | Change |
|---|---|---|---|---|
| QFF members | M | 11.8 | 11.4 | 3.7% |

Qantas Loyalty reported another record result with Underlying EBIT of $369 million, up seven per cent compared to 2015/16, with the second half reporting double digit earnings[47] growth. Highlights include the strong ramp up of opt in to the new Woolworths program and the growth of new businesses.

Qantas Loyalty continues to see strength from the coalition business with:
— Qantas Frequent Flyer co-branded credit card issuance growing at three times the market rate[48] as financial services partners invest in strong earn propositions for their customers
— An additional 22 new coalition partners, 12 of which are in the business to business space
— 27 per cent growth in Qantas Business Rewards membership since launch
— Qantas Cash awarded a five star rating by Canstar[49]
— A record Net Promoter Score as high member engagement was maintained
— Memberships reaching 11.8 million in the year

The Qantas Loyalty new businesses continue to perform to expectations with:
— Assure Health insurance representing 30 per cent of the industry's growth[50]
— The Assure Life insurance product launched in the second half of 2016/17
— The Qantas Money product range extended with the introduction of the Qantas Premier credit card
— Data Republic and Red Planet continuing to leverage one of the most valuable data sets in Australia

The coalition and new businesses will drive growth and continued diversification of earnings to ensure Qantas Loyalty reaches its longer-term targets.

47 Underlying EBIT.
48 Based on number of personal credit card accounts with interest free periods. Market growth calculated excluding Qantas' contribution to market. Based on June 2017 compared to June 2016. Source: RBA credit and card charges statistics.
49 Travel Money Card 2017.
50 Twelve months to June 2017 on a net persons covered basis. Source: APRA PHI Statistics for June 2017.

# Review of Operations continued

For the year ended 30 June 2017

## RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax of $1,181 million for the year ended 30 June 2017 is $243 million lower than the previous 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, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying EBIT. The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Underlying PBT is derived by adjusting Statutory Profit Before Tax for the impacts of ineffectiveness and non-designated derivatives relating to other reporting periods and certain other items which are not included in Underlying PBT.

| | 2017 $M | 2016 $M |
|---|---|---|
| **Reconciliation of Underlying PBT to Statutory Profit Before Tax** | | |
| **Underlying PBT** | **1,401** | **1,532** |
| **Ineffectiveness and non-designated derivatives relating to other reporting periods** | **–** | **(15)** |
| *Other items not included in Underlying PBT* | | |
| — Transformation costs | (142) | (183) |
| — Wage Freeze bonus and Record Results employee bonus | (85) | (91) |
| — Net gain on disposal of Sydney Airport Terminal Three | – | 201 |
| — Other | 7 | (20) |
| **Total other items not included in Underlying PBT** | **(220)** | **(93)** |
| **Statutory Profit Before Tax** | **1,181** | **1,424** |

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

**i. Ineffectiveness and non-designated derivatives relating to other reporting periods**

The difference between Statutory Profit Before Tax and Underlying PBT results from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

**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, impairments of assets and other transactions outside the ordinary course of business.

- Transformation costs relating to the Qantas Transformation Program of $142 million were incurred during the period (2016: $183 million).
- The Wage Freeze bonus and Record Results employee bonus of $85 million (2016: $91 million) comprises the Wage Freeze bonus of $9 million and the Record Results bonus of $76 million. Both bonuses are payable to employees covered by an EBA that includes an 18-month pay freeze in accordance with the Group's wage strategy.
- Other includes a reversal of impairment of $22 million in relation to the investment in Helloworld Travel Ltd. The reversal of impairment has been recognised as an item outside of Underlying PBT consistent with the treatment of the original impairment.

# Review of Operations continued

For the year ended 30 June 2017

## MATERIAL BUSINESS RISKS

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or an epidemic. Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects. The Group's focus is on continuously improving the controls to manage or mitigate these risks as the nature of these risks has not changed.

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

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

— **Fuel and foreign exchange volatility:** The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2017/18, the Group's hedging profile is positioned such that the worst case total fuel cost is $3.2 billion[51] with a 50 per cent participation rate[52] to lower fuel prices (at current forward market prices, total fuel cost for 2017/18 is $3.1 billion[53]). Complementing the hedging program, increased focus on forecasting and operational agility of our aviation operations support the Group to manage the residual uncertainty.

— **Cyber security and privacy regulation:** The cyber security and privacy regulatory environment is continuing to evolve. Qantas remains focused on further strengthening its governance, processes and technology controls to continue to protect the integrity and privacy of data, and maintain compliance with regulatory requirements. The Qantas Group's ongoing investment in cyber transformation initiatives, together with its extensive Control and Risk Framework[54] operate to reduce the likelihood of cyber security incidents, ensuring early detection and the mitigation of impact.

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

— **Climate change:** The Qantas Group is subject to short and long-term climate-related physical, regulatory and transition risks. These risks are an inherent part of the operations of an airline and are managed by strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate politics) impact the proximity of climate-related risks.

51 As at 22 August 2017, the worst case total fuel cost based on a 2-standard deviation move in Brent forward market prices to US$64/bbl and an assumed correlated AUD/USD rate at 0.84, for the remainder of 2017/18.
52 As at 22 August 2017, participation from current market Brent prices down to A$54/bbl for remainder of 2017/18.
53 As at 22 August 2017, the current forward market price total fuel cost is based on a Brent forward market price of A$64/bbl for the remainder of 2017/18.
54 An overview of the Group Risk Management Framework is contained in the Qantas Group Business Practices Document available on www.qantas.com.au.

# Corporate Governance Statement

For the year ended 30 June 2017

## OVERVIEW

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

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

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

Accordingly, Qantas Airways Limited has taken the opportunity to disclose its 2017 Corporate Governance Statement in the Corporate Governance section on the Qantas website (http://www.qantas.com/travel/ airlines/governance-structure/global/en). 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 (http://www.qantas.com.au/infodetail/about/corporateGovernance/BoardCharter.pdf).

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 ten Directors. Nine Directors are Independent Non-Executive Directors elected by shareholders. The Qantas CEO, who is an Executive Director, is not regarded as independent.

Details of the current Directors, their qualifications, skills, experience and tenure are set out on pages 8 to 11 of the Qantas Annual Report 2017.

The Board has four committees:
— Audit Committee
— Nominations Committee
— Remuneration Committee
— Safety, Health, Environment and Security Committee

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

Membership of and attendance at 2016/17 Board and committee meetings is detailed on page 26 of the Qantas Annual Report 2017.

## 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.

# Corporate Governance Statement continued

For the year ended 30 June 2017

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

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

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

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

### THE BOARD MAKES TIMELY AND BALANCED DISCLOSURE

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

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

### THE BOARD RESPECTS THE RIGHTS OF SHAREHOLDERS

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

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

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

### THE BOARD RECOGNISES AND MANAGES RISK

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

During 2016/17, the two Board committees responsible for oversight of risk-related matters, the Audit Committee and the Safety, Health, Environment and Security Committee, undertook their annual review of the effectiveness of Qantas' implementation of its risk management system and internal control framework.

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

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

### THE BOARD REMUNERATES FAIRLY AND RESPONSIBLY

The Qantas Executive remuneration objectives and approach are set out 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 30 to 52 of the Qantas Annual Report 2017.

Qantas Non-Executive Directors are entitled to statutory superannuation and certain travel entitlements (accrued during service) that are reasonable and standard practice in the aviation industry. Non-Executive Directors do not receive any performance-based remuneration (see pages 51 to 52 of the Qantas Annual Report 2017).

# Directors' Report

For the year ended 30 June 2017

The Directors of Qantas Airways Limited (Qantas) present their Report, together with the Financial Statements of the consolidated entity comprising Qantas and its controlled entities (Qantas Group) and the Independent Audit Report, for the year ended 30 June 2017. In compliance with the provisions of the *Corporations Act 2001*, the Directors' Report is set out below.

### DIRECTORS

The Directors of Qantas during the year were:

Leigh Clifford AO

Alan Joyce AC

Maxine Brenner

Richard Goodmanson

Jacqueline Hey

Michael L'Estrange AO

William Meaney

Paul Rayner

Todd Sampson

Barbara Ward AM

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

### PRINCIPAL ACTIVITIES

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

### DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

The Directors declared a final dividend of $127 million (7.0 cents per ordinary share) for the year ended 30 June 2017 (2016: 7.0 cents per share).

The final dividend will be unfranked and follows a 50 per cent franked interim dividend of $127 million (7.0 cents per ordinary share), which was paid during the year.

In addition, the Directors announced an on-market share buy-back of up to $373 million. During the year, the Group completed an on-market buy-back of $366 million.

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

Any matter or circumstance that has arisen since the end of the year that may affect the Qantas Group's state of affairs in future financial years has been included in page 88 to the Financial Statements.

### REVIEW OF OPERATIONS

A review of, and information about, the Qantas Group's operations, including the results of those operations during the year together with information about the Qantas Group's financial position appear on pages 12 to 23.

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

### EVENTS SUBSEQUENT TO BALANCE DATE

Refer to page 88 for events which occurred subsequent to balance date. Other than the matters disclosed on page 88, since the end of the year and to the date of this Report no other matter or circumstance has arisen that has significantly affected or may significantly affect the Qantas Group's operations, results of those operations or state of affairs in future years.

### DIRECTORS' MEETINGS

The number of Directors' meetings held (including meetings of Committees of Directors) and attendance of Directors during 2016/2017 is as follows:

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

1. All Directors are invited to, and regularly attend, committee meetings in an ex officio capacity. The above table reflects the attendance of a Director only where he or she is a member of the relevant committee.
2. Sub-Committee meetings convened for specific Board-related business.
3. Number of meetings held during the period that the Director held office.
4. Number of meetings held and requiring attendance.

# Directors' Report continued

For the year ended 30 June 2017

**DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2017 – FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2017**

| | | |
|---|---|---|
| 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<br>Origin Energy Limited<br>Orica Limited<br>Growthpoint Properties Australia Limited | — Current, appointed 29 August 2013<br>— Current, appointed 15 November 2013<br>— Current, appointed 8 April 2013<br>— Current, appointed 19 March 2012 |
| Richard Goodmanson | Qantas Airways Limited<br>Rio Tinto Limited<br>Rio Tinto plc | — Current, appointed 19 June 2008<br>— Ceased, appointed 1 December 2004 and ceased 5 May 2016<br>— Ceased, appointed 1 December 2004 and ceased 5 May 2016 |
| Jacqueline Hey | Qantas Airways Limited<br>AGL Energy Limited<br>Australian Foundation Investment Company<br>Bendigo and Adelaide Bank Limited | — Current, appointed 29 August 2013<br>— Current, appointed 21 March 2016<br>— Current, appointed 31 July 2013<br>— Current, appointed 5 July 2011 |
| Michael L'Estrange | Qantas Airways Limited<br>Rio Tinto Limited<br>Rio Tinto plc | — Current, appointed 7 April 2016<br>— Current, appointed 1 September 2014<br>— Current, appointed 1 September 2014 |
| William Meaney | Qantas Airways Limited<br>Iron Mountain Inc | — Current, appointed 15 February 2012<br>— Current, appointed 7 January 2013 |
| Paul Rayner | Qantas Airways Limited<br>Treasury Wine Estates Limited<br>Boral Limited<br>Centrica plc | — Current, appointed 16 July 2008<br>— Current, appointed 9 May 2011<br>— Current, appointed 5 September 2008<br>— Ceased, appointed 22 September 2004 and ceased 31 December 2014 |
| Todd Sampson | Qantas Airways Limited<br>Fairfax Media Limited | — Current, appointed 25 February 2015<br>— Current, appointed 29 May 2014 |
| Barbara Ward | Qantas Airways Limited<br>Caltex Australia Limited<br>Brookfield Capital Management Limited[1]<br>Brookfield Funds Management Limited[2] | — Current, appointed 19 June 2008<br>— Current, appointed 1 April 2015<br>— Current, appointed 1 January 2010<br>— Current, appointed 22 October 2003 |

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

**QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF QANTAS AS AT 30 JUNE 2017**

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

# Directors' Report continued

For the year ended 30 June 2017

## DIRECTORS' INTERESTS AND BENEFITS

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

| | Number of Shares | |
|---|---|---|
| Directors | 2017 | 2016 |
| Leigh Clifford | 362,613 | 362,613 |
| Alan Joyce | 2,728,924 | 2,728,924 |
| Maxine Brenner | 30,065 | 30,065 |
| Richard Goodmanson | 18,780 | 18,780 |
| Jacqueline Hey | 38,170 | 38,170 |
| Michael L'Estrange | 6,012 | – |
| William Meaney | – | – |
| Paul Rayner | 270,324 | 220,324 |
| Todd Sampson | 4,695 | 4,695 |
| Barbara Ward | 44,694 | 44,694 |

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

| | Number of Shares | |
|---|---|---|
| | 2017 | 2016 |
| **Deferred shares held in trust under:** | | |
| 2014/15 Short Term Incentive Plan | –[1] | 258,062 |
| 2015/16 Short Term Incentive Plan | 490,738 | 490,738 |
| 2016/17 Short Term Incentive Plan | 347,012[2] | – |

1. The deferred shares under the 2014/15 Short Term Incentive Plan were released from restriction and transferred to Mr Joyce following the release of the 2016/2017 full-year financial results.
2. The deferred shares under the 2016/17 Short Term Incentive Plan were awarded to Mr Joyce following the release of the 2016/2017 full-year financial results.

| | Number of Rights | |
|---|---|---|
| | 2017 | 2016 |
| **Rights granted under:** | | |
| 2015–2017 Long Term Incentive Plan | –[1] | 3,248,000 |
| 2016–2018 Long Term Incentive Plan | 947,000[2] | 947,000 |
| 2017–2019 Long Term Incentive Plan | 1,172,000[3] | – |
| **Total Rights** | **2,119,000** | **4,195,000** |

1. Following the testing of performance hurdles as at 30 June 2017 and the Board's approval of the 2015–2017 Long Term Incentive Plan (LTIP) vesting outcome on 24 August 2017, 100 per cent of the 2015–2017 LTIP Rights awarded to Mr Joyce on 24 October 2014 vested and converted to 3,248,000 shares after the release of the 2016/2017 full-year financial results.
2. Shareholders approved the award of these Rights on 23 October 2015. Performance hurdles will be tested as at 30 June 2018 to determine whether any Rights vest to Mr Joyce.
3. Shareholders approved the award of these Rights on 21 October 2016. Performance hurdles will be tested as at 30 June 2019 to determine whether any Rights vest to Mr Joyce.

## 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 38 to 41 for further details.

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

| | Number of Rights | |
|---|---|---|
| Performance Rights Reconciliation | 2017 | 2016 |
| Rights outstanding as at 1 July | 70,891,615 | 80,309,588 |
| Rights granted | 7,495,500 | 6,086,500 |
| Rights forfeited | (3,495,500) | (3,995,000) |
| Rights lapsed | – | (1,719,450) |
| Rights exercised | (10,139,115) | (9,790,023) |
| **Rights outstanding as at 30 June** | **64,752,500[1]** | **70,891,615** |

1. The movement of Rights outstanding as at 30 June 2017 to the date of this Report is explained in the footnotes on page 29.

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

# Directors' Report continued

For the year ended 30 June 2017

The following Rights were outstanding at 30 June 2017:

| | | | | Number of Rights | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Testing Period | Grant Date | Value at Grant Date | 2017 Net Vested | 2017 Unvested | 2017 Total | 2016 Net Vested | 2016 Unvested | 2016 Total |
| 2006 Performance Rights Plan | 30 Jun 09 – 30 Jun 11[1] | 4 Oct 06 | $2.95 | – | – | **–** | 111,115 | – | **111,115** |
| 2014–2016 Long Term Incentive Plan | 30 Jun 16[2] | 18 Oct 13 | $0.83 | – | – | **–** | – | 10,208,000 | **10,208,000** |
| 2015–2017 Long Term Incentive Plan | 30 Jun 17[3] | 15 Sep 14 | $0.972 | – | 45,284,000 | **45,284,000** | – | 48,024,000 | **48,024,000** |
| 2015–2017 Long Term Incentive Plan | 30 Jun 17[3] | 24 Oct 14 | $0.97 | – | 4,349,500 | **4,349,500** | – | 4,457,000 | **4,457,000** |
| 2015–2017 Long Term Incentive Plan | 30 Jun 17[3] | 3 May 15 | $3.05 | – | 1,962,500 | **1,962,500** | – | 2,202,000 | **2,202,000** |
| 2016–2018 Long Term Incentive Plan | 30 Jun 18 | 1 Sep 15 | $2.09 | – | 4,665,000 | **4,665,000** | – | 4,893,500 | **4,893,500** |
| 2016–2018 Long Term Incentive Plan | 30 Jun 18 | 23 Oct 15 | $2.46 | – | 996,000 | **996,000** | – | 996,000 | **996,000** |
| 2017–2019 Long Term Incentive Plan | 30 Jun 19 | 5 Sep 16 | $1.96 | – | 6,148,500 | **6,148,500** | – | – | **–** |
| 2017–2019 Long Term Incentive Plan | 30 Jun 19 | 21 Oct 16 | $1.95 | – | 1,347,000 | **1,347,000** | – | – | **–** |
| **Total** | | | | **–** | **64,752,500** | **64,752,500** | **111,115** | **70,780,500** | **70,891,615** |

1. These Rights convert to Qantas shares on the 10th anniversary of the date of award, however Executives may call for the Rights to be converted sooner at their request.
2. Following the testing of performance hurdles as at 30 June 2016 and the Board's approval of the 2014–2016 vesting outcome on 23 August 2016, 100 per cent of Rights vested and converted to shares after the release of the 2015/2016 full-year financial results.
3. Following the testing of performance hurdles as at 30 June 2017 and the Board's approval of the 2015–2017 vesting outcome on 24 August 2017, 100 per cent of Rights vested and converted to shares after the release of the 2016/2017 full-year financial results.

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED)

### COVER LETTER TO THE REMUNERATION REPORT

Dear Shareholder,

The Remuneration Report sets out remuneration information for the Chief Executive Officer (CEO), direct reports to the CEO (Executive Management) and Non-Executive Directors. We have provided a summary of the Remuneration Report which outlines:
— The Remuneration Framework and how it was applied for 2016/2017
— The remuneration outcomes for the CEO
— Changes to the Remuneration Framework that will apply from 2017/2018

**Remuneration Outcomes in 2016/2017**

2016/2017 was another excellent year for Qantas and its shareholders. We continued to meet the commitments we have made to shareholders, outperformed our competitors and delivered another fantastic result. Accordingly, Qantas' share price has more than doubled over the course of the year and our Total Shareholder Return (or TSR) was the best of all companies in the ASX100.

These results are reflected in the 2016/2017 remuneration outcomes for the CEO and Executive Management. Incentives were paid under both the Short Term Incentive Plan (STIP), and the 2015–2017 Long Term Incentive Plan (LTIP). However we note that:
— Statutory remuneration disclosures are **lower** than 2015/2016 (6% lower for the CEO)
— Annual incentives were paid, however at a **lower** level than 2015/2016 (23% lower for the CEO)
— Total cash pay was **lower** than 2015/2016 (28% lower for the CEO)
— Total pay outcomes were **higher** than in 2015/2016 (3% higher excluding the impact of share price growth for the CEO), due to the vesting of the 2015–2017 LTIP

**Share Price Performance**

Over the past 3 years, Qantas' share price has increased from $1.26 (on 30 June 2014) to $5.72 (on 30 June 2017), driven by the sustainable structural changes delivered under the Transformation program. Our TSR (which includes share price growth and dividends) of +372% over these 3 years positions Qantas as:
— The best performing stock of all companies in the ASX100
— The best performing stock of the 17 airlines that comprise our Global Listed Airlines peer group

The LTIP awards made to Executives in 2014 were at a higher level than in a normal year, due to a one-off pay remix for Executives that involved decreasing the weighting towards annual incentives and increasing the weighting towards long term incentives for that year. This change further aligned the Management team with the immediate priorities of the 3-year Qantas Transformation.

These LTIP awards vested in full based on Qantas' exceptional TSR performance over the 3-year performance period. The value of the shares awarded under these plans has also increased. It is worth noting that statutory remuneration disclosures do not reflect the impact of this share price growth on the value of equity awards. Therefore, as part of our remuneration outcomes disclosures we highlight the value in the LTIP that was driven by this share price growth.

The CEO's remuneration outcome for 2016/2017 was $10.1 million ($7.9 million on a statutory disclosure basis). The CEO also realised an additional $14.5 million via the LTIP, driven by the share price growth over the previous 3 years.

**Changes to the Remuneration Framework for 2017/2018**

During 2016/2017, the Remuneration Committee reviewed the Remuneration Framework and as a result approved changes that ensure continued alignment of pay with business objectives, performance and shareholder experience. The following changes to the Remuneration Framework will apply from 1 July 2017:
— A new cap (maximum outcome) will apply under the annual incentive plan
— The CEO's pay mix will change, with a higher weighting to long term incentives, offset by a reduced weighting to annual incentives
— Rights awarded under the LTIP will be made using a face value allocation methodology

More detail on the 2016/2017 remuneration outcomes and the changes to the Framework is provided in this Report.

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

**Paul Rayner**
**Chairman, Remuneration Committee**

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### 1 REMUNERATION REPORT SUMMARY

The 2016/2017 remuneration outcomes under the Qantas Executive Remuneration Framework are summarised as follows:

#### BASE PAY OUTCOMES FOR 2016/2017

Qantas' restrained approach to Base Pay continued during 2016/2017. The CEO's Base Pay again remained unchanged.

2 of the 5 other Executive Key Management Personnel (KMP) (Mr Evans and Ms Hrdlicka) received 3% Base Pay increases, their first increases since 2012. The Base Pay did not change for the remaining 3 Executive KMPs.

Base Bay for each Executive KMP is provided on page 48.

#### ANNUAL INCENTIVE PLAN OUTCOMES FOR 2016/2017

**Highlights of the 2016/17 STIP:**

- Scorecard outcome of 140% aligned to strong business performance:
  - Excellent financial, customer and operational performance
  - Qantas 1-year TSR was ranked first in the ASX100
- STIP awards for 2016/2017 are ~20% lower than 2015/2016
- Increased deferral: more than half of 2016/17 STIP awards were deferred into shares with a 2-year restriction period

**What is the STIP?**

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

Individual STIP awards are calculated using the following formula:

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

The STIP 'Target' Opportunity varies by individual and is expressed as a percentage of Base Pay of between 80% and 120%.

**What were the performance measures that comprise the 2016/17 STIP Scorecard?**

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

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

The complete STIP Scorecard performance measures and outcomes are detailed on page 42.

**What was the 2016/17 STIP Scorecard Outcome?**

The 2016/17 STIP Scorecard Outcome was 140%. This Scorecard Outcome was determined based on the Board's assessment of Management's achievement against the Scorecard's performance measures.

The Board's approach to setting the Underlying PBT target is provided in the call-out box to the right.

The Board's assessment of the CEO's and Management's contribution to these performance measures is provided on page 43.

**How were 2016/17 STIP awards delivered?**

The delivery of the 2016/17 STIP awards was as follows:

- The portion of the STIP award referable to the 'Target' STIP Scorecard result (at 100%) was awarded 2/3rds cash and 1/3rd in deferred shares
- The portion of the STIP award associated with the 40% STIP Scorecard overdrive was deferred entirely into shares

Based on this approach, the 2016/17 STIP awards were delivered in the following combination of cash and shares:

**Cash:** 48% **Shares** (with a 2-year restriction period): 52%

**How are 2016/17 STIP outcomes disclosed?**

In addition to the required statutory remuneration disclosures, Qantas chooses to disclose the full value of the 2016/17 STIP awards that were made in relation to the 2016/2017 year, disclosing both:

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

**Setting the Underlying PBT Target**

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

While this is a challenging process, the Board has an excellent track record of setting challenging profit targets that reflect both the operating environment and requirement to deliver sustainable returns to shareholders. For example, profit targets and thresholds were not achieved for the 3 years from 2011/2012 through to 2013/2014, but the profit target was achieved in 2014/2015 and 2015/2016 driven by Qantas' excellent profit results in those years.

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

The Underlying PBT target for 2016/2017 was set in a difficult international revenue environment. These revenue challenges did play out in 2016/2017 with significant yield pressure experienced. Qantas managed this unit revenue decline more effectively than many of our competitors and was therefore able to deliver an excellent result, both:

- In absolute terms, with a ROIC of 20.1%
- In relative terms, outperforming regional airline peers

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

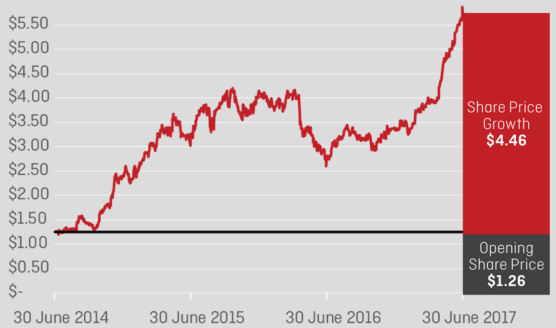
### LONG TERM INCENTIVE PLAN OUTCOMES FOR 2016/2017

**Highlights of the LTIP for 2016/2017:**

— 100% of Rights vested due to superior TSR performance of +372% over the past 3 years
— Qantas 3-year TSR was ranked:
- 1st in the ASX100
- 1st in the airline peer group

— The number of Rights awarded under the 2015-2017 LTIP was higher than standard, due to one-off 'Pay Remix' in 2014/2015 aligned to Transformation
— Share price growth drove value in LTIP

QANTAS SHARE PRICE GROWTH




**What is the LTIP?**

The LTIP involves an upfront award of a fixed number of Rights. The number of Rights allocated was determined applying the following formula:

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

The LTIP 'Target' opportunity varies by individual and was expressed as a percentage of Base Pay of between 50% and 80% on a fair value basis.

If performance conditions and service conditions are achieved over a 3-year period, Rights vest and convert to Qantas shares.

**What are the performance conditions under the LTIP?**

Qantas' 3-year TSR performance compared to:
— ASX100 companies
— An airline peer group

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

Over the 3-year performance period of the 2015-2017 LTIP, the Qantas share price grew from $1.26 to $5.72, and together with dividends paid delivered an exceptional TSR performance of +372%.

Qantas' TSR performance over these 3 years ranked:
— 1st compared to ASX100 companies
— 1st compared to the airline peer group

**What was the level of vesting achieved under the 2015-2017 LTIP?**

Based on Qantas' exceptional TSR performance, 100% of Rights vested and converted to Qantas shares.

**Why did Executives receive a larger than normal award of Rights under the 2015-2017 LTIP?**

Executives received a larger award under the 2015-2017 LTIP, due to the 'Pay Remix' in 2014/2015. This one-off change in 2014/2015 involved a decrease in that year's annual incentive opportunity, offset by an increase in that year's long term incentive opportunity to align remuneration to the 3-year Transformation program.

This is further detailed in a separate call out titled "The 2014/2015 Pay Remix".

**How are 2015-2017 LTIP outcomes disclosed?**

In addition to the required statutory disclosures, Qantas also elects to disclose the full value of the 2015-2017 LTIP awards that vested during the year, disclosing both:
— The value of the LTIP awards driven by vesting (that is, based on the $1.26 share price at the start of the performance period)
— The value of the LTIP awards that is driven by the $4.46 of share price growth experienced over the 3-year performance period

**How did Management contribute to the share price performance that generated vesting under the 2015-2017 LTIP?**

As part of the Qantas Transformation, Management has made significant structural changes to the business. These changes have unlocked more than $2.1 billion of cost and revenue benefits over the past 3 years and have driven Qantas' TSR performance.

Further detail, including examples of these changes is provided on page 45.

**2014/2015 Pay Remix**

In 2014, Qantas announced the 3-year Transformation program to turn the business around and deliver $2 billion of program benefits.

As a one-off for the 2014/2015 year, the Board changed the pay mix for Management. This involved:
— Decreasing the weighting towards annual incentives for the 2014/15 STIP
— Increasing the weighting towards long term incentives for the 2015-2017 LTIP
— No increase in total 'Target' pay

For 2015/2016 and 2016/2017, the pay mix for Management reverted to the original pay mix for the relevant role.

This pay remix aligned the Management team with delivering on the Transformation agenda, as the performance period for the 2015-2017 LTIP and the delivery timeframes for the Transformation program shared the same 3-year period.

This remuneration strategy has worked, and delivered what it was designed to achieve - Management has stayed and successfully delivered the Transformation, and with our people, have turned the business around. This has been reflected in the share price and has created significant value for our shareholders. Management has shared in this value creation through the vesting of the 2015-2017 LTIP.

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### REMUNERATION OUTCOMES FOR THE CEO IN 2016/2017

**CEO's Remuneration Outcome – Key Points:**

— Base Pay frozen since 2011 (and was decreased for 18 months to June 2015)
— Annual Incentive award made, at lower level than 2015/2016:
  - Strong financial and non-financial performance
  - 52% deferred into shares with 2-year restriction
— Long Term Incentive Plan vesting and share price growth drove increase in total pay:
  - 100% of Rights vested
  - 'Pay Remix' year
  - Share price growth drove $14.5 million increase in value in CEO's LTIP award

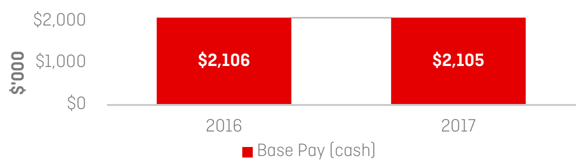
Qantas' sustained financial performance has driven pay outcomes under both the annual and long term incentives for 2016/2017. These outcomes as they apply to the CEO are detailed below.

**Base Pay**

The CEO's base pay has been frozen since 1 July 2011 and he did not receive an increase during 2016/2017. The CEO forwent 5% of his base pay from 1 January 2014 until 30 June 2015.

Base Pay (cash) is Base Pay of $2,125,000 less superannuation contributions of $19,616.

CEO REMUNERATION OUTCOMES - BASE PAY (CASH)




**Annual Incentive – 2016/17 STIP Outcome**

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

| Total | = | Base Pay | x | 'Target' Opportunity | x | STIP Scorecard Outcome | x | Individual Performance Factor |
|---|---|---|---|---|---|---|---|---|
| $3,748,500 | = | $2,125,000 | x | 120% | x | 140% | x | 1.05 |

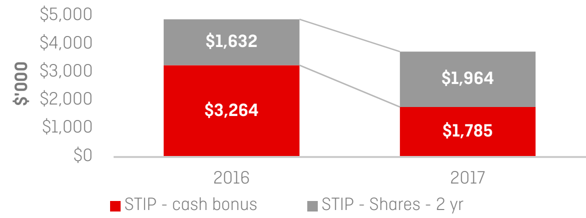
The STIP Scorecard Outcome is detailed on page 42. The Board's assessment of how the CEO contributed to these performance measures is provided on page 43.

The Individual Performance Factor (IPF) for the CEO was determined by the Board based on its assessment of the CEO's contribution to achieving the scorecard measures, as well as the CEO's performance against KPIs in the following areas:
— Strategy
— Customer
— People, leadership and industrial relations
— Government relations

The 2016/17 STIP awards were delivered in the following combination of cash and shares:
— Cash: $1,785,000, 48% of total award
— Shares, with 2-year restriction: $1,963,500, 52% of total award

The CEO's 2016/17 STIP award was 23% lower than his 2015/16 STIP award. The Board also chose to defer a higher portion of the 2016/17 STIP award into shares, meaning that the CEO's STIP cash bonus was 45% lower than his 2015/16 STIP cash bonus.

CEO REMUNERATION OUTCOMES - ANNUAL INCENTIVES




**Long Term Incentive 2015–2017 LTIP**

The 2014/2015 Pay Remix (detailed on page 33) applied to the CEO as follows:
— The CEO's 2014/15 STIP opportunity was decreased from 120% of Fixed Annual Remuneration (FAR) to 80%
— The CEO's award of Rights under the 2015–2017 LTIP was increased from 80% of FAR to 120%

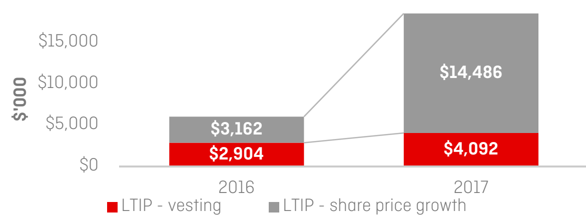
Following this pay remix, at the 2014 Annual General Meeting (AGM) shareholders approved an award of 3,248,000 Rights to the CEO under the 2015–2017 LTIP.

Based on Qantas' exceptional TSR performance over the 3-year performance period of the 2015–2017 LTIP, 100% of Rights vested and the CEO was awarded 3,248,000 shares. The value of these shares at the start of the performance period was $4,092,000. The value of these shares increased by $14,486,000 over the 3-year performance period.

To ensure complete transparency on the full value of the 2015–2017 LTIP awards that vested during the year, Qantas chooses to disclose both the value of the awards driven by vesting and the value driven by the share price growth experienced over the 3-year performance period.

Qantas' share price growth has driven significant increase in the value realised from the 2015–2017 LTIP and is the key factor in the increase in the CEO's total pay outcome for 2016/2017.

CEO REMUNERATION OUTCOMES – LONG TERM INCENTIVES



# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Remuneration Outcomes for the CEO for 2016/2017

The remuneration outcomes for the CEO in 2016/2017 are detailed in the following table. These outcomes are aligned with the CEO's and Qantas' performance during 2016/2017, as well as being aligned with Qantas' longer-term performance.

| CEO Remuneration Outcomes[1] | 2017 $'000 | 2016 $'000 | 2017 vs 2016 % change |
|---|---|---|---|
| Base Pay (cash)[2] | 2,105 | 2,106 | 0% |
| STIP – cash bonus | 1,785 | 3,264 | (45%) |
| **Total cash pay** | 3,890 | 5,370 | (28%) |
| STIP – shares[3] | 1,964 | 1,632 | 20% |
| LTIP – vesting[4] | 4,092 | 2,904 | 41% |
| Other | 152 | (108) | n/a |
| **Total** | **10,098** | **9,798** | **3%** |
| LTIP – share price growth[5] | 14,486 | 3,162 | |
| **Total – including share price growth** | **24,584** | **12,960** | |

1. Detail of non-statutory remuneration methodology is explained on pages 39 and 41.
2. Base Pay (cash) for Mr Joyce is Base Pay of $2,125,000 (2016: $2,125,000) less superannuation contributions of $19,616 (2016: $19,308).
3. The number of restricted shares to be awarded will be determined based on the seven calendar day Volume Weighted Average Share Price as at 1 September 2017.
4. LTIP vesting at 100% valued at the start of the performance period (30 June 2014 when the share price was $1.26).
5. Increase in the value of the shares over the performance period (from $1.26 on 30 June 2014 to $5.72 on 30 June 2017).

### Statutory Remuneration Disclosures

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

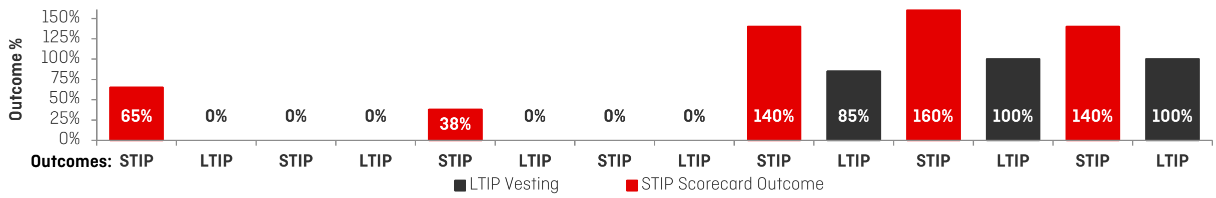
The statutory disclosures differ from the remuneration outcomes for the CEO due to the accounting treatment of share-based payments for the STIP and LTIP. A reconciliation of remuneration outcomes to statutory remuneration disclosures is provided on page 37.

| CEO Statutory Remuneration Table | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Base Pay (cash) | 2,105 | 2,106 |
| STIP – cash bonus | 1,785 | 3,264 |
| STIP – share-based | 1,437 | 836 |
| LTIP | 2,470 | 2,330 |
| Other | 152 | (108) |
| **Total** | **7,949** | **8,428** |

### CEO Remuneration Outcomes History (2010/2011 to 2016/2017)

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

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




1. ROIC % information is only available from 2013/2014.

## CHANGES TO THE REMUNERATION FRAMEWORK FOR 2017/2018

As part of a review of the Executive Remuneration Framework, the Board has made a number of changes that will apply from 1 July 2017.

### Pay Mix for the CEO and Cap on STIP Outcomes

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

| | 2016/2017 | 2017/2018 |
|---|---|---|
| Annual Incentive Opportunity[1] | 120% | 100% |
| Long Term Incentive Opportunity[2] | 80% | 100% |

1. Expressed as a percentage of Base Pay.
2. Expressed as a percentage of Base Pay on a fair value basis.

Additionally, the Board will apply a formal cap on the CEO's outcome under the STIP, set at 200% of FAR and 160% of FAR for other Executives.

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

To date, Qantas has used a fair value methodology to determine the number of Rights awarded to Executives under the LTIP. Qantas has chosen to also disclose 'Target' LTIP opportunities for Executives on a face value basis.

Some shareholders and advisors have expressed a preference for LTIP awards to be calculated using the face value of the underlying share, rather than the fair value of the Right.

Consistent with a shift in market practice among other ASX listed companies, Qantas will move to a face value allocation methodology commencing from 2017/2018.

The move from a fair value methodology to a face value methodology requires a one-off conversion of the stated 'Target' LTIP opportunity. The 'Target' opportunity on a face value basis is set at a level that will award a similar number of Rights as would have been awarded under the previous fair value approach.

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### REMUNERATION REPORT FOR 2016/2017

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

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

## 2 REMUNERATION OUTCOMES FOR 2016/2017

The following table summarises the remuneration decisions and outcomes for the CEO and Executive KMP for the year ended 30 June 2017. The remuneration detailed in this table is aligned to the current year performance and is therefore particularly useful in understanding current year pay and its alignment with current year performance.

**Remuneration Outcomes Table – CEO and Executive KMP[1]**

| $'000s | | Base Pay (Cash)[2] | STIP Cash Bonus[3] | Total Cash | STIP Deferred Award[3] | LTIP Vesting[4,5] | Other Benefits[6] | Total | LTIP Share Price Growth[7] | Total Including Share Price Growth |
|---|---|---|---|---|---|---|---|---|---|---|
| Alan Joyce | **2017** | 2,105 | 1,785 | 3,890 | 1,964 | 4,092 | 152 | 10,098 | 14,486 | 24,584 |
| Chief Executive Officer | 2016 | 2,106 | 3,264 | 5,370 | 1,632 | 2,904 | (108) | 9,798 | 3,162 | 12,960 |
| Tino La Spina | **2017** | 835 | 476 | 1,311 | 524 | 378 | 115 | 2,328 | 1,337 | 3,665 |
| Chief Financial Officer | 2016 | 831 | 834 | 1,665 | 417 | 92 | 108 | 2,282 | 100 | 2,382 |
| Andrew David | **2017** | 830 | 476 | 1,306 | 524 | 437 | 76 | 2,343 | 1,547 | 3,890 |
| CEO Qantas Domestic | 2016 | 831 | 798 | 1,629 | 399 | 106 | 82 | 2,216 | 116 | 2,332 |
| Gareth Evans | **2017** | 1,010 | 577 | 1,587 | 634 | 1,284 | 132 | 3,637 | 4,545 | 8,182 |
| CEO Qantas International | 2016 | 981 | 1,024 | 2,005 | 512 | 855 | 66 | 3,438 | 930 | 4,368 |
| Lesley Grant | **2017** | 830 | 453 | 1,283 | 499 | 707 | 64 | 2,553 | 2,502 | 5,055 |
| CEO Qantas Loyalty | 2016 | 824 | 834 | 1,658 | 417 | 342 | 80 | 2,497 | 371 | 2,868 |
| Jayne Hrdlicka | **2017** | 1,010 | 549 | 1,559 | 604 | 1,284 | 138 | 3,585 | 4,545 | 8,130 |
| CEO Jetstar Group | 2016 | 981 | 939 | 1,920 | 469 | 855 | 141 | 3,385 | 930 | 4,315 |
| **Total** | **2017** | **6,620** | **4,316** | **10,936** | **4,749** | **8,182** | **677** | **24,544** | **28,962** | **53,506** |
| | **2016** | **6,554** | **7,693** | **14,247** | **3,846** | **5,154** | **369** | **23,616** | **5,609** | **29,225** |

1. Detail of non-statutory remuneration methodology is explained on pages 39 and 41.
2. Base Pay (cash) is Base Pay less superannuation contributions.
3. The full value of STIP awards made to each Executive during each of the 2016/2017 and 2015/2016 financial years is calculated by adding the STIP Cash Bonus and the STIP Deferred Award.
4. LTIP awards vested in 2016/2017 at 100%. LTIP awards vested in 2015/2016 at 100%.
5. The number of Rights vested multiplied by the Qantas share price at 30 June 2014, as at the start of the performance period (2016: 30 June 2013).
6. Other Benefits are detailed on page 37.
7. The 'LTIP share price growth' amount is equal to the number of Rights vested multiplied by the increase in the Qantas share price over the 3-year performance period ended 30 June 2017 (2016: 1 July 2013 to 30 June 2016).

Pages 38 to 46 of the Remuneration Report describe the Structure of Executive Remuneration and provide an analysis of the 2016/2017 outcomes for the STIP and LTIP.

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### 3 STATUTORY REMUNERATION DISCLOSURES FOR 2016/2017

The statutory remuneration disclosures for the year ended 30 June 2017 are detailed below. These are prepared in accordance with Australian Accounting Standards and differ from the 2016/2017 remuneration outcomes on page 36. These differences arise due to the accounting treatment of share-based payments for the STIP and LTIP.

**Statutory Remuneration Table – CEO and Executive KMP**

| | | | Incentive Plan – Accounting Accrual | | | | Other Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Equity-settled Share-based Payments | | | | | | | |
| $'000s | | Base Pay (Cash)[1,2] | STIP Cash Bonus[1] | Deferred Shares | Rights | Sub-total | Non-cash Benefits[1,3] | Post-employment Benefits[4] | Other Long-term Benefits[5] | Sub-total | Total |
| Alan Joyce | **2017** | **2,105** | **1,785** | **1,437** | **2,470** | **7,797** | **42** | **53** | **57** | **152** | **7,949** |
| Chief Executive Officer | 2016 | 2,106 | 3,264 | 836 | 2,330 | 8,536 | 30 | 63 | (201) | (108) | 8,428 |
| Tino La Spina | **2017** | **835** | **476** | **345** | **455** | **2,111** | **49** | **44** | **22** | **115** | **2,226** |
| Chief Financial Officer | 2016 | 831 | 834 | 178 | 323 | 2,166 | 43 | 41 | 24 | 108 | 2,274 |
| Andrew David | **2017** | **830** | **476** | **507** | **473** | **2,286** | **41** | **44** | **(9)** | **76** | **2,362** |
| CEO Qantas Domestic | 2016 | 831 | 798 | 505 | 348 | 2,482 | 38 | 41 | 3 | 82 | 2,564 |
| Gareth Evans | **2017** | **1,010** | **577** | **446** | **715** | **2,748** | **71** | **44** | **17** | **132** | **2,880** |
| CEO Qantas International | 2016 | 981 | 1,024 | 252 | 694 | 2,951 | 19 | 41 | 6 | 66 | 3,017 |
| Lesley Grant | **2017** | **830** | **453** | **355** | **509** | **2,147** | **15** | **44** | **5** | **64** | **2,211** |
| CEO Qantas Loyalty | 2016 | 824 | 834 | 201 | 408 | 2,267 | 35 | 48 | (3) | 80 | 2,347 |
| Jayne Hrdlicka | **2017** | **1,010** | **549** | **420** | **715** | **2,694** | **73** | **44** | **21** | **138** | **2,832** |
| CEO Jetstar Group | 2016 | 981 | 939 | 234 | 694 | 2,848 | 70 | 41 | 30 | 141 | 2,989 |
| **Total** | **2017** | **6,620** | **4,316** | **3,510** | **5,337** | **19,783** | **291** | **273** | **113** | **677** | **20,460** |
| | **2016** | **6,554** | **7,693** | **2,206** | **4,797** | **21,250** | **235** | **275** | **(141)** | **369** | **21,619** |

1. Short-term employee benefits include Base Pay (cash), STIP cash bonus and non-cash benefits.
2. Base Pay (cash) is Base Pay less superannuation contributions.
3. Non-cash Benefits include the value of travel benefits whilst employed and other minor benefits.
4. Post-employment Benefits include superannuation of $19,616 (2016: $19,308) and an accrual for post-employment travel of $34,000 for Mr Joyce and $24,000 for each other Executive (2016: $44,000 for Mr Joyce and $22,000 for each other Executive).
5. Other Long-term Benefits include movement in annual leave and long service leave balances. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days' annual leave they accrue during the current year.

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

**CEO's Statutory Remuneration Disclosure to Remuneration Outcome for 2016/2017**

| Reconciliation | ($'000s) | Description |
|---|---|---|
| **Statutory Remuneration Disclosure** | 7,949 | |
| **Accounting value of share-based payments**<br>Less: Accounting value for STIP share awards<br>Less: Accounting value for LTIP share awards | <br>1,437<br>2,470 | The Statutory Remuneration Disclosure includes the accounting value of share-based payments. Accounting standards require share-based payments to be amortised over the relevant performance and service periods. The accounting value for LTIP awards do not have regard to whether performance conditions were achieved. |
| **Current year STIP share awards and vesting of LTIP awards**<br>Add: 2016/17 STIP share awards<br>Add: 2015–2017 LTIP vesting[1,2] | <br>1,964<br>4,092 | The Remuneration Outcomes disclosure includes:<br>— The full value of shares awarded under the 2016/17 STIP (even though these awards are still subject to a 2-year restriction period)<br>— The value of the shares that vested under the 2015–2017 LTIP, based on the value of the shares at the start of the performance period |
| **Remuneration Outcome – Total** | 10,098 | |
| **LTIP awards – share price growth**<br>Add: 2015–2017 LTIP share price growth[1,3] | <br>14,486 | The Remuneration Outcomes including share price growth includes the increase in the value of the shares that vested under the 2015–2017 LTIP over the 3-year performance period. |
| **Remuneration Outcome – Total including share price growth** | **24,584** | |

1. The 2015–2017 LTIP was tested as at 30 June 2017. 100% of Rights vested.
2. The number of Rights vested multiplied by the Qantas share price at the start of the performance period ($1.26 on 30 June 2014).
3. The number of Rights vested multiplied by the increase in the Qantas share price over the 3-year performance period (an increase of $4.46 from $1.26 on 30 June 2014 to the $5.72 on 30 June 2017).

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### 4 EXECUTIVE REMUNERATION STRUCTURE

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

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

| | |
|---|---|
| **Base Pay** (also referred to as Fixed Annual Remuneration) | Base Pay is a guaranteed salary level, inclusive of superannuation. Each year, the Remuneration Committee reviews the Base Pay for the CEO and Executive Management. An individual's Base Pay, being a guaranteed salary level, is not related to Qantas' performance in a specific year.<br>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.<br>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 listed Australian 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.<br>There have been no increases to the Base Pay for Mr Joyce (since July 2011), Mr David and Mr La Spina (since March 2015) or Ms Grant (since 1 July 2015) during 2016/2017.<br>The Base Pay for Mr Evans and Ms Hrdlicka increased by 3% to $1,030,000, effective 1 July 2016. This was a general market-based increase and reflected their ongoing performance in their roles and was their first increase since July 2012.<br>The Base Pay for each Executive KMP is outlined on page 48. |
| **Annual Incentive (STIP)** | The STIP is the annual incentive plan for members of Qantas Executive Management. Each year these Executives may receive an award that is a combination of cash and restricted shares to the extent that the plan's performance conditions are achieved. |
| **Performance Conditions** | The Board sets a scorecard of performance conditions for the 2016/17 STIP, 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.<br>The Board sets targets for each scorecard measure, and at the end of the financial year the Board assesses performance against each scorecard measure and determines the overall STIP scorecard outcome.<br>A detailed description of the STIP scorecard is provided on pages 42 and 44.<br>An individual's performance is recognised via an IPF. IPFs are generally in the range of 0.8 to 1.2. However, in case of under-performance the IPF may be zero and in exceptional circumstances the IPF may be as high as 1.5. |
| **Board Discretion** | The Board retains discretion over any awards made under the STIP. 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 more appropriate to make no award under the STIP or to make an award that is delivered entirely in shares.<br>The Board may determine that either no award will be made (as it did for the CEO in 2011/2012 and 2013/2014), only a partial award be made (as it did in 2010/2011 and 2012/2013), or that any award will be entirely deferred and/or delivered in Qantas shares (as it did in 2010/2011).<br>On the other hand, there may be circumstances where performance is below an agreed target. However, the Board may determine that it is appropriate to pay some STIP award. 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. |
| **Calculation of STIP Awards** | STIP awards are calculated as follows:<br>Value of STIP Award = Base Pay X 'Target' Opportunity X Scorecard Result X Individual Performance Factor |

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

| | |
|---|---|
| **Delivery of STIP Awards (and application of Board discretion in 2016/2017)** | In a year where STIP awards are made, 2/3rds of the STIP award would be paid as a cash bonus, with the remaining 1/3rd deferred into Qantas shares with a 2-year restriction period.<br>The Board retains discretion as to how STIP awards are delivered.<br>The Board applied its discretion and determined that for the 2016/17 STIP:<br>— The portion of the STIP award referable to the 'Target' STIP Scorecard result (at 100%) was awarded 2/3rds cash and 1/3rd in shares<br>— The portion of the STIP award associated with the STIP Scorecard overdrive of 40% would be deferred entirely into shares with a 2-year restriction period<br>Based on this approach the 2016/17 STIP awards were delivered:<br>— Cash: 48%<br>— Shares (with a 2-year restriction period): 52% |
| **Maximum STIP Outcome** | From 1 July 2017, the maximum outcome under the STIP will be capped at 200% of FAR for the CEO and 160% of FAR for other Executives.<br>The minimum outcome is nil, which would occur if the threshold level of performance is missed on each STIP measure, or if an individual performance does not warrant an award, or when the Board determines that no award be made. |
| **Cessation of Employment** | In general, when an Executive ceases employment during the year, they will forfeit any right to participate in that year's STIP and will forfeit any shares awarded under prior year STIPs that are subject to a trading restriction.<br>In limited circumstances, for example, retirement, employer-initiated terminations (with no record of poor performance), death or total and permanent disablement, the Board may:<br>— For the current year STIP, make a pro-rated award that has regard to actual performance against the performance measures (as determined by the Board following the end of the performance period), and the portion of the performance period that the Executive served prior to termination<br>— For restricted shares awarded under prior year STIPs, remove the trading restriction |
| **Disclosure** | The full value of the STIP awarded for the corresponding year is disclosed in the Remuneration Outcomes Table on page 36.<br>Disclosure of STIP awards in the Statutory Remuneration Table on page 37 is based on the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. The STIP awards are disclosed as either:<br>— A cash incentive for any cash bonus paid or<br>— A share-based payment for any component awarded in deferred shares<br>Where share-based STIP awards involve deferral over multiple reporting periods, they are reported against each period in accordance with accounting standards. |
| **Long Term Incentive Plan (LTIP)** | The LTIP involves the granting of Rights over Qantas shares. If the 3-year performance and service conditions are satisfied, the Rights vest and convert to Qantas shares on a one-for-one basis. If the 3-year performance conditions are not met, the Rights lapse. |
| **Performance Conditions** | The performance measures for each of the 2015–2017 LTIP (tested at 30 June 2017), 2016–2018 LTIP (to be tested as at 30 June 2018) and 2017–2019 LTIP (to be tested as at 30 June 2019) are:<br>— The relative TSR of Qantas compared to companies with ordinary shares included in the ASX100<br>— The relative TSR of Qantas compared to Global Listed Airlines<br>These Rights will only vest in full if Qantas' TSR performance ranks at or above the 75th percentile compared to both the ASX100 and the Global Listed Airlines peer groups. At the end of the performance period, the TSR performance of Qantas and each comparator company will be determined based on the average closing shares price over the final 6 months of the performance period.<br>Qantas' Financial Framework also targets top quartile TSR performance relative to ASX100 companies and global airline peers and therefore relative TSR performance against these peer groups has been chosen as the performance measure for the LTIP.<br>The peer groups selected provide a comparison of relative shareholder returns relevant to most Qantas investors:<br>— 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<br>— 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 and measuring returns from listed companies impacted by comparable external factors |

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

Up to 50% of the total number of Rights granted may vest based on the relative TSR performance of Qantas in comparison to the ASX100 and up to 50% 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.

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

| Qantas TSR Performance Relative to Each Peer Group | Vesting Scale |
|---|---|
| Below 50th percentile | Nil vesting |
| Between 50th and 75th percentile | Linear scale: 50% to 99% vesting |
| At or above 75th percentile | 100% vesting |

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

The Global Listed Airlines peer group has been selected with regard to its representation of Qantas' key markets, full-service and value-based airlines and the level of government involvement. For the 2015–2017 LTIP, the Global Listed Airlines peer group includes: Air Asia, Air France/KLM, Air New Zealand, All Nippon Airways, International Consolidated Airlines Group, Cathay Pacific, Delta Airlines, easyJet, Japan Airlines, LATAM Airlines Group, Deutsche Lufthansa, Ryanair, Singapore Airlines, Southwest Airlines, Tiger Airways and Virgin Australia. The 2016–2018 LTIP and 2017–2019 LTIP also include American Airlines and United Continental. Tiger Airways was excluded from the 2017–2019 LTIP.

**Review of Performance Conditions**

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

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

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

**Review of Allocation Methodology**

For 2016/2017, Qantas used a fair value methodology to determine the number of Rights awarded to the CEO and Executive Management under the LTIP. For completeness, Qantas also provides the equivalent face value information.

During 2016/2017, the Remuneration Committee reviewed the approach used to determine the number of Rights granted to the CEO and each Executive under the LTIP, and will move to a face value allocation methodology commencing from 2017/2018. More detail on this change is provided on page 46.

The 'Target' LTIP opportunity for the CEO and other Executive KMP is provided on both a fair value basis and a face value basis in the Summary of Key Contract Terms on page 48.

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

| | |
|---|---|
| **Allocation Methodology Used in 2016/2017 Award to the CEO** | At each year's AGM, Qantas seeks shareholder approval for any award of Rights to the CEO. At the 2016 AGM, Shareholders approved an award of 1,172,000 Rights to the CEO (under the 2017–2019 LTIP).<br><br>The Notice of Meeting for the 2016 AGM set out the proposed number of LTIP Rights to be granted to the CEO as well as the fair value methodology used to calculate this number of Rights. The equivalent face value calculation was also provided, and is summarised as follows:<br><br>Number of Rights awarded = $\frac{\text{Base Pay x 'Target' Opportunity}^{1}}{\text{Fair Value of each Right}}$ = $\frac{\text{Base Pay x 'Target' Opportunity}^{2}}{\text{Face Value (Share Price) as at 30 June}}$<br><br>**1,172,000 Rights awarded =** $\frac{\$2,125,000 \text{ x } 80\%^{1}}{\$1.45}$ = $\frac{\$2,125,000 \text{ x } 156\%^{2}}{\$2.82}$<br><br>1. On a fair value basis.<br>2. On a face value basis applying the fair value discount applicable to the 2017–2019 LTIP.<br><br>From 1 July 2017, the number of Rights awarded to Executives under the LTIP will be calculated applying a face value methodology. This change is detailed on page 46. |
| **Change of Control** | In the event of a change of control, the Board determines whether the LTIP Rights vest or otherwise. |
| **Disclosure** | The LTIP vesting amount shown in the Remuneration Outcomes Tables on page 36 is equal to the number of Rights vested, multiplied by the Qantas share price at the start of the performance period.<br><br>The LTIP share price growth amount shown in the Remuneration Outcome Table on page 36 is equal to the number of Rights vested, multiplied by the increase in the Qantas share price over the 3-year performance period.<br><br>The statutory remuneration disclosure amortises the accounting value of LTIP awards over the relevant performance and service period as per the accounting standards. |
| **Other Benefits** | |
| **Non-cash Benefits** | Non-cash benefits, as disclosed in the remuneration tables, include travel entitlements while employed and other minor benefits. |
| **Travel** | Travel concessions are provided to permanent Qantas employees, consistent with practice in the airline industry.<br><br>Travel at concessionary prices is on a sub-load basis, that is, subject to considerable restrictions and limits on availability. It includes specified direct family members or a nominated travel companion.<br><br>In addition to this and consistent with practice in the airline industry, CEO and Executive KMP and their eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual.<br><br>Post-employment travel concessions are also available to all permanent Qantas employees who qualify through retirement or redundancy. The CEO and Executive KMP and their eligible beneficiaries are also entitled to a number of free trips for personal purposes after ceasing employment. 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 movement in accrual of annual leave and long service leave is included in other long-term benefits. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days' annual leave they accrued during the year. |

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### 5 ANNUAL INCENTIVE OUTCOME 2016/17 STIP

For 2016/2017, the Board considered the following key measures of financial and operational performance and the associated targets to be critical indicators of performance and drivers of shareholder value. The performance outcomes for these measures are reflected in the CEO and Executive Management's remuneration outcomes. The table below summarises performance versus target against each scorecard category under the 2016/17 STIP.

| Scorecard Category/ Strategic Objective | Measures | Scorecard Weighting 'Target' (Range of Outcomes) | Actual Outcome | Comment |
|---|---|---|---|---|
| Group Profitability | Underlying Profit Before Tax (PBT) | 50% (0-100%) | | The Underlying PBT result of $1,401 million for 2016/2017 exceeded the target, but was less than the maximum 'overdrive' target set by the Board.<br>Therefore, this measure contributed an above target (but less than maximum) outcome to the STIP Scorecard. |
| Qantas Transformation | Deliver Transformation benefits | 10% (0-15%) | | Management's commitment and focus on the Qantas Transformation program delivered more than $2.1 billion of benefits over the 3-year Transformation period. During 2016/2017, the Group realised $470 million in benefits through Transformation initiatives, exceeding the full-year target of $450 million announced to the market on 24 August 2016. |
| Profit Margin in the Australian Domestic Market | Combined Qantas Domestic and Jetstar Domestic Profit Margin: EBIT per ASK | 10% (0-15%) | | Combined Qantas Domestic and Jetstar Domestic Profit Margin target was exceeded.<br>Management's commitment to focusing on profitability irrespective of capacity levels has meant Qantas has achieved a share of market profit in excess of the share of market capacity. |
| People and Operational Safety | People Safety measures<br>Board's assessment of Operational Safety | 10% (0-15%) | | Improvements in People Safety metrics of between 7% and 11% were targeted. This level of improvement was not achieved. Therefore, there was no contribution under the People Safety measure.<br>Operational Safety performance for the year was good. Therefore, there was a full contribution under the Operational Safety measure. |
| Customer | Net Promoter Score (NPS)<br>Punctuality<br>Domestic network advantage | 10% (0-15%) | | The Board recognised that Management's continued investment in the customer has resulted in improved and/or record NPS results for Qantas International, Qantas Domestic, Qantas Frequent Flyer, Jetstar Australia Domestic and Jetstar Asia. However, threshold or stretch targets were not achieved in some Jetstar markets.<br>The Qantas Domestic on-time performance target was achieved, with 87.6% of flights on-time.<br>Qantas Domestic and Jetstar also maintained the Group's network advantage in the Australian domestic market. |
| Growth and Strategic Initiatives | Qantas Loyalty EBIT growth<br>Investments in Jetstar Airlines in Asia:<br>— JSA - Underlying EBIT<br>— JJP - Underlying PBT<br>Qantas 787 Project Milestones | 10% (0-15%) | | Management continued to grow diversified earnings and pursue growth opportunities. Qantas Loyalty achieved its Earnings Before Interest and Tax (EBIT) target, in delivering a record result.<br>The earnings target for Jetstar Asia (JSA) was exceeded and the record result for Jetstar Japan (JJP) represented a threshold level of performance.<br>The introduction of the Qantas 787 remains on track. |
| **2016/17 STIP Scorecard Outcome** | | **100% (0-175%)** | **140%** | |

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

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

**Annual Incentive – Board's Assessment of Management's Contribution to the 2016/17 STIP Outcome:**

In determining outcomes under the 2016/17 STIP, the Board assesses performance against financial, safety and other key business measures as part of a balanced scorecard, as outlined on page 42, as well as determining individual contribution (via the IPF).

The Board also considered how the CEO and Management contributed to these results. In particular:

- Increased utilisation of aircraft, allowing passenger revenue growth through new Qantas routes using existing Group aircraft (SYD-PEK, MEL-NRT, BNE-POM and SYD-DPS)
- Proactive management of network and capacity across the combined Qantas and Jetstar Australian Domestic network, optimising revenue and margin outcomes
- Increasing revenue contribution delivered via airline partnerships
- Continued investment in the customer (targeted investment in product and training for our people), which delivered record customer advocacy (NPS)
- Continued growth of earnings at Qantas Loyalty, with core Qantas Frequent Flyer program and diversifying earnings via new businesses, as follows:
  - Relaunch of Woolworths program - core Qantas Frequent Flyer
  - Relaunching high-earn credit card, co-branded with ANZ and American Express - core Qantas Frequent Flyer
  - Relaunch of Qantas Business Rewards - Aquire
  - Growing health insurance business and launching life insurance product - Qantas Assure
  - Launching the Qantas Money platform - Qantas Premier Credit Card
  - Growing the travel money card business - Qantas Cash
- Driving additional ancillary revenue in Jetstar through revised product (holiday packages, catering, dynamic seat and bag pricing), services (marketing and payments channels) and partnerships (Airbnb and NZ All of Government)
- Driving profitability of Jetstar in Asia with the market-leading position in the Japanese Domestic market and all Jetstar businesses now flying international routes, providing full connectivity across the Asian region
- Delivery in 2016/2017 of $470 million cost savings and revenue enhancements driven by the Qantas Transformation program
- Continued discipline in the allocation of capital, maintaining targeted levels of net debt and being able to distribute $627 million to shareholders in 2016/2017
- Approach to fuel hedging, which delivered a $194 million reduction in fuel spend vs prior year, despite:
  - Market price for fuel being higher in 2016/2017 (average jet fuel price of A$74.25 per barrel in 2015/2016 vs A$79.90 per barrel in 2016/2017)
  - More fuel being consumed in 2016/2017 (31.7 million barrels in 2015/2016 vs 32.1 million barrels in 2016/2017)

**Additional Deferral under the 2016/17 STIP**

In determining outcomes under the 2016/17 STIP, the Board considered the portion of awards that were to be paid in cash and the portion to be deferred in shares. In doing so, the Board applied its discretion to defer a greater portion of the 2016/17 STIP awards into shares.

The delivery of the 2016/17 STIP award was determined as follows:

- The portion of the STIP award referable to the 'Target' STIP Scorecard result (at 100%) was awarded per the design of the STIP. That is, 2/3$^{rds}$ cash and 1/3$^{rd}$ in deferred shares with a 2-year restriction period
- The portion of the STIP award associated with the STIP Scorecard overdrive of 40% was deferred entirely into shares with a 2-year restriction period

This additional deferral creates an additional retention mechanism, and further aligns Executives with the longer-term objectives of Qantas.

Based on this approach, the 2016/17 STIP awards were delivered in the following combination of cash and shares:

- Cash: 48%
- Shares, with 2-year restriction period: 52%

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Additional Descriptions of STIP Scorecard Measures

| | |
|---|---|
| **Group Profitability** | Underlying PBT is the primary financial performance measure for the Qantas Group and is therefore the primary performance measure under the STIP. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of the Group. The Underlying PBT target is based on the annual financial budget. For reasons of commercial sensitivity, the annual Underlying PBT target is not disclosed.<br><br>Underlying PBT is derived by adjusting Statutory PBT for the impacts of derivative mark-to-market movements that relate to other reporting periods and items which are identified by 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.<br><br>Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments, impairment of assets and other transactions outside the ordinary course of business. |
| **Qantas Transformation** | The Qantas Transformation program originally targeted $2 billion of benefits by 2016/2017. In 2015/2016 this target was increased to $2.1 billion. Realisation of benefits under the Qantas Transformation program has been selected as a performance measure under the STIP as the Transformation initiatives are driving sustainable change in the business and have been fundamental in returning the Qantas Group to profitability and enabling the delivery of sustainable profits year-on-year. |
| **Profit Margin in the Australian Domestic Market** | Maintaining a market-leading Australian Domestic profit margin is core to Qantas' success. Therefore, a combined Qantas Domestic and Jetstar Domestic Profit Margin measured as EBIT per ASK was selected as a STIP scorecard measure. This focuses on profitability irrespective of capacity levels. |
| **People and Operational Safety** | As safety is always our first priority, the STIP scorecard includes an assessment of both operational and people safety. In addition, the Board retains an overriding discretion to scale down the STIP (or reduce it to zero) in the event of a material aviation safety incident. This is in addition to the Board's overall discretion over STIP awards. Any such decision would be made in light of the specific circumstances and following the recommendation of the Safety, Health, Environment and Security Committee.<br><br>The Safety, Health, Environment and Security Committee performs a combined assessment of People Safety performance and Operational Safety performance.<br><br>The objective of the People Safety targets is to reduce employee injuries and targets were therefore set across:<br>— Total Recordable Injury Frequency Rate<br>— Lost Work Case Frequency Rate<br>— Duration Rate<br><br>Operational Safety performance is assessed against outcome-based measures (including operational occurrences that pose a significant threat to the safety of employees and customers) and risk-based lead indicators commonly associated with aviation industry accidents. |
| **Customer** | Customer service is measured against NPS targets.<br><br>This is a survey-based measure of how strongly our customers promote the services of our businesses. Individual NPS targets are set for Qantas Domestic, Qantas International, Qantas Frequent Flyer, Jetstar Australia Domestic, Jetstar Australia long-haul, Jetstar Asia and Jetstar Japan.<br><br>On-time departures for Qantas Domestic and QantasLink continue to be a particular area of focus. Therefore, a target measuring Qantas Domestic and QantasLink on-time departures is included as a STIP measure. As agreed with and reported to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), punctuality is measured as the number of flights operating on-time (on an on-time departure basis) as a percentage of the total number of flights operated. |
| **Growth and Strategic Initiatives** | To support the strategic initiatives of growing diversified earnings, STIP targets were set to grow Qantas Loyalty EBIT. Earnings targets were also set for each of Jetstar Asia and Jetstar Japan to support delivering on Jetstar investments in Asia.<br><br>To support the successful delivery of the Qantas 787, targets were set around project milestones. |

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### 6 LONG TERM INCENTIVE OUTCOME 2015–2017 LTIP

| Qantas TSR Performance | Qantas TSR Rank vs ASX100 | Qantas TSR Rank vs Airlines | Vesting of 2015–2017 LTIP |
|---|---|---|---|
| +372% | 1st | 1st | 100% |

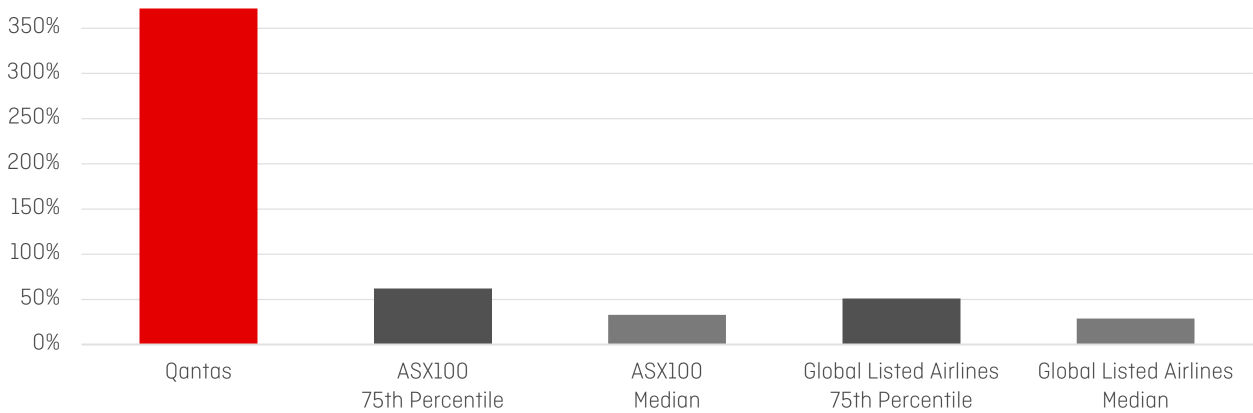
Having come through the Transformation, the business is in a position of strength. Over the past 3 years, Management delivered the $2.1 billion Transformation program, including reducing the ex-fuel expenditure by 10%. The balance sheet is in a strong position with net debt in our targeted range and the business has re-invested in growth alongside delivering shareholder returns. Customer advocacy and employee engagement are at record levels.

This has been reflected in our share price. Over the past 3 years, the Qantas share price grew from $1.26 at 30 June 2014 to $5.72 at 30 June 2017, and together with dividends paid to shareholders delivered a TSR performance of +372%.

The 3-year performance measures under the 2015–2017 LTIP are:
— The relative TSR of Qantas compared to companies with ordinary shares included in the ASX100
— The relative TSR of Qantas compared to Global Listed Airlines

Qantas' TSR performance over the past 3 years ranked 1st of companies in the ASX100, and ranked 1st of companies in the Global Listed Airlines peer groups. Based on this performance, 100% of Rights vested and converted to Qantas shares.

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




Qantas' TSR performance has been driven by the making of major structural changes, while also achieving record levels of both customer advocacy and employee engagement. Examples of the changes that delivered the more than $2.1 billion of benefits are:
— **Heavy base maintenance:** consolidated Avalon base maintenance facility into the purpose-built Brisbane base maintenance facility
— **Base maintenance turnaround times:** leaning processes to reduce turnaround times (TAT) at Brisbane base maintenance have allowed greater aircraft utilisation and additional third-party revenue generation
— **Contact centres consolidation:** reviewed and consolidated 4 contact centres (Brisbane, Melbourne, Hobart and Auckland) into 2 centres (Hobart and Auckland)
— **Fuel burn program:** our commitment to environmental sustainability through transforming fuel procedures, processes and tools during the Transformation program has resulted in over 100 million litres of fuel being saved across the Group
— **Qantas Domestic Target Zero:** implemented 35-minute aircraft turn times (including a full clean) across the mainline Qantas Domestic network, allowing greater aircraft utilisation
— **Aircraft accelerated retirement:** invested in technology-enabled aircraft (B787-8) to replace the Jetstar A330 and allow for the accelerated retirement of the B767 and B737 fleet
— **Supplier management:** better coordinated management of suppliers across the Group, resulting in significant sustainable cost savings
— **Investment in customer:** investment in digital solutions for our customers has resulted in benefits to the customer and Qantas, from improved qantas.com and booking app experiences, through to off-airport check-in
— **Non-operational staff reductions:** commitment to reducing both the operating and non-operating cost base of the Group resulted in a leaner, more agile non-operational workforce (reduction of 1,500+ staff)

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

## 7 REMUNERATION FRAMEWORK REVIEW FOR 2017/2018

During 2016/2017, the Remuneration Committee reviewed the Executive Remuneration Framework and as a result, approved changes that:
— Ensure continued alignment of pay with business objectives, performance and shareholder experience
— Are informed by market practice
— Consider shareholder feedback and preferences

These changes will apply from 1 July 2017 and are detailed below.

### Cap on Annual Incentive Outcomes under the STIP

The Board has set a formal cap on annual incentive outcomes under the STIP outcomes, as follows:
— For the CEO, STIP outcomes will be capped at a maximum of 200% of FAR
— For other Executive KMP, STIP outcomes will be capped at a maximum of 160% of FAR

### Pay Mix Change

The Board has changed the relative weighting of incentive plan opportunities for the CEO from 1 July 2017. This involves a decrease in the weighting towards annual incentives and an increase in the weighting towards long term incentives.

The change further aligns the CEO to Qantas' longer-term objectives.

This is a pay mix change only and there is no increase in the CEO's total pay opportunity. The change is as follows:

| CEO 'Target' Pay opportunity (as a percentage of FAR) | 2016/2017 | 2017/2018 |
|---|---|---|
| Annual Incentive Opportunity | 120% | 100% |
| Long Term Incentive Opportunity (on a fair value basis) | 80% | 100% |

### LTIP Allocation Methodology – Move to a Face Value Approach

To date, Qantas has used a fair value methodology to determine the number of Rights awarded to Executives under the LTIP. Qantas also disclosed the equivalent face value information. Some shareholders and shareholder proxy advisors have expressed a preference for LTIP awards to be calculated using the face value of the underlying share, rather than the fair value of the Right.

Consistent with a shift in market practice among other ASX listed companies, awards of Rights under the LTIP will be made by applying a face value allocation methodology commencing from 2017/2018.

The move from a fair value methodology to a face value methodology requires a one-off conversion of the stated 'Target' LTIP opportunity. This conversion applied an average of the fair value discount applicable to prior years' LTIP awards. This new face value LTIP opportunity will result in Executives being awarded a similar number of Rights as they would have received under the previous fair value approach. The equivalent face value LTIP opportunities (expressed as a percentage of FAR) are as follows:

| Executive | 2017/2018 Fair Value LTIP Opportunity (as a % of FAR) | 2017/2018 Face Value LTIP Opportunity (as a % of FAR) |
|---|---|---|
| CEO | 100% | 185% |
| Other Executive KMP | 50% | 95% |

## 8 REMUNERATION GOVERNANCE

### Executive Remuneration Objectives and Approach

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

To achieve this, Executive remuneration is set with regard to the size and nature of the role with reference to external benchmark data including comparable roles in other listed Australian companies and the performance of the individual in the role. Remuneration includes 'at risk' or performance-related elements for which the objectives are to:
— Link Executive reward with Qantas' business objectives, financial performance and the individual performance of the Executive
— Align the interests of Executives with shareholders
— Support a culture of Executive share ownership
— Support the retention of Executives

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Role of the Remuneration Committee

The Remuneration Committee (a Committee of the Board, whose members are detailed on pages 8 to 11) has the role of reviewing and making recommendations to the Board on specific Executive remuneration matters at Qantas. This includes ensuring remuneration decisions are appropriate from the perspectives of business performance, Executive 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 variable remuneration, reflecting both the short-term and long-term performance objectives of Qantas
— Differentiate between higher and lower performers through the use of a performance management framework

During 2016/2017, the Remuneration Committee re-appointed Ernst & Young (EY) as its remuneration consultant. The Remuneration Committee has established protocols in relation to the appointment and use of remuneration consultants to support compliance with the *Corporations Act 2001*, which are incorporated into the terms of engagement with EY.

The Remuneration Committee did not seek a remuneration recommendation during 2016/2017.

### Risk Management and Clawback Policy

The STIP and the LTIP have design elements that protect against the risk of unintended and unjustified pay outcomes, that is:
— Diversity in their performance measures, which as a suite of measures cannot be directly and imprudently influenced by one individual employee
— Clear maximum values specified for scorecard outcomes under the STIP and a challenging vesting scale under the LTIP
— Diversity of the timeframes within which performance is measured, with performance under the STIP being measured over one year and performance under the LTIP being measured over 3 years
— Deferral of a portion of awards under the STIP with a restriction period of 2 years providing an alignment with shareholder interests
— While formal Management shareholding requirements are not imposed, the CEO has a material holding in Qantas shares, which at 30 June 2017 was valued at 7 times Base Pay. The potential equity awards under the STIP and the LTIP will assist Executives in maintaining shareholdings in Qantas.

The following Clawback Policy applies in the event of serious misconduct or a material misstatement in Qantas' Financial Statements. The Board may:
— Determine that an Executive forgoes some or all awards otherwise due under the STIP
— Deem some or all STIP shares which are subject to the restriction period be forfeited
— Cause some or all LTIP Rights which have not yet vested to lapse, and/or
— In the case of serious misconduct, cancel any post-employment benefits for the relevant employee(s) where possible

### Employee Share Trading Policy

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

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

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

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

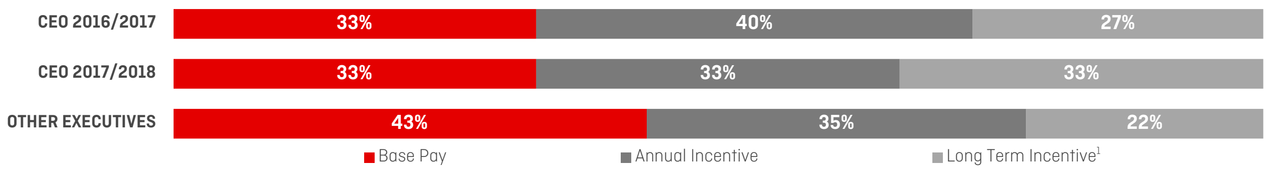
### Summary of Key Contract Terms as at 30 June 2017

| Contract Details | | Alan Joyce | Tino La Spina | Andrew David | Gareth Evans | Lesley Grant | Jayne Hrdlicka |
|---|---|---|---|---|---|---|---|
| Base Pay | | $2,125,000 | $850,000 | $850,000 | $1,030,000 | $850,000 | $1,030,000 |
| **2016/2017** | | | | | | | |
| STIP 'Target'[1] | | 120% | 80% | 80% | 80% | 80% | 80% |
| LTIP 'Target'[1] | Fair Value | 80% | 50% | 50% | 50% | 50% | 50% |
| | Face Value[2] | 156% | 97% | 97% | 97% | 97% | 97% |
| **2017/2018** | | | | | | | |
| STIP 'Target'[1,3] | | 100% | 80% | 80% | 80% | 80% | 80% |
| LTIP 'Target'[1,3,4] | Fair Value | 100% | 50% | 50% | 50% | 50% | 50% |
| | Face Value | 185% | 95% | 95% | 95% | 95% | 95% |
| Travel Entitlements | An annual benefit of trips for these Executives and eligible beneficiaries during employment[5], 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 an Executive Management role within the Qantas Group. | | | | | | |
| Notice | Employment may be terminated by either the Executive or Qantas by providing 6 months' written notice[6]. Each Executive's contract includes a provision that limits any termination payment to the statutory limit prescribed under the *Corporations Act 2001*. | | | | | | |
| Severance | A severance payment of 6 months' Base Pay applies where termination is initiated by Qantas[6]. | | | | | | |

1. Opportunity expressed as a percentage of Base Pay.
2. 'Target' face value opportunity applying the fair value discount applicable to the 2017-2019 LTIP.
3. The CEO's pay mix changed effective 1 July 2017. More detail on this change is provided on page 46.
4. From 1 July 2017, Rights will be awarded applying a face value allocation methodology. This change from a fair value methodology to a face value methodology required a one-off conversion of the stated 'Target' LTIP opportunity. This conversion applied an average of the fair value discount applicable to prior years' LTIP awards. This change is detailed on page 46.
5. These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement arises.
6. Other than for misconduct or unsatisfactory performance.

### Target Remuneration Mix for 2016/2017

The 'Target' STIP and LTIP awards are normally expressed as a percentage of Base Pay, however, for the following chart, Base Pay, STIP and LTIP opportunities are expressed as a percentage of total 'Target' pay.

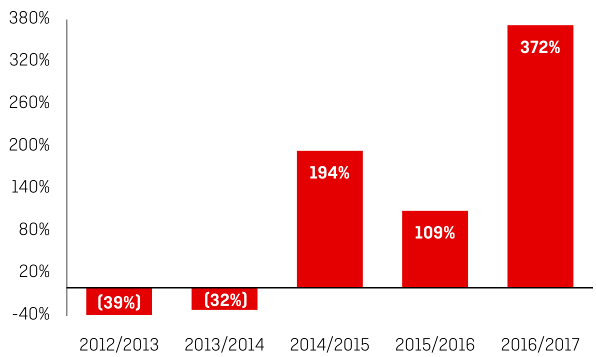



1. Based on the value granted during the year, determined using the fair value of Rights at the start of the performance period.

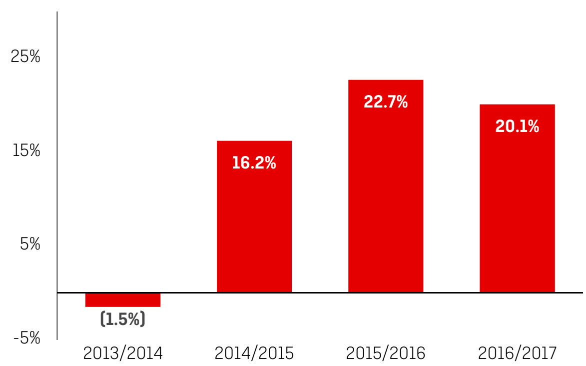
### Qantas Financial Performance History

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

**Qantas 3-Year Rolling TSR Performance**




**Return on Invested Capital (ROIC%)[1]**



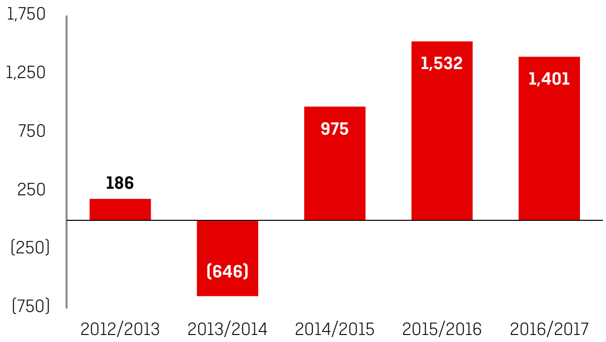

1 ROIC % information is only available from 2013/2014.

# Directors' Report continued

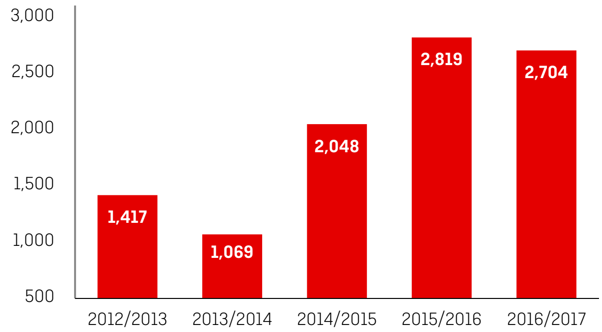
For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

**Underlying Profit Before Tax[2] ($M)**




**Operating Cash Flow ($M)**




2. Underlying Profit Before Tax (PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. Statutory Profit After Tax for 2016/2017 was $853 million (2016: $1,029 million, 2015: $560 million, 2014: ($2,843) million and 2013: $2 million).

## 9 EQUITY INSTRUMENTS

Set out in the following tables are the holdings of equity instruments granted as remuneration to the Executive KMP by Qantas. Non-Executive Directors do not receive any remuneration in the form of share-based payments.

| | | Number of Shares | | | | | |
|---|---|---|---|---|---|---|---|
| **Short Term Incentive Plan** | | **1 July** | **Granted** | **Forfeited** | **Vested and Transferred** | **Other Changes[1]** | **30 June** |
| Alan Joyce | **2017** | **258,062** | **490,738** | **–** | **–** | **–** | **748,800** |
| | 2016 | 284,769 | 274,826 | – | (284,769) | (16,764) | 258,062 |
| Tino La Spina | **2017** | **35,310** | **125,411** | **–** | **–** | **–** | **160,721** |
| | 2016 | – | 37,603 | – | – | (2,293) | 35,310 |
| Andrew David | **2017** | **37,611** | **119,957** | **–** | **–** | **–** | **157,568** |
| | 2016 | – | 40,054 | – | – | (2,443) | 37,611 |
| Gareth Evans | **2017** | **72,732** | **153,957** | **–** | **–** | **–** | **226,689** |
| | 2016 | 85,607 | 77,456 | – | (85,607) | (4,724) | 72,732 |
| Lesley Grant | **2017** | **55,654** | **125,411** | **–** | **–** | **–** | **181,065** |
| | 2016 | 65,505 | 59,269 | – | (65,505) | (3,615) | 55,654 |
| Jayne Hrdlicka | **2017** | **69,568** | **141,126** | **–** | **–** | **–** | **210,694** |
| | 2016 | 78,164 | 74,087 | – | (78,164) | (4,519) | 69,568 |

1. Other changes include the impact of share consolidation, relating to return of capital to shareholders paid on 6 November 2015, through the conversion of each share into 0.939 shares.

1/3rd of the 2014/15 STIP awards (granted on 28 August 2015) were delivered to participants in deferred shares that are subject to a 2-year restriction period. The restriction period on these shares applied throughout 2016/2017.

1/3rd of the 2015/16 STIP awards (granted on 2 September 2016) were delivered to participants in deferred shares that are subject to a 2-year restriction period. The restriction period on these shares applied throughout 2016/2017.

| | | Number of Rights | | | | |
|---|---|---|---|---|---|---|
| **Long Term Incentive Plan** | | **1 July** | **Granted** | **Lapsed/ Forfeited** | **Vested and Transferred** | **30 June[1]** |
| Alan Joyce | **2017** | **6,346,000** | **1,172,000** | **–** | **(2,151,000)** | **5,367,000** |
| | 2016 | 7,974,000 | 947,000 | (386,250) | (2,188,750) | 6,346,000 |
| Tino La Spina | **2017** | **775,500** | **293,000** | **–** | **(153,000)** | **915,500** |
| | 2016 | 721,500 | 237,000 | (27,450) | (155,550) | 775,500 |
| Andrew David | **2017** | **860,000** | **293,000** | **–** | **(177,000)** | **976,000** |
| | 2016 | 823,000 | 237,000 | (30,000) | (170,000) | 860,000 |
| Gareth Evans | **2017** | **1,948,580** | **355,000** | **–** | **(651,080)** | **1,652,500** |
| | 2016 | 2,428,731 | 278,500 | (113,550) | (645,101) | 1,948,580 |
| Lesley Grant | **2017** | **1,051,000** | **293,000** | **–** | **(253,000)** | **1,091,000** |
| | 2016 | 1,117,000 | 237,000 | (45,450) | (257,550) | 1,051,000 |
| Jayne Hrdlicka | **2017** | **1,930,500** | **355,000** | **–** | **(633,000)** | **1,652,500** |
| | 2016 | 2,409,000 | 278,500 | (113,550) | (643,450) | 1,930,500 |

1. The 30 June 2017 balance continues to include the Rights granted under the 2015–2017 LTIP which vested at 100% and converted into shares following the performance hurdle testing conducted as at 30 June 2017 and the Board's approval of the 2015–2017 LTIP vesting outcome on 24 August 2017.

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

Rights under the 2017–2019 LTIP were granted on 21 October 2016 to Mr Joyce (following approval by shareholders at the 2016 AGM) and 5 September 2016 for other Executives, and will be tested against the performance hurdles as at 30 June 2019. The number of Rights granted was determined using the fair value of a Right on 30 June 2016 of $1.45 per Right, being the start of the performance period. The fair value of a Right on the grant date was $1.95 per Right for Mr Joyce and $1.96 per Right for other Executives.

Rights under the 2016–2018 LTIP were granted on 23 October 2015 to Mr Joyce (following approval by shareholders at the 2015 AGM) and 1 September 2015 for other Executives, and will be tested against the performance hurdles as at 30 June 2018. The number of Rights granted was determined using the fair value of a Right on 30 June 2015 of $1.795 per Right, being the start of the performance period. The fair value of a Right on the grant date was $2.46 per Right for Mr Joyce and $2.09 per Right for other Executives.

Rights under the 2015–2017 LTIP (granted on 24 October 2014 to Mr Joyce and 15 September 2014 for other Executives) are included in the 30 June 2017 balance. 100% of these Rights vested following the testing of performance hurdles as at 30 June 2017 and the Board's approval of the 2015–2017 LTIP vesting outcome on 24 August 2017.

100% of Rights under the 2014–2016 LTIP (granted on 18 October 2013) vested following the testing of performance hurdles as at 30 June 2016 and the Board's approval of the 2014-2016 LTIP vesting outcome on 23 August 2016.

| | | Number of Shares | | | | | |
|---|---|---|---|---|---|---|---|
| **Performance Share Plan** | | **1 July** | **Granted** | **Forfeited** | **Transferred** | **Other Changes[1]** | **30 June** |
| Gareth Evans | **2017** | **34,388** | **–** | **–** | **–** | **–** | **34,388** |
| | 2016 | 36,621 | – | – | – | (2,233) | 34,388 |
| Lesley Grant | 2016 | 64,989 | – | – | (64,989) | – | – |

1. Other changes include the impact of share consolidation, relating to return of capital to shareholders paid on 6 November 2015, through the conversion of each share into 0.939 shares.

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

| | | Number of Shares | | | | | |
|---|---|---|---|---|---|---|---|
| **Deferred Share Plan** | | **1 July** | **Granted** | **Forfeited** | **Transferred** | **Other Changes[1]** | **30 June** |
| Andrew David | **2017** | **552,585** | **–** | **–** | **(552,585)** | **–** | **–** |
| | 2016 | 588,482 | – | – | – | (35,897) | 552,585 |

1. Other changes include the impact of share consolidation, relating to return of capital to shareholders paid on 6 November 2015, through the conversion of each share into 0.939 shares.

The above shares were awarded to Mr David on 28 August 2014 as part of an equity incentive plan prior to commencing as a KMP and were subject to a restriction period until 31 December 2016. The restriction period on these shares ended during 2016/2017.

### Equity Holdings and Transactions

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

| Key Management Personnel – Executives | Interest in Shares 1 July 2016 | Awarded as Remuneration[1] | Rights Converted to Shares | Other Changes[2] | Interest in Shares 30 June 2017 |
|---|---|---|---|---|---|
| Alan Joyce | 2,986,986 | 490,738 | 2,151,000 | (2,151,000) | **3,477,724** |
| Tino La Spina | 277,424 | 125,411 | 153,000 | – | **555,835** |
| Andrew David | 590,196 | 119,957 | 177,000 | (729,585) | **157,568** |
| Gareth Evans | 264,766 | 153,957 | 651,080 | (633,000) | **436,803** |
| Lesley Grant | 55,654 | 125,411 | 253,000 | (253,000) | **181,065** |
| Jayne Hrdlicka | 100,555 | 141,126 | 633,000 | (633,000) | **241,681** |

1. Shares awarded under the 2014/15 STIP are subject to a restriction period until after the release of the 2016/2017 full-year financial results. Shares awarded under the 2015/16 STIP are subject to a restriction period until after the release of the 2017/2018 full-year financial results.
2. Other changes include shares purchased and sold.

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

### Loans and Other Transactions with Key Management Personnel

No KMP or their related parties held any loans from the Qantas Group during or at the end of the year ended 30 June 2017 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.

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Performance Remuneration Affecting Future Periods

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

| | Future Expense by Plan | | | | | | | Future Expense by Financial Year | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | STIP Awards | | | LTIP Awards | | | | | | | |
| Executives | 2014/15 $'000 | 2015/16 $'000 | 2016/17 $'000 | 2015–2017 $'000 | 2016–2018 $'000 | 2017–2019 $'000 | Total $'000 | 2018 $'000 | 2019 $'000 | 2020 $'000 | Total $'000 |
| Alan Joyce | 50 | 602 | 1,344 | 185 | 959 | 1,743 | **4,883** | 2,998 | 1,648 | 237 | **4,883** |
| Tino La Spina | 7 | 154 | 358 | 20 | 183 | 390 | **1,112** | 661 | 393 | 58 | **1,112** |
| Andrew David | 8 | 147 | 358 | 23 | 183 | 390 | **1,109** | 659 | 392 | 58 | **1,109** |
| Gareth Evans | 14 | 189 | 434 | 52 | 214 | 472 | **1,375** | 830 | 475 | 70 | **1,375** |
| Lesley Grant | 10 | 154 | 341 | 29 | 183 | 390 | **1,107** | 665 | 385 | 57 | **1,107** |
| Jayne Hrdlicka | 14 | 173 | 414 | 52 | 214 | 472 | **1,339** | 807 | 464 | 68 | **1,339** |

## 10 NON-EXECUTIVE DIRECTOR FEES

Non-Executive Director fees are determined within an aggregate Non-Executive Directors' fee pool limit. An annual total fee pool of $3 million (excluding industry standard travel entitlements received) was approved by shareholders at the 2016 AGM.

Total Non-Executive Directors' remuneration (excluding industry standard travel entitlements received and other non-cash benefits) for the year ended 30 June 2017 was $2.33 million (2016: $2.11 million), which is within the approved annual fee pool.

Non-Executive Directors' remuneration reflects the responsibilities of Non-Executive Directors. Fees are benchmarked against Non-Executive Director fees of ASX50 companies and revenue-based peer groups.

During 2016/2017, Non-Executive Director fees were reviewed. This review was performed with reference to the ASX50, revenue peer group and airline market practice data and in the context of very minimal fee increases over the previous 8 years. Over this 8-year period, the Chairman fee was increased once (by 3%) and the Board base fee and Committee fees were increased only twice (by 3% each time). Additionally, for the period 1 January 2014 until 30 June 2015, all Directors forwent 5% of both their base fee and Committee fees. In this context, the following changes were made, effective 1 July 2016:
- Chairman fee, Board base fee and Committee fees were increased by 3% and are presented in the table below
- the during service travel benefit for Directors (other than the Chairman) was increased to 3 long-haul trips and 9 short-haul trips each calendar year (from 2 long-haul trips and 6 short-haul trips)

No changes were made to the Chairman's travel benefit, nor to the post-employment travel benefit for all Non-Executive Directors.

| | Board | | Committees[1] | |
|---|---|---|---|---|
| | Chairman[2] | Member | Chairman | Member |
| Board Fees | **$577,000** | **$149,000** | **$60,000** | **$30,000** |

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

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

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

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

# Directors' Report continued

For the year ended 30 June 2017

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Remuneration for 2016/2017 – Non-Executive Directors

| $'000 | | Short-term Employee Benefits: Base Pay (Cash) | Short-term Employee Benefits: Non-cash Benefits | Short-term Employee Benefits: Sub-total | Post-employment Benefits: Superannuation | Post-employment Benefits: Travel | Post-employment Benefits: Sub-total | Total |
|---|---|---|---|---|---|---|---|---|
| Leigh Clifford | **2017** | **547** | **69** | **616** | **30** | **24** | **54** | **670** |
| Chairman | 2016 | 525 | 62 | 587 | 35 | 22 | 57 | 644 |
| Maxine Brenner | **2017** | **191** | **74** | **265** | **18** | **12** | **30** | **295** |
| Non-Executive Director | 2016 | 184 | 77 | 261 | 18 | 10 | 28 | 289 |
| Richard Goodmanson[1] | **2017** | **264** | **7** | **271** | **–** | **12** | **12** | **283** |
| Non-Executive Director | 2016 | 256 | 13 | 269 | – | 10 | 10 | 279 |
| Jacqueline Hey | **2017** | **163** | **23** | **186** | **16** | **12** | **28** | **214** |
| Non-Executive Director | 2016 | 158 | 53 | 211 | 15 | 10 | 25 | 236 |
| Michael L'Estrange[2] | **2017** | **164** | **4** | **168** | **16** | **12** | **28** | **196** |
| Non-Executive Director | 2016 | 31 | – | 31 | 3 | 10 | 13 | 44 |
| William Meaney[1] | **2017** | **234** | **–** | **234** | **–** | **12** | **12** | **246** |
| Non-Executive Director | 2016 | 222 | – | 222 | – | 10 | 10 | 232 |
| Paul Rayner | **2017** | **219** | **43** | **262** | **20** | **12** | **32** | **294** |
| Non-Executive Director | 2016 | 212 | 67 | 279 | 19 | 10 | 29 | 308 |
| Todd Sampson | **2017** | **163** | **75** | **238** | **16** | **12** | **28** | **266** |
| Non-Executive Director | 2016 | 158 | 74 | 232 | 15 | 10 | 25 | 257 |
| Barbara Ward | **2017** | **249** | **13** | **262** | **20** | **12** | **32** | **294** |
| Non-Executive Director | 2016 | 241 | 17 | 258 | 19 | 10 | 29 | 287 |
| **Total** | **2017** | **2,194** | **308** | **2,502** | **136** | **120** | **256** | **2,758** |
| | 2016 | 1,987 | 363 | 2,350 | 124 | 102 | 226 | 2,576 |

1. Mr Goodmanson and Mr Meaney each received a travel allowance of $25,000 during 2016/2017 (2016: $25,000 for Mr Goodmanson and $20,000 for Mr Meaney). These amounts were included in their Base Pay (Cash).
2. 2015/2016 remuneration reflects the period served by Mr L'Estrange as a Non-Executive Director from 7 April 2016 to 30 June 2016.

### Equity Holdings and Transactions

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

| Key Management Personnel – Non-Executive Directors | Interest in Shares as at 1 July 2016 | Other Changes[1] | Interest in Shares as at 30 June 2017 |
|---|---|---|---|
| Leigh Clifford | 362,613 | – | **362,613** |
| Maxine Brenner | 26,565 | 3,500 | **30,065** |
| Richard Goodmanson | 18,780 | – | **18,780** |
| Jacqueline Hey | 38,170 | – | **38,170** |
| Michael L'Estrange | – | 6,012 | **6,012** |
| William Meaney | – | – | **–** |
| Paul Rayner | 220,324 | 50,000 | **270,324** |
| Todd Sampson | 4,695 | – | **4,695** |
| Barbara Ward | 44,694 | – | **44,694** |

1. Other changes include shares purchased and sold.

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

# Directors' Report continued

For the year ended 30 June 2017

## 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.

As at 30 June 2017 Qantas was assisting relevant state and federal authorities with investigations into the loss of containment of a chemical fire-fighting concentrate from Qantas Hangar 3 at Brisbane Airport into the local sewerage and storm water system and subsequently into state waters. The Directors are not aware of any other potential breaches of any environmental legislation or material environmental incidents during the year.

## INDEMNITIES AND INSURANCE

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

The Directors and the Company Secretaries listed on pages 26 to 27 and individuals who formerly held any of these positions have the benefit of the indemnity in the Qantas Constitution. Members of Qantas' Executive Management team and certain former members of the Executive Management team have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board. In respect to non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on any information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2016/2017 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 2016/2017 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 2016/2017 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 54.

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

# Directors' Report continued

For the year ended 30 June 2017

KPMG

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

To: The Directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2017, 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

15 September 2017

Andrew Yates
Partner



**Rounding**

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

Signed pursuant to a Resolution of the Directors:

Leigh Clifford
Chairman

15 September 2017

Alan Joyce
Chief Executive Officer

15 September 2017

# Financial Report

For the year ended 30 June 2017

## FINANCIAL STATEMENTS



## NOTES TO THE FINANCIAL STATEMENTS

# Consolidated Income Statement

For the year ended 30 June 2017

| | Notes | 2017 $M | 2016 $M |
|---|---|---|---|
| **REVENUE AND OTHER INCOME** | | | |
| Net passenger revenue | | 13,857 | 13,961 |
| Net freight revenue | | 808 | 850 |
| Other | 2(B) | 1,392 | 1,389 |
| **Revenue and other income** | | **16,057** | **16,200** |
| **EXPENDITURE** | | | |
| Manpower and staff related | | 4,033 | 3,865 |
| Fuel | | 3,039 | 3,250 |
| Aircraft operating variable | | 3,436 | 3,346 |
| Depreciation and amortisation | | 1,382 | 1,224 |
| Non-cancellable aircraft operating lease rentals | | 356 | 461 |
| Share of net loss of investments accounted for under the equity method | | 7 | – |
| Other | 3 | 2,434 | 2,411 |
| **Expenditure** | | **14,687** | **14,557** |
| **Statutory profit before income tax expense and net finance costs** | | **1,370** | **1,643** |
| Finance income | 4 | 46 | 65 |
| Finance costs | 4 | (235) | (284) |
| **Net finance costs** | **4** | **(189)** | **(219)** |
| **Statutory profit before income tax expense** | | **1,181** | **1,424** |
| Income tax expense | 5 | (328) | (395) |
| **Statutory profit for the year** | | **853** | **1,029** |
| **Attributable to:** | | | |
| Members of Qantas | | 852 | 1,029 |
| Non-controlling interests | | 1 | – |
| **Statutory profit for the year** | | **853** | **1,029** |
| **EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS** | | | |
| **Basic/diluted earnings per share (cents)** | **6(D)** | **46.0** | **49.4** |

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 2017

| | 2017 $M | 2016 $M |
|---|---|---|
| **Statutory profit for the year** | **853** | **1,029** |
| **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 | 46 | (187) |
| Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1] | (6) | 198 |
| Recognition of effective cash flow hedges on capitalised assets, net of tax | (2) | (40) |
| Net changes in hedge reserve for time value of options, net of tax | (22) | 35 |
| Foreign currency translation of controlled entities | (4) | 2 |
| Foreign currency translation of investments accounted for under the equity method | (9) | 24 |
| Share of other comprehensive income/(loss) of investments accounted for under the equity method | 2 | (2) |
| **Items that will not subsequently be reclassified to profit or loss** | | |
| Defined benefit actuarial gains/(losses), net of tax | 175 | (209) |
| **Other comprehensive income/(loss) for the year** | **180** | **(179)** |
| **Total comprehensive income for the year** | **1,033** | **850** |
| | | |
| **Attributable to:** | | |
| Members of Qantas | 1,032 | 850 |
| Non-controlling interests | 1 | – |
| **Total comprehensive income for the year** | **1,033** | **850** |

1 These amounts were allocated to revenue of $1 million (2016: $(7) million), fuel expenditure of $(10) million (2016: $289 million), and income tax expense of $3 million (2016: $(84) 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 2017

| | Notes | 2017 $M | 2016 $M |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 8 | 1,775 | 1,980 |
| Receivables | 9 | 784 | 795 |
| Other financial assets | 20(C) | 100 | 229 |
| Inventories | | 351 | 336 |
| Assets classified as held for sale | 10 | 12 | 17 |
| Other | | 97 | 101 |
| **Total current assets** | | **3,119** | **3,458** |
| **NON-CURRENT ASSETS** | | | |
| Receivables | 9 | 123 | 134 |
| Other financial assets | 20(C) | 43 | 46 |
| Investments accounted for under the equity method | | 214 | 197 |
| Property, plant and equipment | 11 | 12,253 | 11,670 |
| Intangible assets | 12 | 1,025 | 909 |
| Deferred tax assets | 13 | – | 39 |
| Other | | 444 | 252 |
| **Total non-current assets** | | **14,102** | **13,247** |
| **Total assets** | | **17,221** | **16,705** |
| **CURRENT LIABILITIES** | | | |
| Payables | | 2,067 | 1,986 |
| Revenue received in advance | 14 | 3,685 | 3,525 |
| Interest-bearing liabilities | 15 | 433 | 441 |
| Other financial liabilities | 20(C) | 69 | 203 |
| Provisions | 16 | 841 | 873 |
| **Total current liabilities** | | **7,095** | **7,028** |
| **NON-CURRENT LIABILITIES** | | | |
| Revenue received in advance | 14 | 1,424 | 1,521 |
| Interest-bearing liabilities | 15 | 4,405 | 4,421 |
| Other financial liabilities | 20(C) | 56 | 61 |
| Provisions | 16 | 348 | 414 |
| Deferred tax liabilities | 13 | 353 | – |
| **Total non-current liabilities** | | **6,586** | **6,417** |
| **Total liabilities** | | **13,681** | **13,445** |
| **Net assets** | | **3,540** | **3,260** |
| **EQUITY** | | | |
| Issued capital | 17(A) | 3,259 | 3,625 |
| Treasury shares | | (206) | (50) |
| Reserves | | 12 | (220) |
| Retained earnings | | 472 | (100) |
| **Equity attributable to the members of Qantas** | | **3,537** | **3,255** |
| Non-controlling interests | | 3 | 5 |
| **Total equity** | | **3,540** | **3,260** |

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 2017

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

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

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

| 30 June 2016<br>$M | Issued Capital | Treasury Shares | Employee Compensation Reserve | Hedge Reserve | Foreign Currency Translation Reserve | Defined Benefit Reserve | Retained Earnings | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 July 2015** | **4,630** | **(7)** | **47** | **(122)** | **(29)** | **38** | **(1,115)** | **5** | **3,447** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | | | | | | | | |
| Statutory profit for the year | – | – | – | – | – | – | 1,029 | – | 1,029 |
| **Other comprehensive income/(loss)** | | | | | | | | | |
| Effective portion of changes in fair value of cash flow hedges, net of tax | – | – | – | (187) | – | – | – | – | (187) |
| Transfer of hedge reserve to the Consolidated Income Statement, net of tax | – | – | – | 198 | – | – | – | – | 198 |
| Recognition of effective cash flow hedges on capitalised assets, net of tax | – | – | – | (40) | – | – | – | – | (40) |
| Net changes in hedge reserve for time value of options, net of tax | – | – | – | 35 | – | – | – | – | 35 |
| Defined benefit actuarial losses, net of tax | – | – | – | – | – | (209) | – | – | (209) |
| Foreign currency translation of controlled entities | – | – | – | – | 2 | – | – | – | 2 |
| Foreign currency translation of investments accounted for under the equity method | – | – | – | – | 24 | – | – | – | 24 |
| Share of other comprehensive loss of investments accounted for under the equity method | – | – | – | (2) | – | – | – | – | (2) |
| **Total other comprehensive income/(loss)** | **–** | **–** | **–** | **4** | **26** | **(209)** | **–** | **–** | **(179)** |
| **Total comprehensive income/(loss) for the year** | **–** | **–** | **–** | **4** | **26** | **(209)** | **1,029** | **–** | **850** |
| **TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY** | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | |
| Share buy-back | (500) | – | – | – | – | – | – | – | (500) |
| Capital return | (505) | – | – | – | – | – | – | – | (505) |
| Treasury shares acquired | – | (75) | – | – | – | – | – | – | (75) |
| Share-based payments | – | – | 37 | – | – | – | – | – | 37 |
| Shares vested and transferred to employees | – | 32 | (11) | – | – | – | (15) | – | 6 |
| Share-based payments unvested and lapsed | – | – | (1) | – | – | – | 1 | – | – |
| **Total contributions by and distributions to owners** | **(1,005)** | **(43)** | **25** | **–** | **–** | **–** | **(14)** | **–** | **(1,037)** |
| **Total transactions with owners** | **(1,005)** | **(43)** | **25** | **–** | **–** | **–** | **(14)** | **–** | **(1,037)** |
| **Balance as at 30 June 2016** | **3,625** | **(50)** | **72** | **(118)** | **(3)** | **(171)** | **(100)** | **5** | **3,260** |

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 2017

| | Notes | 2017 $M | 2016 $M |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | 16,947 | 17,320 |
| Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs, Wage Freeze bonus and Record Results bonus) | | (13,982) | (14,197) |
| **Cash generated from operations** | | **2,965** | **3,123** |
| Cash payments to employees for redundancies and related costs | | (50) | (90) |
| Cash payments to employees for Wage Freeze bonus and Record Results bonus | | (87) | (53) |
| Interest received | | 37 | 64 |
| Interest paid | | (164) | (227) |
| Dividends received from investments accounted for under the equity method | | 7 | 4 |
| Income taxes paid (foreign) | | (4) | (2) |
| **Net cash from operating activities** | **21(A)** | **2,704** | **2,819** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for property, plant and equipment and intangible assets | | (1,368) | (1,618) |
| Interest paid and capitalised on qualifying assets | 4 | (45) | (24) |
| Payments for investments accounted for under the equity method | | (16) | (39) |
| Proceeds from disposal of property, plant and equipment | | 34 | 509 |
| Net loan repayment from investments accounted for under the equity method | | – | 27 |
| Net cash used in investing activities (excluding aircraft operating lease refinancing) | | (1,395) | (1,145) |
| Aircraft operating lease refinancing | | (651) | (778) |
| **Net cash used in investing activities** | | **(2,046)** | **(1,923)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payments for share buy-back | | (366) | (500) |
| Payments for capital return | | – | (505) |
| Payments for treasury shares | | (198) | (75) |
| Proceeds from borrowings | | 419 | – |
| Repayments of borrowings | | (453) | (807) |
| Net receipts for aircraft security deposits and hedges-related to debt | | 8 | 62 |
| Dividends paid to shareholders | | (261) | – |
| Dividends paid to non-controlling interests | | (3) | – |
| **Net cash used in financing activities** | | **(854)** | **(1,825)** |
| **Net decrease in cash and cash equivalents held** | | **(196)** | **(929)** |
| Cash and cash equivalents at the beginning of the year | | 1,980 | 2,908 |
| Effects of exchange rate changes on cash and cash equivalents | | (9) | 1 |
| **Cash and cash equivalents at the end of the year** | **8** | **1,775** | **1,980** |

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 2017

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

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

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

Underlying PBT is derived by adjusting Statutory Profit Before Tax for the impacts of ineffectiveness and non-designated derivatives relating to other reporting periods and certain other items which are not included in Underlying PBT.

| | 2017 $M | 2016 $M |
|---|---|---|
| **Reconciliation of Underlying PBT to Statutory Profit Before Tax** | | |
| **Underlying PBT** | **1,401** | **1,532** |
| **Ineffectiveness and non-designated derivatives relating to other reporting periods** | – | **(15)** |
| *Other items not included in Underlying PBT* | | |
| — Transformation costs | (142) | (183) |
| — Wage Freeze bonus and Record Results employee bonus | (85) | (91) |
| — Net gain on sale of Sydney Airport Terminal Three | – | 201 |
| — Other | 7 | (20) |
| **Total other items not included in Underlying PBT** | **(220)** | **(93)** |
| **Statutory Profit Before Tax** | **1,181** | **1,424** |

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

**i. Ineffectiveness and Non-Designated Derivatives Relating to Other Reporting Periods**

The difference between Statutory Profit Before Tax and Underlying PBT results from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

**ii. Other Items Not Included in Underlying PBT**

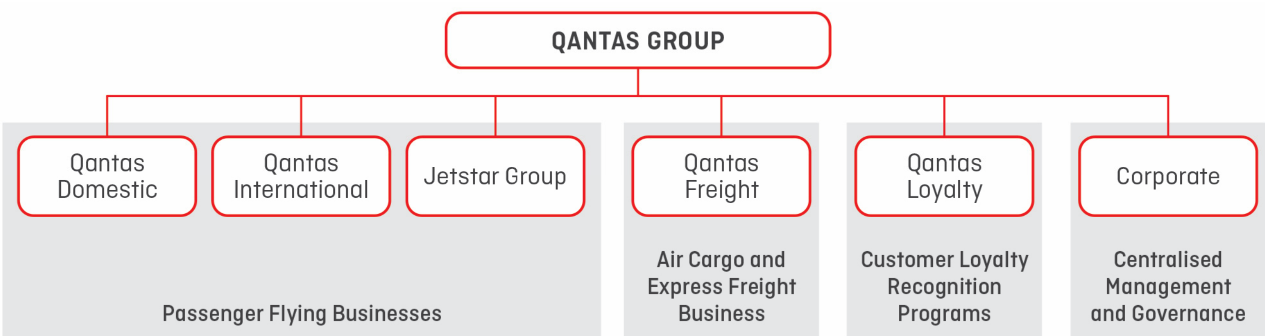
Items which are identified by Management and reported to the chief operating decision-making bodies as not representing the underlying performance of the business are not included in Underlying PBT. The determination of these items is made after consideration of their nature and materiality and is applied 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, impairments of assets and other transactions outside the ordinary course of business.

- Transformation costs relating to the Qantas Transformation Program of $142 million were incurred during the period (2016: $183 million).
- The Wage Freeze bonus and Record Results employee bonus of $85 million (2016: $91 million) comprises the Wage Freeze bonus of $9 million and the Record Results bonus of $76 million. Both bonuses are payable to employees covered by an EBA that includes an 18-month pay freeze in accordance with the Group's wage strategy.
- Other includes a reversal of impairment of $22 million in relation to the investment in Helloworld Travel Ltd. The reversal of impairment has been recognised as an item outside of Underlying PBT consistent with the treatment of the original impairment.

### (B) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:



# Notes to the Financial Statements continued

For the year ended 30 June 2017

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

### i. Underlying EBIT

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

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

### ii. Analysis by Operating Segment

| 2017 $M | Qantas Domestic | Qantas International | Jetstar Group | Qantas Freight | Qantas Loyalty | Corporate | Unallocated/ Eliminations[2] | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **REVENUE AND OTHER INCOME** | | | | | | | | |
| External segment revenue and other income | 5,186 | 5,098 | 3,467 | 929 | 1,369 | 16 | (8) | 16,057 |
| Inter-segment revenue and other income | 446 | 610 | 133 | 9 | 136 | – | (1,334) | – |
| **Total segment revenue and other income** | **5,632** | **5,708** | **3,600** | **938** | **1,505** | **16** | **(1,342)** | **16,057** |
| Share of net profit/(loss) of investments accounted for under the equity method | 5 | 5 | (17) | – | – | – | – | (7) |
| **Underlying EBITDAR[1]** | **1,364** | **857** | **835** | **76** | **391** | **(161)** | **(34)** | **3,328** |
| Non-cancellable aircraft operating lease rentals | (132) | (61) | (156) | (6) | – | – | (1) | (356) |
| Depreciation and amortisation | (587) | (469) | (262) | (23) | (22) | (12) | (7) | (1,382) |
| **Underlying EBIT** | **645** | **327** | **417** | **47** | **369** | **(173)** | **(42)** | **1,590** |
| Underlying net finance costs | | | | | | (189) | | (189) |
| **Underlying PBT** | | | | | | **(362)** | | **1,401** |
| **ROIC %[3]** | | | | | | | | **20.1%** |

| 2016 $M | Qantas Domestic | Qantas International | Jetstar Group | Qantas Freight | Qantas Loyalty | Corporate | Unallocated/ Eliminations[2] | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **REVENUE AND OTHER INCOME** | | | | | | | | |
| External segment revenue and other income | 5,226 | 5,173 | 3,475 | 973 | 1,332 | 13 | 8 | 16,200 |
| Inter-segment revenue and other income | 484 | 577 | 161 | 9 | 122 | – | (1,353) | – |
| **Total segment revenue and other income** | **5,710** | **5,750** | **3,636** | **982** | **1,454** | **13** | **(1,345)** | **16,200** |
| Share of net profit/(loss) of investments accounted for under the equity method | 3 | 4 | (7) | – | – | – | – | – |
| **Underlying EBITDAR[1]** | **1,276** | **1,013** | **866** | **96** | **359** | **(157)** | **(17)** | **3,436** |
| Non-cancellable aircraft operating lease rentals | (174) | (69) | (208) | (6) | – | – | (4) | (461) |
| Depreciation and amortisation | (524) | (432) | (206) | (26) | (13) | (11) | (12) | (1,224) |
| **Underlying EBIT** | **578** | **512** | **452** | **64** | **346** | **(168)** | **(33)** | **1,751** |
| Underlying net finance costs | | | | | | (219) | | (219) |
| **Underlying PBT** | | | | | | **(387)** | | **1,532** |
| **ROIC %[3]** | | | | | | | | **22.7%** |

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

## (C) RETURN ON INVESTED CAPITAL

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

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

### i. ROIC EBIT

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

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

| | 2017 $M | 2016 $M |
|---|---|---|
| **ROIC EBIT** | | |
| **Underlying EBIT** | **1,590** | **1,751** |
| Add back: Non-cancellable aircraft lease rentals | 356 | 461 |
| Less: Notional depreciation[1] | (158) | (203) |
| **ROIC EBIT** | **1,788** | **2,009** |

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

### ii. Average Invested Capital

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

Average Invested Capital is equal to the 12-month average of the monthly Invested Capital.

| | 2017 $M | 2016 $M |
|---|---|---|
| **INVESTED CAPITAL** | | |
| Receivables (current and non-current) | 907 | 929 |
| Inventories | 351 | 336 |
| Other assets (current and non-current) | 541 | 353 |
| Investments accounted for under the equity method | 214 | 197 |
| Property, plant and equipment | 12,253 | 11,670 |
| Intangible assets | 1,025 | 909 |
| Assets classified as held for sale | 12 | 17 |
| Payables | (2,067) | (1,986) |
| Provisions (current and non-current) | (1,189) | (1,287) |
| Revenue received in advance (current and non-current) | (5,109) | (5,046) |
| Capitalised operating leased assets[1] | 1,794 | 2,288 |
| **Invested Capital as at 30 June** | **8,732** | **8,380** |
| **Average Invested Capital for the year ended 30 June** | **8,891** | **8,857** |

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

### iii. ROIC %

| | 2017 % | 2016 % |
|---|---|---|
| **ROIC %[1]** | **20.1** | **22.7** |

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

### iv. Underlying Earnings per share

| | 2017 cents | 2016 cents |
|---|---|---|
| **Underlying Earnings per share[1]** | **54.6** | **53.1** |

1 Underlying Earnings per share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 27.8% (2016: 27.7%)) divided by the weighted average number of shares during the year (consistent with the Statutory Earnings per share calculation).

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 2 REVENUE AND OTHER INCOME

### (A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREAS

| | 2017 $M | 2016 $M |
|---|---|---|
| **Net passenger and freight revenue** | | |
| Australia | 10,520 | 10,563 |
| Overseas | 4,145 | 4,248 |
| **Total net passenger and freight revenue** | **14,665** | **14,811** |
| Other income | 1,392 | 1,389 |
| **Total revenue and other income** | **16,057** | **16,200** |

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

### (B) OTHER INCOME

| | 2017 $M | 2016 $M |
|---|---|---|
| Frequent Flyer marketing revenue, membership fees and other revenue | 431 | 395 |
| Frequent Flyer store and other redemption revenue[1] | 301 | 299 |
| Retail, advertising and other property revenue | 141 | 141 |
| Contract work revenue | 142 | 138 |
| Other | 377 | 416 |
| **Total other income** | **1,392** | **1,389** |

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

## 3 OTHER EXPENDITURE

| | 2017 $M | 2016 $M |
|---|---|---|
| Commissions and other selling costs | 528 | 557 |
| Computer and communication | 439 | 432 |
| Capacity hire | 283 | 297 |
| Property | 250 | 237 |
| Non-aircraft operating lease rentals | 226 | 234 |
| Marketing and advertising | 123 | 132 |
| Wage Freeze bonus and Record Results employee bonus | 85 | 91 |
| Redundancies and related costs | 48 | 56 |
| Contract work materials | 16 | 12 |
| Inventory write-off | 14 | 15 |
| Net gain on disposal of Sydney Airport Terminal Three | – | (201) |
| Ineffective and non-designated derivatives | (2) | (1) |
| Net gain on disposal of property, plant and equipment | (11) | (25) |
| Discount rate and other actuarial assumption changes on employee-related provisions | (21) | 92 |
| Net impairment of property, plant, equipment, intangible assets and investments | (18) | 12 |
| Other | 474 | 471 |
| **Total other expenditure** | **2,434** | **2,411** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 4 NET FINANCE COSTS

| | 2017 $M | 2016 $M |
|---|---|---|
| **FINANCE INCOME** | | |
| Interest income on financial assets measured at amortised cost | 39 | 64 |
| Unwind of discount on receivables | 7 | 1 |
| **Total finance income** | **46** | **65** |
| FINANCE COSTS | | |
| Interest expense on financial liabilities measured at amortised cost | (243) | (268) |
| Interest paid and capitalised on qualifying assets[1] | 45 | 24 |
| **Total finance costs on financial liabilities** | **(198)** | **(244)** |
| **Unwind of discount on provisions and other liabilities** | | |
| Employee benefits | (19) | (21) |
| Other liabilities and provisions | (18) | (19) |
| **Total unwind of discount on other liabilities and provisions** | **(37)** | **(40)** |
| **Total finance costs** | **(235)** | **(284)** |
| **Net finance costs** | **(189)** | **(219)** |

1 The borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities, being 6.7 per cent (2016: 6.8 per cent).

## 5 INCOME TAX EXPENSE

| | 2017 $M | 2016 $M |
|---|---|---|
| **INCOME TAX RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT** | | |
| **Current income tax expense** | | |
| Current income tax – foreign | (4) | (2) |
| **Total current income tax expense** | (4) | **(2)** |
| **Deferred income tax expense** | | |
| Origination and reversal of temporary differences | (161) | 26 |
| Utilisation of tax losses | (157) | (413) |
| **Current year deferred income tax expense** | (318) | **(387)** |
| Adjustments for prior year | (6) | (6) |
| **Total deferred income tax expense** | (324) | **(393)** |
| **Total income tax expense in the Consolidated Income Statement** | (328) | **(395)** |

| | 2017 $M | 2016 $M |
|---|---|---|
| **RECONCILIATION BETWEEN INCOME TAX EXPENSE AND STATUTORY PROFIT BEFORE INCOME TAX** | | |
| **Statutory profit before income tax expense** | **1,181** | **1,424** |
| Income tax expense using the domestic corporate tax rate of 30 per cent | (354) | (427) |
| **Adjusted for:** | | |
| Non-assessable dividends from controlled entities | 2 | 1 |
| Non-deductible share of net loss for investments accounted for under the equity method | (4) | – |
| Non-deductible losses for foreign branches and controlled entities | (1) | (6) |
| Utilisation of previously unrecognised foreign branch and controlled entity losses | 4 | 6 |
| Utilisation of previously unrecognised capital losses | – | 8 |
| Non-assessable gain on disposal of property, plant and equipment | – | 30 |
| Other net non-assessable/(non-deductible) items | 18 | 7 |
| Over/(under) provision from prior periods | 7 | (14) |
| **Income tax expense** | **(328)** | **(395)** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 5 INCOME TAX EXPENSE (CONTINUED)

| | 2017 $M | 2016 $M |
|---|---|---|
| **INCOME TAX (EXPENSE)/BENEFIT RECOGNISED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** | | |
| **Income tax on:** | | |
| Cash flow hedges | (7) | (2) |
| Defined benefit actuarial gains/(losses) | (75) | 89 |
| **Income tax (expense)/benefit recognised in the Consolidated Statement of Comprehensive Income** | **(82)** | **87** |

| | 2017 $M | 2016 $M |
|---|---|---|
| **RECONCILIATION OF INCOME TAX EXPENSE TO INCOME TAX PAYABLE** | | |
| **Income tax expense** | **(328)** | **(395)** |
| **Adjusted for temporary differences** | | |
| Inventories | 15 | 1 |
| Property, plant and equipment and intangible assets | 92 | 18 |
| Payables | 19 | (28) |
| Revenue received in advance | 16 | (64) |
| Interest-bearing liabilities | 1 | (16) |
| Other financial assets/(liabilities) | (6) | 40 |
| Provisions | (11) | (26) |
| Other items | 35 | 49 |
| Prior period differences | 6 | 8 |
| **Temporary differences** | **167** | **(18)** |
| **Tax on Taxable Income** | **(161)** | **(413)** |
| Tax losses utilised (Australian) | 157 | 413 |
| **Income tax payable (foreign)** | **(4)** | **–** |

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

- Utilisation of carry forward tax losses that reduce taxable income of $157 million (2016: $413 million)
- Temporary differences of $167 million (2016: ($18) million) that result in differences between taxable income and Statutory Profit Before Tax, which will reverse in future periods, such as accelerated tax depreciation on aircraft (timing difference due to the Qantas Group making a significant investment in renewing its fleet in recent years, which will reverse in future tax periods)

## 6 DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

| | Amount per Ordinary Share cents | Franked Amount per Ordinary Share cents | Dividend Declared $M | Payment Date |
|---|---|---|---|---|
| 2017 final dividend[1] | 7.0 | – | 127 | October 2017 |
| 2017 interim dividend[1] | 7.0 | 3.5 | 127 | April 2017 |
| 2016 final dividend | 7.0 | 7.0 | 134 | October 2016 |

1. For non-Australian shareholders, no Dividend Withholding Tax will be withheld as Conduit Foreign Income (CFI) credits will be attached to the unfranked portion.

### (A) DIVIDENDS DECLARED AND PAID

In August 2017, the Directors declared an unfranked final dividend of seven cents per ordinary share for the period, totalling $127 million. The record date for determining entitlements to the final dividend is 11 September 2017. The dividend will be paid on 13 October 2017.

For the year ended 30 June 2017, $261 million of dividends were paid to shareholders of Qantas Airways Limited and $3 million of dividends were paid to non-controlling interest shareholders by non-wholly owned controlled entities.

### (B) OTHER SHAREHOLDER DISTRIBUTIONS

In August 2017, the Directors announced an on-market share buy-back of up to $373 million.

During the year ended 30 June 2017, the Group completed an on-market share buy-back of $366 million, which was announced in August 2016. The Group purchased 110.6 million of ordinary shares on issue at a weighted average share price of $3.31.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 6 DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS (CONTINUED)

### (C) FRANKING ACCOUNT

| | 2017 $M | 2016 $M |
|---|---|---|
| **Total franking account balance at 30 per cent** | – | 84 |

The above amount represents the balance of the franking account as at 30 June, after taking into account adjustments for:
— Franking credits that will arise from the payment of income tax payable for the current year
— Franking credits that will arise from the receipt of dividends recognised as receivables at the year end
— Franking credits that may be prevented from being distributed in subsequent years

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

### (D) EARNINGS PER SHARE

| | 2017 Cents | 2016 Cents |
|---|---|---|
| **Basic/diluted earnings per share** | 46.0 | 49.4 |
| | $M | $M |
| **Statutory profit attributable to members of Qantas** | 852 | 1,029 |
| | Number M | Number M |
| WEIGHTED AVERAGE NUMBER OF SHARES | | |
| Issued shares as at 1 July | 1,919 | 2,196 |
| Share consolidation | – | (134) |
| Shares bought back and cancelled | (111) | (143) |
| **Issued shares as at 30 June** | **1,808** | **1,919** |
| **Weighted average number of shares (basic and diluted) as at 30 June** | **1,853** | **2,083** |

## 7 AUDITOR'S REMUNERATION

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| AUDIT AND AUDIT-RELATED SERVICES (Auditors of Qantas – KPMG) | | |
| — Audit and review of Financial Report | 3,051 | 3,266 |
| — Other regulatory audit services | 38 | 57 |
| **Total audit and audit-related services** | **3,089** | **3,323** |
| OTHER SERVICES (Auditors of Qantas – KPMG) | | |
| — In relation to other assurance, taxation and due diligence services | 1,000 | 896 |
| — Other non-audit services | 402 | 52 |
| **Total other services** | **1,402** | **948** |
| **Total auditor's remuneration** | **4,491** | **4,271** |

## 8 CASH AND CASH EQUIVALENTS

| | 2017 $M | 2016 $M |
|---|---|---|
| Cash balances | 312 | 311 |
| Cash at call | 277 | 138 |
| Short-term money market securities and term deposits | 1,186 | 1,531 |
| **Total cash and cash equivalents** | **1,775** | **1,980** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 8 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents comprise cash at bank and on hand, cash at call and short-term money market securities and term deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Short-term money market securities of $87 million (2016: $72 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.

## 9 RECEIVABLES

| | 2017 $M | | | 2016 $M | | |
|---|---|---|---|---|---|---|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Trade receivables | 666 | – | 666 | 658 | – | 658 |
| Less provision for impairment losses | (2) | – | (2) | (2) | – | (2) |
| **Total trade receivables** | **664** | **–** | **664** | **656** | **–** | **656** |
| Sundry receivables | 120 | 123 | 243 | 139 | 134 | 273 |
| **Total receivables** | **784** | **123** | **907** | **795** | **134** | **929** |

| | 2017 $M | 2016 $M |
|---|---|---|
| The ageing of trade receivables, net of provision for impairment losses, at 30 June was: | | |
| Not past due | 578 | 571 |
| Past due 1–30 days | 60 | 47 |
| Past due 31–120 days | 13 | 26 |
| Past due 121 days or more | 13 | 12 |
| **Total trade receivables** | **664** | **656** |

## 10 ASSETS CLASSIFIED AS HELD FOR SALE

| | 2017 $M | 2016 $M |
|---|---|---|
| Property, plant and equipment | 12 | 17 |
| **Total assets classified as held for sale** | **12** | **17** |

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

## 11 PROPERTY, PLANT AND EQUIPMENT

| | 2017 $M | | | 2016 $M | | |
|---|---|---|---|---|---|---|
| $M | 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 | 335 | (226) | 109 | 335 | (220) | 115 |
| Leasehold improvements | 1,413 | (966) | 447 | 1,385 | (933) | 452 |
| Plant and equipment | 1,563 | (1,130) | 433 | 1,504 | (1,074) | 430 |
| Aircraft and engines | 20,992 | (10,960) | 10,032 | 20,065 | (10,146) | 9,919 |
| Aircraft spare parts | 835 | (405) | 430 | 837 | (414) | 423 |
| Aircraft deposits | 752 | – | 752 | 281 | – | 281 |
| **Total property, plant and equipment** | **25,940** | **(13,687)** | **12,253** | **24,457** | **(12,787)** | **11,670** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| 2017 $M | Opening Net Book Value | Additions[1] | Aircraft Operating Lease Refinancing | Disposals | Transfers[2] | Transferred (to)/from Assets Classified as Held for Sale | Depreciation | Other[3] | Closing Net Book Value |
|---|---|---|---|---|---|---|---|---|---|
| Freehold land | 50 | – | – | – | – | – | – | – | 50 |
| Buildings | 115 | – | – | – | – | – | (6) | – | 109 |
| Leasehold improvements | 452 | 44 | – | – | 2 | – | (52) | 1 | 447 |
| Plant and equipment | 430 | 62 | – | (6) | (20) | – | (76) | 43 | 433 |
| Aircraft and engines[4] | 9,919 | 498 | 651 | – | 30 | (10) | (1,101) | 45 | 10,032 |
| Aircraft spare parts | 423 | 48 | – | (2) | 16 | – | (41) | (14) | 430 |
| Aircraft deposits | 281 | 515 | – | – | (21) | – | – | (23) | 752 |
| **Total property, plant and equipment** | **11,670** | **1,167** | **651** | **(8)** | **7** | **(10)** | **(1,276)** | **52** | **12,253** |

| 2016 $M | Opening Net Book Value | Additions[1] | Aircraft Operating Lease Refinancing | Disposals | Transfers[2] | Transferred (to)/from Assets Classified as Held for Sale | Depreciation | Other[3] | Closing Net Book Value |
|---|---|---|---|---|---|---|---|---|---|
| Freehold land | 50 | – | – | – | – | – | – | – | 50 |
| Buildings | 121 | – | – | – | – | – | (7) | 1 | 115 |
| Leasehold improvements | 539 | 75 | – | (104) | (10) | – | (44) | (4) | 452 |
| Plant and equipment | 472 | 74 | – | (51) | 4 | – | (76) | 7 | 430 |
| Aircraft and engines[4] | 8,982 | 587 | 778 | (8) | 481 | 20 | (972) | 51 | 9,919 |
| Aircraft spare parts | 382 | 84 | – | (1) | (1) | – | (37) | (4) | 423 |
| Aircraft deposits | 169 | 594 | – | – | (480) | – | – | (2) | 281 |
| **Total property, plant and equipment** | **10,715** | **1,414** | **778** | **(164)** | **(6)** | **20** | **(1,136)** | **49** | **11,670** |

1 Additions include capitalised interest of $42 million (2016: $19 million).
2 Transfers include transfers between categories of property, plant and equipment and transfers from/(to) other balance sheet accounts.
3 Other includes foreign exchange movements, non-cash additions including those relating to finance leases and impairments of property, plant and equipment.
4 Aircraft and engines include finance-leased assets with a net book value of $1,355 million (2016: $1,507 million).

### i. Aircraft by Geographic Area

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

### ii. Secured Assets

Certain aircraft and engines act as security against related financing facilities. Under the terms of certain financing facilities entered into by the Qantas Group, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters. The total carrying amount of assets under pledge is $3,867 million (2016: $4,245 million).

### iii. Capital Expenditure Commitments

The Group's capital expenditure commitments as at 30 June 2017 are $11,385 million (2016: $11,623 million). The Group has certain rights within its aircraft purchase contracts which can defer the above capital expenditure.

The Group's capital expenditure commitments are predominantly denominated in US dollars. Capital expenditure commitments outlined above are translated to Australian dollar presentational currency at the 30 June 2017 closing exchange rate of $0.76 (30 June 2016: $0.75).

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 12 INTANGIBLE ASSETS

| | 2017 $M | | | 2016 $M | | |
|---|---|---|---|---|---|---|
| | At Cost | Accumulated Amortisation and Impairment | Net Book Value | At Cost | Accumulated Amortisation and Impairment | Net Book Value |
| Goodwill | 207 | – | 207 | 208 | – | 208 |
| Airport landing slots | 35 | – | 35 | 35 | – | 35 |
| Software | 1,523 | (824) | 699 | 1,322 | (720) | 602 |
| Brand names and trademarks | 25 | – | 25 | 26 | – | 26 |
| Customer contracts/relationships | 5 | (4) | 1 | 27 | (25) | 2 |
| Contract intangible assets | 58 | – | 58 | 36 | – | 36 |
| **Total intangible assets** | **1,853** | **(828)** | **1,025** | **1,654** | **(745)** | **909** |

| 2017 $M | Opening Net Book Value | Additions[1] | Transfers[2] | Amortisation | Other[3] | Closing Net Book Value |
|---|---|---|---|---|---|---|
| Goodwill | 208 | – | – | – | (1) | 207 |
| Airport landing slots | 35 | – | – | – | – | 35 |
| Software | 602 | 197 | 2 | (105) | 3 | 699 |
| Brand names and trademarks | 26 | – | – | – | (1) | 25 |
| Customer contracts/relationships | 2 | – | – | (1) | – | 1 |
| Contract intangible assets | 36 | 22 | – | – | – | 58 |
| **Total intangible assets** | **909** | **219** | **2** | **(106)** | **1** | **1,025** |

| 2016 $M | Opening Net Book Value | Additions[1] | Transfers[2] | Amortisation | Other[3] | Closing Net Book Value |
|---|---|---|---|---|---|---|
| Goodwill | 206 | – | – | – | 2 | 208 |
| Airport landing slots | 35 | – | – | – | – | 35 |
| Software | 514 | 186 | 6 | (84) | (20) | 602 |
| Brand names and trademarks | 25 | – | – | – | 1 | 26 |
| Customer contracts/relationships | 6 | – | – | (4) | – | 2 |
| Contract intangible assets | 17 | 19 | – | – | – | 36 |
| **Total intangible assets** | **803** | **205** | **6** | **(88)** | **(17)** | **909** |

1 Additions include capitalised interest of $3 million (2016: $5 million).
2 Transfers include transfers between categories of intangible assets and transfers from/(to) other balance sheet accounts.
3 Other includes foreign exchange movements, non-cash additions and impairments of intangible assets.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 13 DEFERRED TAX (LIABILITIES)/ASSETS

| | 2017 $M | 2016 $M |
|---|---|---|
| **Deferred tax (liabilities)/assets** | **(353)** | **39** |

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

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

| 2016 $M | Opening Balance | Recognised in the Consolidated Income Statement | Recognised in Other Comprehensive Income | Recognised in Retained Earnings | Closing Balance |
|---|---|---|---|---|---|
| Inventories | (14) | (1) | – | – | (15) |
| Property, plant and equipment and intangible assets | (1,395) | (18) | – | – | (1,413) |
| Payables | 23 | 28 | – | – | 51 |
| Revenue received in advance | 699 | 64 | – | – | 763 |
| Interest-bearing liabilities | (71) | 16 | – | – | (55) |
| Other financial assets/(liabilities) | 25 | (40) | (2) | – | (17) |
| Provisions | 308 | 26 | – | – | 334 |
| Other items | (97) | (49) | 89 | 6 | (51) |
| Tax value of recognised tax losses | 855 | (413) | – | – | 442 |
| **Total deferred tax assets/(liabilities)** | **333** | **(387)** | **87** | **6** | **39** |

### (B) QANTAS GROUP CARRIED FORWARD TAX LOSSES

| | 2017 $M | 2016 $M |
|---|---|---|
| Tax losses brought forward | (1,474) | (2,850) |
| Current year taxable income | 523 | 1,376 |
| **Tax losses carried forward** | **(951)** | **(1,474)** |

### (C) UNRECOGNISED DEFERRED TAX ASSETS

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

| | 2017 $M | 2016 $M |
|---|---|---|
| Tax losses – New Zealand | 12 | 16 |
| Tax losses – Singapore | 15 | 24 |
| Tax losses – Hong Kong | 12 | 14 |
| **Total unrecognised deferred tax assets** | **39** | **54** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 14 REVENUE RECEIVED IN ADVANCE

| | 2017 $M | | | 2016 $M | | |
|---|---|---|---|---|---|---|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Unavailed passenger revenue | 2,634 | – | 2,634 | 2,522 | – | 2,522 |
| Unredeemed Frequent Flyer revenue | 912 | 1,329 | 2,241 | 877 | 1,367 | 2,244 |
| Other revenue received in advance | 139 | 95 | 234 | 126 | 154 | 280 |
| **Total revenue received in advance** | **3,685** | **1,424** | **5,109** | **3,525** | **1,521** | **5,046** |

## 15 INTEREST-BEARING LIABILITIES

| | | 2017 $M | | | 2016 $M | | |
|---|---|---|---|---|---|---|---|
| | Notes | Current | Non-Current | Total | Current | Non-Current | Total |
| Bank loans – secured | | 308 | 1,484 | 1,792 | 297 | 1,793 | 2,090 |
| Bank loans – unsecured | | – | 276 | 276 | – | 276 | 276 |
| Other loans – unsecured | | 22 | 1,384 | 1,406 | 41 | 986 | 1,027 |
| Lease and hire purchase liabilities –secured | 22 | 103 | 1,261 | 1,364 | 103 | 1,366 | 1,469 |
| **Total interest–bearing liabilities** | | **433** | **4,405** | **4,838** | **441** | **4,421** | **4,862** |

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 11). During the year, there were non-cash financing activities relating to additions of property, plant and equipment under finance leases of $5 million (2016: $32 million).

## 16 PROVISIONS

| | 2017 $M | | | 2016 $M | | |
|---|---|---|---|---|---|---|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Annual leave | 283 | – | 283 | 276 | – | 276 |
| Long service leave | 330 | 54 | 384 | 346 | 58 | 404 |
| Redundancies and other employee benefits | 173 | – | 173 | 192 | – | 192 |
| Defined benefit liability | – | – | – | – | 24 | 24 |
| **Total employee benefits** | **786** | **54** | **840** | **814** | **82** | **896** |
| Onerous contracts | 1 | 2 | 3 | 1 | 3 | 4 |
| Make good on leased assets | 6 | 137 | 143 | 2 | 172 | 174 |
| Insurance, legal and other | 48 | 155 | 203 | 56 | 157 | 213 |
| **Total other provisions** | **55** | **294** | **349** | **59** | **332** | **391** |
| **Total provisions** | **841** | **348** | **1,189** | **873** | **414** | **1,287** |

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

| 2017 $M | Opening Balance | Provisions Made | Provisions Utilised | Unwind of Discount | Provisions Other | Closing Balance |
|---|---|---|---|---|---|---|
| Onerous contracts | 4 | – | (2) | – | 1 | 3 |
| Make good on leased assets | 174 | 21 | (60) | 9 | (1) | 143 |
| Insurance, legal and other | 213 | 31 | (41) | 5 | (5) | 203 |
| **Total other provisions** | **391** | **52** | **(103)** | **14** | **(5)** | **349** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 17 CAPITAL

### (A) ISSUED CAPITAL

| | 2017 $M | 2016 $M |
|---|---|---|
| Opening balance: 1,918,801,014 (2016: 2,196,330,250) ordinary shares, fully paid | 3,625 | 4,630 |
| Capital Return and Share Consolidation: nil (2016: 133,929,900) ordinary shares | – | (505) |
| Shares bought back during the period: 110,574,637 (2016: 143,599,336) ordinary shares | (366) | (500) |
| **Closing balance: 1,808,226,377 (2016: 1,918,801,014) ordinary shares** | **3,259** | **3,625** |

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

### (B) TREASURY SHARES

Treasury shares consist of shares held in trust for Qantas employees in relation to equity compensation plans. As at 30 June 2017, 54,683,322 (2016: 13,864,426) shares were held in trust and classified as treasury shares.

### (C) CAPITAL MANAGEMENT

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

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

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

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

| | Metric | 2017 | 2016 |
|---|---|---|---|
| Net debt[1] | \$4.8B to \$6.0B[5] | \$5.2B | \$5.6B |
| FFO/net debt[2] | >45 per cent | 58 per cent | 52 per cent |
| Debt/EBITDA[3] | <3.5 times | 2.3 times | 2.5 times |
| Return on Invested Capital (%) | ROIC > WACC | 20.1 per cent | 22.7 per cent |
| Net capital expenditure[4] | | \$1.5B | \$1.0B |
| Shareholder distributions | | \$0.6B | \$1.0B |

1 Net debt is a non-statutory measure which includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework. Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. The residual value of the capitalised aircraft lease liability denominated in a foreign currency is translated at the long-term exchange rate.
2 FFO/net debt is a non-statutory measure which is Management's estimate based on Standard and Poor's methodology.
3 Debt/EBITDA is a non-statutory measure which is Management's estimate based on Moody's methodology.
4 Net capital expenditure is a non-statutory measure which is equal to net investing cash flows included in the Consolidated Cash Flow Statement of \$1.4 billion (2016:\$1.1 billion) (which excludes aircraft operating lease refinancing) plus implied capital expenditure for new leases of \$0.1 billion (2016: return of leases (\$0.1) billion).
5 Target net debt range is based on the current invested capital of \$9 billion (2016: \$9 billion).

In August 2017, the Board declared an unfranked seven cents per share final ordinary dividend of \$127 million and announced an up to \$373 million on-market share buy-back.

## 18 IMPAIRMENT TESTING OF CASH GENERATING UNITS

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 18 IMPAIRMENT TESTING OF CASH GENERATING UNITS (CONTINUED)

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

| Assumption | How Determined |
| --- | --- |
| Cash flows | Cash flows were projected based on the approved Financial Plan. Cash flows to determine a terminal value were extrapolated using a constant growth rate of 2.5 per cent per annum, which does not exceed the long-term average growth rate for the industry. Cash outflows include capital expenditure for the purchase of aircraft and other property, plant and equipment. These cash outflows do not include capital expenditure that enhances the current performance of assets and related cash flows have been treated consistently. |
| Discount rate | A pre-tax discount rate of 10 per cent per annum has been used in discounting the projected cash flows of the CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2016: 10 per cent per annum). The discount rate is based on the risk-free rate for 10-year Australian Government Bonds adjusted for a risk premium to reflect both the increased risk of investing in equities and the risk of the specific CGU. |

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

| | 2017 $M | 2016 $M |
| --- | --- | --- |
| **Goodwill** | | |
| Qantas Domestic | 10 | 10 |
| Qantas Loyalty | 13 | 13 |
| Qantas Freight | 49 | 49 |
| Jetstar Group | 135 | 136 |
| **Total goodwill** | **207** | **208** |
| **Other intangible assets with indefinite useful lives** | | |
| Qantas International | 35 | 35 |
| Jetstar Group | 25 | 26 |
| **Total other intangible assets with indefinite useful lives** | **60** | **61** |

No impairment was recognised for the identified CGUs during the year ended 30 June 2017 (2016: nil).

## 19 SHARE-BASED PAYMENTS

The Group provides benefits to Executives of the Group in the form of share-based payments, whereby Executives render services in exchange for Rights over shares. The total equity-settled share-based payment expense for the year was $67 million (2016: $37 million). The total cash-settled share-based payment expense for the year was $14 million (2016: $2 million). Further details regarding the operation of equity plans for Executives are outlined in the Remuneration Report from pages 30 to 52.

### (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 39 to 41.

| Performance Rights Reconciliation | 2017 Number of Rights | 2016 Number of Rights |
| --- | --- | --- |
| Rights outstanding as at 1 July | 70,891,615 | 80,309,588 |
| Rights granted during the year | 7,495,500 | 6,086,500 |
| Rights forfeited during the year | (3,495,500) | (3,995,000) |
| Rights lapsed during the year | – | (1,719,450) |
| Rights exercised during the year | (10,139,115)[1] | (9,790,023) |
| **Rights outstanding as at 30 June** | **64,752,500** | **70,891,615** |
| **Rights exercisable as at 30 June** | **–** | **111,115** |

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

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

The Rights outstanding as at 30 June 2016 included 10,208,000 Rights under the 2014-2016 LTIP. 10,028,000 Rights vested and converted to shares and 180,000 Rights forfeited following the testing of performance hurdles as at 30 June 2016 and the Board's approval of the 2014-2016 LTIP vesting outcome on 23 August 2016.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 19 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 $1.95 (2016: $2.17).

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Inputs Into the Models | 21 October 2016 | 5 September 2016 | 23 October 2015 | 1 September 2015 |
| Rights granted | 1,172,000 | 6,323,500 | 1,119,500 | 4,967,000 |
| Weighted average share value | $3.25 | $3.28 | $3.86 | $3.47 |
| Expected volatility | 32.5% | 32.5% | 37.5% | 37.5% |
| Dividend yield | 6.61% | 6.61% | 4.23% | 4.23% |
| Risk-free interest rate | 1.72% | 1.72% | 1.84% | 1.84% |

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

### (B) SHORT TERM INCENTIVE PLAN (STIP)

For details on the operation of the STIP, see pages 38 to 39. There were 1,775,312 awards of Qantas shares made under the 2015/16 STIP during the year ended 30 June 2017 (2016: 735,442 awards under the 2014/15 STIP).

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

The MIP is the annual incentive plan for the broader Management group. Each year, to the extent that the plan's performance conditions are achieved, this group may receive an award that is a combination of cash and restricted shares. The scorecard performance outcomes are the same as those for STIP. For scorecard performance outcomes, refer to the details of the operation of the STIP on pages 38 to 39. The CEO retains discretion over any awards made under the MIP. There were 11,837,954 awards of Qantas shares made under the 2015/16 MIP during the year ended 30 June 2017 (2016: 1,519,286 awards under the 2014/15 MIP).

## 20 FINANCIAL RISK MANAGEMENT

### (A) RISKS

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

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

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 20 FINANCIAL RISK MANAGEMENT (CONTINUED)

### i. Liquidity Risk

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

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

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

| 2017 $M | Less Than 1 Year | 1 to 5 Years | More Than 5 Years | Total |
|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | |
| Payables | 2,067 | – | – | 2,067 |
| Bank loans – secured[1] | 333 | 1,494 | 158 | 1,985 |
| Bank loans – unsecured[1] | 6 | 290 | – | 296 |
| Other loans – unsecured[1] | 101 | 1,293 | 460 | 1,854 |
| Lease and hire purchase liabilities[1] | 118 | 1,019 | 466 | 1,603 |
| Derivatives – inflows | (12) | (30) | – | (42) |
| Derivatives – outflows | 27 | 59 | – | 86 |
| Net other financial assets/liabilities – outflows | (47) | (12) | – | (59) |
| **Total financial liabilities** | **2,593** | **4,113** | **1,084** | **7,790** |

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

| 2016 $M | Less Than 1 Year | 1 to 5 Years | More Than 5 Years | Total |
|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | |
| Payables | 1,986 | – | – | 1,986 |
| Bank loans – secured[1] | 367 | 1,444 | 560 | 2,371 |
| Bank loans – unsecured[1] | 9 | 297 | – | 306 |
| Other loans – unsecured[1] | 118 | 954 | 325 | 1,397 |
| Lease and hire purchase liabilities[1] | 147 | 588 | 1,034 | 1,769 |
| Derivatives – inflows | (16) | (46) | (1) | (63) |
| Derivatives – outflows | 30 | 84 | 2 | 116 |
| Net other financial assets/liabilities – outflows | (41) | (26) | – | (67) |
| **Total financial liabilities** | **2,600** | **3,295** | **1,920** | **7,815** |

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

### ii. Interest Rate Risk

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

*Management of Interest Rate Risk:*
The Qantas Group manages interest rate risk by using a floating versus fixed rate debt framework. The relative mix of fixed and floating interest rate funding is managed by using interest rate swaps, forward rate agreements and options. For the year ended 30 June 2017, interest-bearing liabilities amounted to $4,838 million (2016: $4,862 million). The fixed/floating split is 53 per cent and 47 per cent respectively (2016: 46 per cent and 54 per cent). For the year ended 30 June 2017, other financial assets and liabilities included derivative financial instruments relating to debt obligations and future interest payments totalling $41 million (liability) (2016: $56 million (liability)). These are recognised at fair value in accordance with AASB 9.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 20 FINANCIAL RISK MANAGEMENT (CONTINUED)

*Sensitivity to Interest Rate Risk:*

| | Profit Before Tax | | Equity (Before Tax) | |
|---|---|---|---|---|
| $M | 2017 | 2016 | 2017 | 2016 |
| **100bps increase in interest rates[1]** | | | | |
| Variable rate interest-bearing instruments (net of cash) | (8) | (9) | – | – |
| Derivatives designated in a cash flow hedge relationship | – | – | 12 | 17 |
| **100bps decrease in interest rates[1]** | | | | |
| Variable rate interest-bearing instruments (net of cash) | 8 | 9 | – | – |
| Derivatives designated in a cash flow hedge relationship | – | – | (13) | (18) |

1 Sensitivity analysis assumes hedge designations as at 30 June 2017 remain unchanged and that all designations are effective.

### iii. Foreign Exchange Risk

*Nature of the Risk:*

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

*Management of Foreign Exchange Risk:*

Cross-currency swaps are used to convert long-term foreign currency borrowings to currencies in which the Qantas Group has forecast sufficient surplus net revenue to meet the principal and interest obligations under the swaps. Where long-term borrowings are held in foreign currencies in which the Qantas Group derives surplus net revenue, offsetting forward foreign exchange contracts have been used to match the timing of cash flows arising under the borrowings with the expected revenue surpluses. To the extent a foreign exchange gain or loss is incurred, and the cash flow hedge is deemed effective, this is deferred until the net revenue is realised. As at 30 June 2017, total unrealised exchange gains on hedges of net revenue designated to service long-term debt was nil (2016: $1 million gain).

Forward foreign exchange contracts and currency options are used to hedge a portion of remaining net foreign currency exposures in accordance with Qantas Group policy. Net foreign currency exposures, including foreign currency purchases and disposals of property, plant and equipment, may be hedged out to two years within specific parameters. Any hedging outside these parameters requires approval by the Board. For the year ended 30 June 2017, other financial assets and liabilities included derivative financial instruments relating to the hedging of future capital expenditure payments, totalling $14 million (net liability) (2016: $4 million (net liability)). These are recognised at fair value in accordance with AASB 9.

*Sensitivity to Foreign Exchange Risk:*

| | Profit Before Tax | | Equity (Before Tax) | |
|---|---|---|---|---|
| $M | 2017 | 2016 | 2017 | 2016 |
| **20% movement in Foreign Exchange Risk[1]** | | | | |
| 20% (2016: 20%) USD depreciation | – | – | (100) | (101) |
| 20% (2016: 20%) USD appreciation | – | – | 152 | 155 |

1 Sensitivity analysis assumes hedge designations as at 30 June 2017 remain unchanged and that all designations are effective. Sensitivity analysis on foreign currency pairs of 20 per cent represent recent volatile market conditions.

### iv. Fuel Price Risk

*Nature of the Risk:*

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

*Management of Future AUD Fuel Costs Risk:*

The Qantas Group uses options and swaps on jet kerosene, gasoil and crude oil to hedge exposure to movements in the USD price of aviation fuel. Qantas considers the crude component to be a separately identifiable and measureable component of aviation fuel. The foreign exchange risk in the total fuel cost is separately hedged using foreign exchange contracts and currency options. Hedging is conducted in accordance with Qantas Group policy. Fuel consumption out to two years may be hedged within specific parameters, with any hedging outside these parameters requires approval by the Board. For the year ended 30 June 2017, other financial assets and liabilities included fuel and foreign exchange derivatives totalling $72 million (net asset) (2016: $70 million (net asset)). These are recognised at fair value in accordance with AASB 9. The table below summarises the gain/(loss) impact to Profit Before Tax and Equity Before Tax as a result of a movement in AUD fuel costs:

*Sensitivity to Foreign Exchange and Fuel Price Risk:*

| | Profit Before Tax | | Equity (Before Tax) | |
|---|---|---|---|---|
| $M | 2017 | 2016 | 2017 | 2016 |
| **20% movement in AUD fuel costs[1]** | | | | |
| 20% (2016: 20%) USD depreciation, 20% (2016:20%) increase per barrel in fuel indices | 1 | – | 104 | 113 |
| 20% (2016: 20%) USD appreciation, 20% (2016:20%) decrease per barrel in fuel indices | – | – | 153 | 79 |

1 Sensitivity analysis assumes hedge designations as at 30 June 2017 remain unchanged and that all designations are effective. Sensitivity analysis on foreign currency pairs and fuel indices of 20 per cent represent recent volatile market conditions. Sensitivity analysis assumes an offset between USD and fuel price indices based on observed market movements.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 20 FINANCIAL RISK MANAGEMENT (CONTINUED)

### i. Credit Risk

*Nature of the Risk:*

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

*Management of Credit Risk:*

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

- **Trade debtor counterparties:** The credit risk is the recognised amount, net of any impairment losses. As at 30 June 2017, trade debtors amounted to $664 million (2016: $656 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 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 2017, the credit risk of the Qantas Group to counterparties in relation to other financial assets, cash and cash equivalents, and other financial liabilities amounted to $1,533 million (2016: $1,811 million). Refer to note 20 (C) for offsetting disclosures of contractual arrangements. The Qantas Group's credit exposure in relation to these assets is with counterparties that have a minimum credit rating of A-/A3, unless individually approved by the Board.

### (B) FAIR VALUE

The fair value of cash, cash equivalents and non-interest-bearing financial assets and liabilities approximates their carrying value due to their short maturity. The fair value of financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

The fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The fair value of options is determined using standard valuation techniques. Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet in accordance with AASB 9. Refer to Note 29(E) for a definition of the fair value hierarchy.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Carrying Amount Held at | | | Carrying Amount Held at | | |
| $M | Fair Value Through Profit and Loss | Amortised Cost | Fair Value | Fair Value Through Profit and Loss | Amortised Cost | Fair Value |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | – | 1,775 | 1,779 | – | 1,980 | 1,986 |
| Receivables | – | 907 | 907 | – | 929 | 929 |
| Other financial assets[1] | 143 | – | 143 | 275 | – | 275 |
| **Financial liabilities** | | | | | | |
| Payables | – | 2,067 | 2,067 | – | 1,986 | 1,986 |
| Interest-bearing liabilities | – | 4,838 | 5,049 | – | 4,862 | 4,952 |
| Other financial liabilities[1] | 125 | – | 125 | 264 | – | 264 |

1 Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet in accordance with AASB 9. These derivative financial instruments have been measured at fair value using Level 2 inputs in estimating their fair values.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 20 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

### (C) DERIVATIVES AND HEDGING INSTRUMENTS

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| $M | Current | Non-Current | Total | Current | Non-Current | Total |
| **Derivative assets** | | | | | | |
| Designated as cash flow hedges[1] | 100 | 42 | 142 | 229 | 44 | 273 |
| Designated as fair value hedges[1] | – | 1 | 1 | – | 2 | 2 |
| **Total other financial assets** | **100** | **43** | **143** | **229** | **46** | **275** |
| **Derivative liabilities** | | | | | | |
| Designated as cash flow hedges[1] | (69) | (56) | (125) | (203) | (61) | (264) |
| **Total other financial liabilities** | **(69)** | **(56)** | **(125)** | **(203)** | **(61)** | **(264)** |
| **Net other financial assets/(liabilities)** | **31** | **(13)** | **18** | **26** | **(15)** | **11** |

1 Including time value of options after transition to AASB 9.

#### i. Offsetting

The Group enters into contractual arrangements such as the International Swaps and Derivatives Association (ISDA) Master Agreement where, upon the occurrence of a credit event (such as default), a termination value is calculated and only a single net amount is payable in settlement of all transactions that are capable of offset under the contractual terms. The ISDA agreements do not meet the criteria for offsetting in the Consolidated Balance Sheet and consequently financial assets and liabilities are recognised gross. This is because the Group does not have any current legal enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events. The amounts shown as financial assets and financial liabilities would each have been $68 million lower (2016: $181 million lower) in the event of the right to offset being currently enforceable.

#### ii. Hedge Reserve

The effective portion of the cumulative net change in the fair value of derivative financial instruments designated as a cash flow hedge and the cumulative change in fair value arising from the time value of options are included in the hedge reserve. These options relate entirely to transaction-related hedged items. For further information on accounting for derivative financial instruments as cash flow hedges, refer to Note 29(E). For the year ended 30 June 2017, $81 million (2016: $95 million) of the related cash flows are expected to occur within one year and $19 million (2016: $24 million) after one year.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 20 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (D) HEDGE ACCOUNTING

| As at 30 June 2017 | | Nominal Amount of Hedging Instrument and Hedged Item | Hedge Rates | Carrying Amount of the Hedging Instrument (AUD)[1] Assets | Liabilities | Change in Value of the Hedging Instrument Used for Calculating Hedge Ineffectiveness | Change in Value of the Hedged Item used for Calculating Hedge Ineffectiveness | Change in Value of the Hedging Instrument Recognised in Other Comprehensive Income | Hedge Ineffectiveness Recognised in Profit or Loss | Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss |
|---|---|---|---|---|---|---|---|---|---|---|
| | | $M | | $M | $M | $M | $M | $M | $M | $M |
| **Cash flow hedges** | | | | | | | | | | |
| AUD fuel costs (up to 2 years) | Barrels | 32 | AUD/Barrel 59-94 | 139 | (67) | 56 | (55) | 55 | 1 | 10 |
| Revenue (up to 2 years) | AUD | – | – | – | – | – | – | – | – | (1) |
| Capital expenditure (up to 2 years) | AUD | 643 | AUD/USD 0.71-0.76 | 3 | (17) | (7) | 7 | (7) | – | – |
| Interest (up to 6 years) | AUD | 507 | Fixed 4.40%-5.99% | – | (41) | 17 | (17) | 17 | – | – |
| **Fair value hedges** | | | | | | | | | | |
| Interest (up to 5 years) | AUD | 13 | Floating n/a | 1 | – | – | – | – | – | – |

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

## 21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| $M | Notes | 2017 | 2016 |
|---|---|---|---|
| **Statutory profit for the year** | | **853** | **1,029** |
| **Adjustments for non-cash items included in profit/(loss):** | | | |
| Depreciation and amortisation | | 1,382 | 1,224 |
| Share-based payments | 19 | 67 | 37 |
| Net impairment of property, plant, equipment, intangible assets and investments | 3 | (18) | 12 |
| Inventory write-off | 3 | 14 | 15 |
| Amortisation of deferred financing fees and lease benefits | | 19 | 20 |
| Net gain on disposal of Sydney Terminal Three | 3 | – | (201) |
| Net gain on disposal of property, plant and equipment | 3 | (11) | (25) |
| Share of net loss of investments accounted for under the equity method | | 7 | – |
| Hedging-related activities | | 161 | 141 |
| Other items | | (12) | (5) |
| **Adjustments for cash items not included in profit relating to operating activities:** | | | |
| Dividends received from investments accounted for under the equity method | | 7 | 4 |
| **Changes in other items:** | | | |
| — Receivables | | (3) | 148 |
| — Inventories | | (29) | (29) |
| — Other assets | | 56 | (229) |
| — Payables | | (102) | 40 |
| — Revenue received in advance | | 123 | 136 |
| — Provisions | | (136) | 107 |
| — Deferred tax assets | | 326 | 395 |
| **Net cash from operating activities** | | **2,704** | **2,819** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 21 NOTES TO THE CONSOLIDATED 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:

| | 2017 $M | 2016 $M |
|---|---|---|
| **FINANCING FACILITIES** | | |
| **Committed bank overdraft[1]** | | |
| Facility available | 7 | 7 |
| Amount of facility used | – | – |
| **Amount of facility unused** | **7** | **7** |
| **Committed revolving facility[2]** | | |
| Facility available | 1,000 | 1,040 |
| Amount of facility used | – | – |
| **Amount of facility unused** | **1,000** | **1,040** |
| **Uncommitted commercial paper and medium-term note program** | | |
| Facility available | 2,000 | 2,000 |
| Amount of facility used | (1,375) | (950) |
| **Amount of facility unused** | **625** | **1,050** |

1 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.

2 The revolving facility includes $450 million with a term of three years from 13 April 2017, $450 million with a term of four years from 13 April 2017, and $100 million with a term of five years and three months effective from 13 April 2017.

## 22 COMMITMENTS

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

| | 2017 $M | 2016 $M |
|---|---|---|
| **AS LESSEE** | | |
| **Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)** | | |
| **Aircraft and engines – payable:** | | |
| Not later than one year | 143 | 149 |
| Later than one year but not later than five years | 697 | 586 |
| Later than five years | 762 | 1,034 |
| **Total aircraft and engines** | **1,602** | **1,769** |
| Less: future lease and hire purchase finance charges and deferred lease benefits | (238) | (300) |
| **Total finance lease and hire purchase liabilities** | **1,364** | **1,469** |

| | Notes | 2017 $M | 2016 $M |
|---|---|---|---|
| **Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)** | | | |
| Current liabilities | 15 | 103 | 103 |
| Non-current liabilities | 15 | 1,261 | 1,366 |
| **Total finance lease and hire purchase liabilities** | | **1,364** | **1,469** |

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.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 22 COMMITMENTS (CONTINUED)

### (B) OPERATING LEASE COMMITMENTS

| | 2017 $M | 2016 $M |
|---|---|---|
| **AS LESSEE** | | |
| **Non-cancellable operating lease commitments (not included in the Consolidated Financial Statements)** | | |
| **Aircraft and engines – payable:** | | |
| Not later than one year | 279 | 366 |
| Later than one year but not later than five years | 715 | 952 |
| Later than five years | 75 | 187 |
| **Total aircraft and engines** | **1,069** | **1,505** |
| **Non-aircraft – payable:** | | |
| Not later than one year | 161 | 188 |
| Later than one year but not later than five years | 398 | 503 |
| Later than five years but not later than 10 years | 295 | 320 |
| Later than 10 years | 298 | 367 |
| Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision) | (3) | (2) |
| **Total non-aircraft** | **1,149** | **1,376** |
| **Total non-cancellable operating lease commitments** | **2,218** | **2,881** |

## 23 CONTINGENT LIABILITIES

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

### (A) GUARANTEES

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

### (B) AIRCRAFT FINANCING

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

### (C) LITIGATION

**Freight Third-Party Class Actions**

Qantas is a party to third-party class actions relating to its freight division. Qantas continues to have a number of defences to these class actions. Qantas expects the outcomes 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.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 24 SUPERANNUATION

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

The defined benefit plans are legally separated from the Qantas Group. Responsibility for governance of the plans, including investment decisions and plan rules, rests solely with the Trustee of the plan. The Trustee of the QSP is a corporate trustee which has a Board comprising five company-appointed Directors and five member-elected Directors.
The QSP's defined benefit plan exposes the Group to a number of risks, the most significant of which are detailed below:

— **Investment risk:** The investment strategy of the QSP's defined benefit plan is to progressively de-risk the defined benefit investment portfolio as the plan's funding position improves over time. If the plan assets underperform expectations, the Group may be required to provide additional funding to the plan.
— **Interest rate risk:** Changes in bond yields, such as a decrease in corporate bond yields, will increase defined benefit liabilities through the discount rate assumed.
— **Inflation risk:** The defined benefit liabilities are linked to salary inflation, and higher inflation will lead to higher liabilities.

### (A) FUNDING

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

In March 2017, a revised additional funding plan, which addresses the requirements of APRA Prudential Standards, was agreed with the Trustee of the QSP. The determination of Qantas' additional employer contributions under the funding plan is triggered where the Defined Benefit Vested Benefits Index (DB VBI) is below 100 per cent, and may also be triggered where the Retrenchment Benefit Index is below 100 per cent. The DB VBI is the ratio of the QSP's assets attributable to the defined benefit liabilities to the total defined benefit amount that the QSP would be required to pay if all members were to voluntarily leave the plan on the funding valuation date. The additional funding plan also triggers further contributions being made where the amount of any retrenchment benefit paid from the plan is in excess of the funded benefit at the time of payment, subject to the DB VBI being below 105 per cent. Qantas contributed an additional $3 million to the QSP during the year ended 30 June 2017 (2016: $2 million).

The QSP's financial position is monitored by the Trustee each quarter. The actuary recommends the amounts of additional contributions to be made each quarter, as required under the agreed additional funding plan.

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

| | Present Value of Obligation $M | | Fair Value of Plan Assets $M | | Net Defined Benefit (Asset)/Liability[1] $M | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Balance as at 1 July** | **2,387** | **2,124** | **(2,363)** | **(2,409)** | **24** | **(285)** |
| **Included in the Consolidated Income Statement** | | | | | | |
| Current service cost | 142 | 131 | – | – | 142 | 131 |
| Past service cost | (2) | 2 | – | – | (2) | 2 |
| Interest expense/(income) | 79 | 95 | (76) | (102) | 3 | (7) |
| Contributions by plan participants | – | – | (22) | (24) | (22) | (24) |
| **Total amount included in manpower and staff-related expenditure** | **219** | **228** | **(98)** | **(126)** | **121** | **102** |
| **Included in the Consolidated Statement of Comprehensive Income** | | | | | | |
| Remeasurements: | | | | | | |
| — Return on plan assets, excluding interest income | – | – | (86) | 59 | (86) | 59 |
| — Gains from change in demographic assumptions | (50) | (1) | – | – | (50) | (1) |
| — (Gain)/loss from change in financial assumptions | (166) | 270 | – | – | (166) | 270 |
| — Experience loss/(gain) | 52 | (29) | – | – | 52 | (29) |
| — Exchange differences on foreign plans | (26) | 9 | 26 | (10) | – | (1) |
| **Total amount recognised in other comprehensive income** | **(190)** | **249** | **(60)** | **49** | **(250)** | **298** |
| Contributions by employer | – | – | (88) | (91) | (88) | (91) |
| Benefit payments | (182) | (214) | 182 | 214 | – | – |
| **Balance as at 30 June** | **2,234** | **2,387** | **(2,427)** | **(2,363)** | **(193)** | **24** |

1 The net defined benefit asset is included in non-current other assets and the net defined benefit liability is included in non-current provisions (refer to note 16).

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 24 SUPERANNUATION (CONTINUED)

### (C) PLAN ASSETS

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

| | 2017 % | 2016 % |
|---|---|---|
| Australian equity[1] | 13 | 12 |
| Global equity[1] | | |
| — *United States* | 11 | 10 |
| — *Europe* | 5 | 5 |
| — *Japan* | 2 | 2 |
| — *Other* | 6 | 6 |
| Private equity | 4 | 4 |
| Fixed interest[1] | | |
| — *Government bonds* | 11 | 13 |
| — *Other* | 12 | 11 |
| Credit[1] | | |
| — *Corporate debt* | 7 | 6 |
| — *Other* | 3 | 2 |
| Hedge funds | 9 | 9 |
| Property and infrastructure | 9 | 10 |
| Cash and cash equivalents[1] | 8 | 10 |
| **Total** | **100** | **100** |

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

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

### (D) ACTUARIAL ASSUMPTIONS AND SENSITIVITY

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

| | 2017 % | 2016 % |
|---|---|---|
| Discount rate | 4.0 | 3.3 |
| Future salary increases[1] | 3.0 | 3.0 |

1 For the 30 June 2017 actuarial calculation, salary increases of 2.8 per cent in year 1 and three per cent for the remaining duration of the plan were assumed (30 June 2016: salary increases of two per cent in year 1, 2.4 per cent in year 2 and three per cent for the remaining duration of the plan).

The weighted average duration of the QSP's defined benefit obligation as at 30 June 2017 was 10 years (2016: 10 years). The sensitivity of the defined benefit obligation to changes in the significant assumption is as follows:

| | | Impact on Defined Benefit Obligation | | | |
|---|---|---|---|---|---|
| | | 30 June 2017 | | 30 June 2016 | |
| | Change in Assumption | Increase in Assumption | Decrease in Assumption | Increase in Assumption | Decrease in Assumption |
| Discount rate | 1% | Decrease by 10.9% | Increase by 12.6% | Decrease by 11.1% | Increase by 13.2% |
| Future salary increase | 1% | Increase by 10.0% | Decrease by 8.9% | Increase by 10.4% | Decrease by 9.1% |

**Defined contribution fund**

A defined contribution expense of $175 million has been recognised for the year ended 30 June 2017 (2016: $180 million).

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 25 DEED OF CROSS GUARANTEE

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

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

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

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

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

### (A) CONSOLIDATED CONDENSED INCOME STATEMENT

| | 2017 $M | 2016 $M |
|---|---|---|
| Revenue and other income | 15,566 | 15,689 |
| Expenditure | (14,264) | (14,104) |
| **Statutory profit before income tax expense and net finance costs** | **1,302** | **1,585** |
| Net finance costs | (182) | (206) |
| **Statutory profit before income tax expense** | **1,120** | **1,379** |
| Income tax expense | (327) | (394) |
| **Statutory profit for the year** | **793** | **985** |
| Retained earnings as at 1 July | (175) | (1,146) |
| Dividends paid | (261) | – |
| Shares vested and transferred to employees | (19) | (15) |
| Share-based payments unvested and lapsed | – | 1 |
| **Retained earnings as at 30 June** | **338** | **(175)** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 25 DEED OF CROSS GUARANTEE (CONTINUED)

### (B) CONSOLIDATED CONDENSED BALANCE SHEET

| | 2017 $M | 2016 $M |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 1,624 | 1,833 |
| Receivables | 930 | 993 |
| Other financial assets | 100 | 229 |
| Inventories | 351 | 336 |
| Assets classified as held for sale | 12 | 17 |
| Other | 87 | 92 |
| **Total current assets** | **3,104** | **3,500** |
| **NON-CURRENT ASSETS** | | |
| Receivables | 1,042 | 1,195 |
| Other financial assets | 43 | 46 |
| Investments | 300 | 261 |
| Property, plant and equipment | 12,182 | 11,622 |
| Intangible assets | 935 | 817 |
| Deferred tax asset | – | 38 |
| Other | 420 | 229 |
| **Total non-current assets** | **14,922** | **14,208** |
| **Total assets** | **18,026** | **17,708** |
| **CURRENT LIABILITIES** | | |
| Payables | 2,051 | 2,039 |
| Revenue received in advance | 3,612 | 3,450 |
| Interest-bearing liabilities | 562 | 565 |
| Other financial liabilities | 69 | 203 |
| Provisions | 804 | 848 |
| **Total current liabilities** | **7,098** | **7,105** |
| **NON-CURRENT LIABILITIES** | | |
| Revenue received in advance | 1,424 | 1,521 |
| Interest-bearing liabilities | 5,334 | 5,478 |
| Other financial liabilities | 56 | 61 |
| Provisions | 343 | 362 |
| Deferred tax liabilities | 356 | – |
| **Total non-current liabilities** | **7,513** | **7,422** |
| **Total liabilities** | **14,611** | **14,527** |
| **Net assets** | **3,415** | **3,181** |
| **EQUITY** | | |
| Issued capital | 3,259 | 3,625 |
| Treasury shares | (206) | (50) |
| Reserves | 24 | (219) |
| Retained earnings | 338 | (175) |
| **Equity attributable to members of Qantas** | **3,415** | **3,181** |
| Non-controlling interests | – | – |
| **Total equity** | **3,415** | **3,181** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 26 RELATED PARTIES

### (A) REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Short-term employee benefits | 13,729 | 16,832 |
| Post-employment benefits | 529 | 501 |
| Other long-term benefits[1] | 113 | (141) |
| Share-based payments | 8,847 | 7,003 |
| | **23,218** | **24,195** |

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

Further details in relation to the remuneration of KMPs are included in the Directors' Report from pages 30 to 52.

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

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

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

## 27 POST BALANCE DATE EVENTS

Other than as noted in Note 6 - Dividends and Other Shareholder Distributions, there has not arisen in the interval between 30 June 2017 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 2017.

## 28 PARENT ENTITY DISCLOSURES - QANTAS AIRWAYS LIMITED

### (A) CONDENSED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

| | 2017 $M | 2016 $M |
|---|---|---|
| Revenue and other income | 11,903 | 10,753 |
| Expenditure | (9,933) | (9,983) |
| **Statutory profit before income tax expense and net finance costs** | **1,970** | **770** |
| Net finance costs | (178) | (203) |
| **Statutory profit before income tax expense** | **1,792** | **567** |
| Income tax expense | (139) | (161) |
| **Statutory profit for the year** | **1,653** | **406** |

Revenue and other income includes $1,336 million (2016: $nil) of dividend income from wholly owned subsidiaries of the Qantas Group.

### (B) CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

| | 2017 $M | 2016 $M |
|---|---|---|
| **Statutory profit for the year** | **1,653** | **406** |
| Effective portion of changes in fair value of cash flow hedges, net of tax | 46 | (187) |
| Transfer of hedge reserve to the Income Statement, net of tax | (6) | 196 |
| Recognition of effective cash flow hedges on capitalised assets, net of tax | (2) | (40) |
| Net changes in hedge reserve for time value of options, net of tax | (22) | 35 |
| Defined benefit actuarial gains/(losses), net of tax | 175 | (209) |
| **Total other comprehensive income/(loss) for the year** | **191** | **(205)** |
| **Total comprehensive income for the year** | **1,844** | **201** |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 28 PARENT ENTITY DISCLOSURES – QANTAS AIRWAYS LIMITED (CONTINUED)

### (C) CONDENSED BALANCE SHEET AS AT 30 JUNE 2017

| | 2017 $M | 2016 $M |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 1,595 | 1,944 |
| Receivables | 4,873 | 4,086 |
| Inventories | 238 | 237 |
| Other | 181 | 311 |
| **Total current assets** | **6,887** | **6,578** |
| **NON-CURRENT ASSETS** | | |
| Receivables | 1,057 | 1,198 |
| Property, plant and equipment | 10,680 | 10,208 |
| Intangible assets | 665 | 542 |
| Other | 1,024 | 885 |
| **Total non-current assets** | **13,426** | **12,833** |
| **Total assets** | **20,313** | **19,411** |
| **CURRENT LIABILITIES** | | |
| Payables | 5,003 | 5,190 |
| Revenue received in advance | 3,006 | 2,871 |
| Interest-bearing liabilities | 562 | 563 |
| Other | 677 | 876 |
| **Total current liabilities** | **9,248** | **9,500** |
| **NON-CURRENT LIABILITIES** | | |
| Revenue received in advance | 1,418 | 1,513 |
| Interest-bearing liabilities | 5,334 | 5,478 |
| Other | 628 | 329 |
| **Total non-current liabilities** | **7,380** | **7,320** |
| **Total liabilities** | **16,628** | **16,820** |
| **Net assets** | **3,685** | **2,591** |
| **EQUITY** | | |
| Issued capital | 3,259 | 3,625 |
| Treasury shares | (206) | (50) |
| Other reserves | 24 | (219) |
| Profits reserve | 1,798 | 406 |
| Retained losses | (1,190) | (1,171) |
| **Total equity** | **3,685** | **2,591** |

### (D) DIVIDENDS DECLARED AND PAID

The Directors have declared an unfranked final dividend of seven cents per ordinary share for the current year, totalling $127 million (2016: $134 million). Dividends are paid from the profits of Qantas Airways Limited, as the parent of the Group. During the year, the parent entity reported Statutory Profit after Tax of $1,653 million, which was set aside in a separate profit reserve. For the year ended 30 June 2017, $261 million dividends (2016: nil) were paid to shareholders.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 28 PARENT ENTITY DISCLOSURES – QANTAS AIRWAYS LIMITED (CONTINUED)

### (E) CAPITAL EXPENDITURE COMMITMENTS

Qantas' capital expenditure commitments as at 30 June 2017 are $11,385 million (2016: $11,612 million). Qantas has certain rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure.

Qantas' capital expenditure commitments are predominantly denominated in US dollars. Disclosures outlined above are translated to Australian dollar presentational currency at the 30 June 2017 closing exchange rate of $0.76 (30 June 2016: $0.75).

### (F) FINANCING FACILITIES

The financing facilities held by the parent entity are the same as those held by the Group as disclosed in Note 21(B).

### (G) CONTINGENT LIABILITIES

The contingent liabilities held by the parent entity are the same as those held by the Group as disclosed in Note 23.

### (H) 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 25.

### (I) INTEREST-BEARING LIABILITIES

The parent entity has total interest-bearing liabilities of $5,896 million (2016: $6,041 million), of which $2,447 million (2016: $2,764 million) represent lease and hire purchase liabilities payable to controlled entities. Of the $3,449 million (2016: $3,277 million) payable to other parties, $1,774 million (2016: $1,985 million) represents secured bank loans and lease liabilities with the remaining balance representing unsecured loans and deferred lease benefits.

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) REPORTING ENTITY

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

The Consolidated Financial Statements for the year ended 30 June 2017 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 2017 and 2016. The parent has majority voting rights in respect of each of the material subsidiaries. Materiality has been assessed based on the contribution of statutory profit/(loss) to the Qantas Group.

The Consolidated Financial Statements of Qantas for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 15 September 2017.

#### i. Statement of Compliance

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

#### ii. Basis of Preparation

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

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

### (B) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

— Note 16 – Provisions
— Note 24 – Superannuation

### (C) PRINCIPLES OF CONSOLIDATION

#### i. Controlled Entities

Controlled entities are entities controlled by the Group. Control exists when the Group is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Financial Statements of controlled entities are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

#### ii. Non-Controlling Interests

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

#### iii. Equity Accounted Investments

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for under the equity accounting method and initially recognised at cost, including transaction costs.

Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases.

Dividends reduce the carrying amount of the equity accounted investment.

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

#### iv. Transactions Eliminated on Consolidation

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

### (D) FOREIGN CURRENCY

#### i. Foreign Currency Transactions

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

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

#### ii. Foreign Operations

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

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

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (E) FINANCIAL INSTRUMENTS

**Non-Derivative Financial Instruments**

**i. Recognition and Measurement of Non-Derivative Financial Assets**

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

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

**ii. Recognition and Measurement of Non-Derivative Financial Liabilities**

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

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

**Derivative Financial Instruments**

Derivative financial instruments are recognised at fair value both initially and on an ongoing basis. The accounting for subsequent changes in fair value depends on whether the derivative is a designated hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated. The Group designates derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or as hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transactions, the Qantas Group documents the relationship between hedging instruments and hedged items, including the risk management objective and strategy for undertaking each transaction. The Qantas Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedge transactions have been and will continue to be highly effective.

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

**i. Fair Value Hedges**

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

**ii. Cash Flow Hedges**

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

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

**iii. Cost of Hedging**

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### iv. Fair Value Calculations

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

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

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

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

### v. Financial Guarantee Contracts

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

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

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

## (F) REVENUE RECOGNITION

### i. Passenger and Freight Revenue

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

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.

### ii. Frequent Flyer Marketing Revenue

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

### iii. Frequent Flyer Redemption Revenue

Revenue received for the issuance of points is deferred as a liability (revenue received in advance) until the points are redeemed or, in the case of Qantas Group flight redemption, the passenger is uplifted. Redemption revenue is measured based on 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). Redemption revenue arising from Qantas Group flight redemptions is recognised in passenger revenue. Redemptions on other airlines are recognised in other revenue.

### iv. Frequent Flyer Membership Fee Revenue

Membership fee revenue results from the initial joining fee charged to members. Revenue is recognised evenly over the membership period.

## (G) TAXES

### i. Tax Compliance

The Qantas Group is committed to embedding risk management practices to support the achievement of compliance objectives and fulfil corporate governance obligations. Tax risk management is governed by both the Qantas Group Risk Management Policy and the Qantas Group Tax Risk Management Policy, ensuring corporate governance obligations with respect to tax risks are met.

The Qantas Group has paid all taxes that it owes and all tax compliance obligations are up to date.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Australian Taxation Office (ATO) has advised that the Qantas Group is a key taxpayer continuing to have a 'low' likelihood of non-compliance. The ATO also acknowledged Qantas' continued commitment to engage cooperatively and transparently to mitigate tax risks, including obtaining tax certainty on key transactions through the use of binding Private Rulings and entering into a multi-tax Annual Compliance Arrangement (ACA).

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

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

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

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

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

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

### ii. Income Tax

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

### iii. Goods and Services Tax (GST)

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

### iv. Tax Consolidation

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

### (H) IMPAIRMENT

### i. Non-Financial Assets

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

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. Assets which primarily generate cash flows as a group, such as aircraft, are assessed on a cash generating unit (CGU) basis, inclusive of related infrastructure and intangible assets and compared to net cash inflows for the CGU. Estimated net cash flows used in determining recoverable amounts are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU.

Identification of an asset's CGU requires judgement, as it requires identification of the lowest aggregation of assets that generate largely independent cash inflows. In Management's judgement, the lowest aggregation of assets which give rise to CGUs as defined by AASB 136 *Impairment of Assets* are the Qantas Domestic CGU, Qantas International CGU, Qantas Loyalty CGU, Qantas Freight CGU and the Jetstar Group CGU.

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ii. Financial Assets

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

## (I) PROPERTY, PLANT AND EQUIPMENT

### i. Recognition and Measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Items of property, plant and equipment are initially recorded at cost, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

The cost of acquired assets includes the initial estimate at the time of installation of the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate. The unwinding of the discount is treated as a finance expense in the consolidated income statement.

The cost also may include transfers from hedge reserve of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment in accordance with Note 29(E). Borrowing costs associated with the acquisition, construction or production of qualifying assets are recognised as part of the cost of the asset to which they relate.

### ii. Subsequent Expenditure

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

### iii. Depreciation

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

The principal asset depreciation periods and estimated residual value percentages are:

| | Years | Residual Value (%) |
|---|---|---|
| Buildings and leasehold improvements | 10 – 40 | 0[1] |
| Plant and equipment | 3 – 20 | 0 |
| Passenger aircraft and engines | 2.5 – 20 | 0 – 10 |
| Freighter aircraft and engines | 2.5 – 20 | 0 – 20 |
| Aircraft spare parts | 15 – 20 | 0 – 20 |

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

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.

### iv. Maintenance and Overhaul Costs

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

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

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### v. Manufacturers' Credits

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

## (J) LEASES

### i. Determining Whether an Arrangement Contains a Lease

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

### ii. Finance Leased and Hire Purchase Assets

Leased assets under which the Qantas Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

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

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

### iii. Operating Leases

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

## (K) INTANGIBLE ASSETS

### i. Recognition and Measurement

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

### ii. Subsequent Expenditure

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

### iii. Amortisation

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

| | |
|---|---|
| Software | 3 – 15 years |
| Customer contracts/relationships | 5 – 10 years |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (M) PROVISIONS

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

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

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

### (N) NET FINANCE COSTS

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

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

### (O) CAPITAL AND RESERVES

#### i. Ordinary Shares

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

#### ii. Repurchase of Share Capital

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

#### iii. Treasury Shares

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

#### iv. Employee Compensation Reserve

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

#### v. Hedge Reserve

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

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### vi. Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign controlled entities and investments accounted for under the equity method.

### vii. Defined Benefit Reserve

The defined benefit reserve comprises the remeasurements of the net defined benefit asset/(liability) which are recognised in other comprehensive income in accordance with AASB 119 *Employee Benefits*.

### (P) COMPARATIVES

Where applicable, various comparative balances have been reclassified to align with current period presentation. In the Consolidated Cash Flow Statement, cash receipts from customers and cash payments to suppliers for the prior year have been restated to reduce both by $403 million which has not resulted in a change to cash generated from operations or net cash from operating activities. These balances were previously recognised on a gross rather than net basis.

### (Q) SEGMENT REPORTING

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

| Segment Performance Measure | Basis of Preparation |
|---|---|
| External segment revenue | External segment revenue is reported by operating segments as follows:<br>— Net passenger revenue is reported by the operating segment that operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process<br>— Other revenue is reported by the operating segment that earned the revenue |
| Inter-segment revenue | Inter-segment revenue for Qantas Domestic, Qantas International and Jetstar Group operating segments primarily represents:<br>— Net passenger revenue arising from the redemption of Frequent Flyer points for Qantas Group flights by Qantas Loyalty<br>— Net freight revenue from the utilisation of Qantas Domestic, Qantas International and Jetstar Group's aircraft bellyspace by Qantas Freight<br>Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of Frequent Flyer points to Qantas Domestic, Qantas International and Jetstar Group. Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices. Qantas Loyalty does not derive net profit from inter-segment transactions relating to Frequent Flyer point issuances and redemptions. |
| Share of net profit/(loss) of investments accounted for under the equity method | Share of net profit/(loss) of investments accounted for under the equity method is reported by the operating segment that is accountable for the management of the investment. The share of net profit/(loss) of investments accounted for under the equity method for Qantas Airlines' investments has been equally shared between Qantas Domestic and Qantas International. |
| Underlying EBITDAR | The significant expenses impacting Underlying EBITDAR are as follows:<br>— Manpower and staff-related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by using an appropriate allocation methodology<br>— Fuel expenditure is reported by the segment that consumes the fuel in its operations<br>— Aircraft operating variable costs are reported by the segment that incurs these costs<br>— All other expenditure is reported by the operating segment to which it is directly attributable or, in the case of Qantas Airlines, between Qantas Domestic and Qantas International using an appropriate allocation methodology<br>To apply this accounting policy, where necessary, expenditure is recharged between operating segments as a cost recovery. |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (R) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

| Topic | Impact |
|---|---|
| **AASB 9 (2014) – *Financial Instruments***<br>AASB 9 (2014) is effective for annual reporting periods beginning on or after 1 January 2018. The Group expects to adopt AASB 9 (2014) from 1 July 2018. | The Group adopted AASB 9 (2013) from 1 July 2014. AASB 9 (2014) amends AASB 9 (2013) to include a new expected credit loss model for calculating impairment on financial assets.<br>This standard is not expected to have a material impact on the Group. |
| **AASB 15 - *Revenue from Contracts with Customers***<br>AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group expects to adopt AASB 15 from 1 July 2018. | AASB 15 will replace AASB 111 *Construction Contracts*, AASB 118 *Revenue* and Interpretation 13 *Customer Loyalty Programmes*. AASB 15 provides a single, principles-based five-step model to be applied to all sales contracts based on the transfer of control of goods and services to customers.<br>AASB 15 requires separation of distinct performance obligations. Revenue is recognised when the performance obligations are satisfied and recognised at an amount that reflects the consideration the Group expects to be entitled to. The Group expects to apply the standard retrospectively.<br>The Group has initiated a project to identify the revenue streams throughout the Group, and to analyse them using the five-step model. The Group is in the process of identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls.<br>**Areas of impact**<br>The expected areas of impact on the Group upon adoption of the new revenue standard are set out below:<br>— On the recognition of revenue for distinct performance obligations, the allocation of revenue to individual distinct performance obligations in multi-element arrangements may change. Revenue is required to be allocated to distinct performance obligations using a proportionate fair value method based on relative standalone selling prices or in certain circumstances, using the residual method<br>— The timing of revenue recognition of the consideration for certain ancillary services may change to align with the principal performance obligations associated with the services provided<br>— The presentation of revenue as gross or net may change on review of the terms and conditions of certain transactions undertaken depending on whether the Group is identified as principal or an agent<br>**Transition**<br>The impact of AASB 15 will first be presented for the half-year ending 31 December 2018, along with a restatement of the comparatives for the half-year ending 31 December 2017 and an opening balance sheet on 1 July 2017.<br>The first full-year annual report impacted by AASB 15 will be the year ended 30 June 2019, along with a restatement of the comparatives for the year ended 30 June 2018 and an opening balance sheet on 1 July 2017. |
| **AASB 16 – *Leases***<br>AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group expects to adopt AASB 16 from 1 July 2019. | AASB 16 will replace AASB 117 *Leases*, Interpretation 4 *Determining whether an arrangement contains a lease*, Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Transactions Involving the Legal Form of a Lease*. Currently operating leases (primarily aircraft and property) are not recognised on the balance sheet under AASB 117. AASB 16 removes the distinction between operating leases and finance leases for lessees and requires, where the Group is a lessee, the recognition of all leases on balance sheet as a right of use asset and an associated lease liability. The Group expects to apply AASB 16 retrospectively.<br>The Group has initiated a project to lead the implementation of the new leases standard. The Group is in the process of reviewing existing lease contracts, reviewing other arrangements against the AASB 16 definition of a lease, identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls. |

# Notes to the Financial Statements continued

For the year ended 30 June 2017

## 29 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| Topic | Impact |
|---|---|
| **AASB 16 – *Leases*** <br> AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group expects to adopt AASB 16 from 1 July 2019. | **Areas of impact** <br> The expected areas of impact on the Group upon adoption of the new leases standard are set out below: <br> — Recognition of a right of use asset and a lease liability for operating leases on the Consolidated Balance Sheet <br> — In most cases, the lease liability and right of use asset are initially recognised as the present value of future lease payments, discounted using the interest rate implicit in the lease where available, or if not available, the Group's incremental borrowing rate. Retrospective application will result in a difference between the right of use asset and lease liability recognised on transition. Non-cancellable operating lease commitments are disclosed in note 22 <br> — Recognition of depreciation and interest expense instead of operating lease rental expense in the Consolidated Income Statement <br> — The repayment of the principal portion of lease payments will be classified as financing activities in the Consolidated Cash Flow Statement. The interest portion will be classified as operating activities. Under the existing standard, Operating lease rentals are disclosed as operating activities <br> — The Group's aircraft lease rental payments are predominantly USD denominated. The Group manages its exposure to foreign exchange rate fluctuations as part of the overall Group Treasury Risk Management Policy. While the Group's foreign currency cash flow risk for lease rental payments are unchanged, the adoption of AASB 16 will result in foreign currency denominated lease liabilities recognised on balance sheet revaluing in response to exchange rate fluctuations in the USD/AUD exchange rate <br> **Transition** <br> The impact of AASB 16 will first be presented in the half-year ending 31 December 2019, along with a restatement of the comparatives for the half-year ending 31 December 2018 and an opening balance sheet on 1 July 2018. <br> The first full-year annual report impacted by AASB 16 will be the year ended 30 June 2020, along with a restatement of the comparatives for the year ended 30 June 2019 and an opening balance sheet on 1 July 2018. |

# Directors' Declaration

For the year ended 30 June 2017

1. In the opinion of the Directors of Qantas Airways Limited (Qantas):
   a. The Consolidated Financial Statements and Notes are in accordance with the *Corporations Act 2001*, including:
      i. Giving a true and fair view of the financial position of the Qantas Group as at 30 June 2017 and of its performance for the financial year ended on that date
      *ii.* Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
   b. There are reasonable grounds to believe that Qantas will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that Qantas and the controlled entities will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between Qantas and those controlled entities pursuant to ASIC Corporations (Wholly-owned companies) instrument 2016/785 (Instrument).
3. The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2017.
4. The Directors draw attention to Note 29(A) which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a Resolution of the Directors:

Leigh Clifford
Chairman

15 September 2017

Alan Joyce
Chief Executive Officer

15 September 2017

# Independent Auditor's Report

For the year ended 30 June 2017

To the Members of Qantas Airways Limited

## REPORT ON THE AUDIT OF THE FINANCIAL REPORT

### Opinion

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

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

— giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

— complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

The **Financial Report** comprises the:

— Consolidated Balance Sheet as at 30 June 2017

— Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended

— Notes including a summary of significant accounting policies

— Directors' Declaration.

### Basis for opinion

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

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

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

### Key Audit Matters

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

— Passenger revenue recognition

— Frequent Flyer revenue recognition

— Derivative financial instrument accounting

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

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

# Independent Auditor's Report continued

For the year ended 30 June 2017

## Passenger revenue recognition

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

### THE KEY AUDIT MATTER

Recognition of passenger revenue is a key audit matter due to its financial significance, the high volume of relatively low value passenger tickets and accounting process complexity arising from a variety of ticket conditions and points of sale.

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

— the use of multiple systems and their interface and interactions with agents, other airlines and industry bodies given the possible variations in the method of purchasing and modifying tickets.

— the accuracy of automated revenue recognition within the Group's systems and consistency with accounting standards, given the Group's dependence on automated processes for recording ticket sales and recognising revenue at passenger flight date.

— the application of estimates to recognise revenue for the proportion of tickets that are unused on the scheduled flight date, but with terms and conditions that allow future usage.

— manual revenue recognition processes related to tickets identified as exceptions to automated rules.

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

### HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Working with our IT specialists, our procedures included:

— analysing the end to end flow of ticket information through passenger revenue systems and evaluating the logic of accounting outputs against accounting standards.

— evaluating the accurate processing of tickets and associated accounting outcomes in internal passenger revenue systems. We did this by testing the key controls restricting access to appropriate users and preventing unauthorised changes to the systems. We tested key controls within the system that relate to ticket validation and the recognition of revenue at flight date.

— testing key controls related to manual changes to revenue accounting records where tickets have been identified as exceptions to automated validation.

— assessing the historical accuracy of the Group's expectation of the proportion of tickets that will expire unused after scheduled flight date by comparing previous estimates to actual outcomes.

— checking the accurate calculation and use of source system reports in the Group's expectation of the proportion of tickets that will expire unused after scheduled flight date.

## Frequent Flyer revenue recognition

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

### THE KEY AUDIT MATTER

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

— the forward looking nature of the Group's models.

— the estimation of the fair value of the Frequent Flyer points which is based on the observable values of available awards weighted in proportion to expected redemptions.

— the estimation of the proportion of points issued that will not be redeemed by members (breakage). Qantas uses actuarial specialists in making this estimate.

### HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

— assessing the methodology used to estimate the fair value of the Frequent Flyer points against accounting standards.

— testing the accuracy of the model and reconciling to internal records.

— assessing the key inputs used to estimate the fair value of expected future redemptions by comparing to observable values such as comparable market air fares and the market retail prices of store products.

— involving our actuarial specialists we assessed the appropriateness of the Qantas model used to calculate breakage by developing an independent model using our industry experience and understanding of the accounting standard requirements.

— involving our actuarial specialists we assessed key breakage assumptions against historical experience, recent trends and our understanding of changes to the Frequent Flyer program that may impact expected future experience.

— checking the accuracy of points activity data used in the calculation of breakage to source systems and reports.

# Independent Auditor's Report continued

For the year ended 30 June 2017

## Derivative financial instrument accounting

Refer to Note 29(E) to the Financial Report

**THE KEY AUDIT MATTER**

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

— the complexity inherent in estimating the fair value of derivative financial instruments. The Group uses valuation techniques to determine the fair value of options, swaps and cross-currency swaps that are not traded in active markets.

— the impact of changes in the underlying market price of fuel and foreign exchange rates which are key inputs to the derivative valuations.

— the complexity in the Group's cash-flow hedge accounting relationships driven by an active financial risk management strategy including the restructuring of hedging of specific exposures over time.

— the volume of transactions and counterparties.

— the hedging of a high proportion of forecast future cash flows.

— the significance of the Group's financial risk management program on the financial results.

**HOW THE MATTER WAS ADDRESSED IN OUR AUDIT**

Our procedures included:

— testing key internal controls. These included Management review and approval of the details of trades to counterparty confirmations, Management assessment of hedge accounting designation, and Management assessment of the volume of hedged exposures compared to total exposures.

— comparing balances in the Group's accounting records to the records in the treasury risk management system.

— our valuation specialists independently estimated the fair values of the Group's derivatives as at 30 June 2017 using recognised market valuation methodologies and inputs. Our specialists determined fair value tolerance ranges to allow for inherent market valuation uncertainties and compared the Group's valuations to these ranges.

— we tested a sample of cash-flow hedge accounting designations against the requirements of the accounting standard with a focus on restructured positions involving multiple derivatives.

## Other Information

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

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

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

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

## Responsibilities of Directors for the Financial Report

The Directors are responsible for:

— preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;

— implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and

— assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

# Independent Auditor's Report continued

For the year ended 30 June 2017

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

— to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and

— to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

## REPORT ON THE REMUNERATION REPORT

## Opinion

In our opinion, the Remuneration Report of Qantas Airways Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

### DIRECTORS' RESPONSIBILITIES

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### OUR RESPONSIBILITIES

We have audited the Remuneration Report included in pages 30 to 52 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Andrew Yates
Partner
Sydney
15 September 2017

Julian McPherson
Partner
Sydney
15 September 2017

# Shareholder Information

The shareholder information set out below was applicable as at 4 August 2017.

## TWENTY LARGEST SHAREHOLDERS

| Shareholders | Ordinary Shares Held | % of Issued Shares |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 727,130,598 | 40.21 |
| J P Morgan Nominees Australia Limited | 324,168,744 | 17.93 |
| Citicorp Nominees Pty Limited | 166,243,299 | 9.19 |
| National Nominees Limited | 86,075,590 | 4.76 |
| Pacific Custodians Pty Limited (Emp Share Plan Tst) | 53,664,096 | 2.97 |
| BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C) | 34,634,210 | 1.92 |
| BNP Paribas Noms Pty Ltd (DRP) | 25,196,640 | 1.39 |
| Citicorp Nominees Pty Limited (Colonial First State Inv A/C) | 20,395,693 | 1.13 |
| National Nominees Limited (N A/C) | 11,695,665 | 0.65 |
| HSBC Custody Nominees (Australia) Limited (NT-CTH S C A/C) | 10,583,388 | 0.59 |
| SBN Nominees Pty Limited | 7,044,600 | 0.39 |
| Bond Street Custodians Limited | 6,613,102 | 0.37 |
| CS Third Nominees Pty Limited | 5,781,978 | 0.32 |
| AMP Life Limited | 5,752,937 | 0.32 |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 5,702,555 | 0.32 |
| HSBC Custody Nominees (Australia) Limited-GSCO ECA | 3,400,016 | 0.19 |
| Pacific Custodians Pty Limited | 3,170,899 | 0.18 |
| Alan Joyce Pty Ltd | 2,728,924 | 0.15 |
| UBS Nominees Pty Ltd | 2,443,820 | 0.14 |
| Dr Kui Lim Chong & Mrs Jocelyn Elizabeth Chong | 2,350,000 | 0.13 |
| **Total** | **1,504,776,754** | **83.25** |

## DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shareholders by size of shareholding:

| Number of Shares | Ordinary Shares Held | Number of Shareholders | % of Issued Shares |
|---|---|---|---|
| 1–1,000[1] | 21,404,951 | 43,183 | 1.18 |
| 1,001–5,000 | 112,777,537 | 45,927 | 6.24 |
| 5,001–10,000 | 46,005,533 | 6,593 | 2.54 |
| 10,001–100,000 | 74,752,271 | 3,550 | 4.13 |
| 100,001 and over | 1,553,286,085 | 168 | 85.90 |
| **Total** | **1,808,226,377** | **99,421** | **100.00** |

1 1,066 shareholders hold less than a marketable parcel of shares in Qantas, as at 4 August 2017.

## ON-MARKET SHARE BUY-BACK

On 25 August 2017, Qantas announced its intention to undertake an on-market share buy-back of up to $373 million.

## SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Qantas:

| Shareholders | Ordinary Shares Held | % of Issued Shares |
|---|---|---|
| BlackRock Group (BlackRock Inc. and subsidiaries)[1] | 115,627,833 | 6.39 |
| BT Investment Management Limited[2] | 100,287,939 | 5.55 |
| UBS AG and its related bodies corporate[3,4] | 95,829,066 | 5.30 |

1 Substantial shareholder notice dated 8 August 2017.
2 Substantial shareholder notice dated 3 July 2017.
3 Substantial shareholder notice dated 22 March 2017.
4 Percentage adjusted for buy-back shares cancelled.

# Financial Calendar and Additional Information

| 2017 | | 2018 | |
|---|---|---|---|
| 23 February | Half year results announcement | 22 February | Half year results announcement |
| 30 June | Year end | 8 March | Record date for interim dividend* |
| 25 August | Preliminary final results announcement | 12 April | Interim dividend payable* |
| 11 September | Record date for final dividend | 30 June | Year end |
| 13 October | Final dividend payable | 23 August | Preliminary final results announcement |
| 27 October | Annual General Meeting | 6 September | Record date for final dividend* |
| | | 10 October | Final dividend payable* |
| | | 26 October | Annual General Meeting |

*Subject to a dividend declared by the Board

### 2017 ANNUAL GENERAL MEETING

The 2017 AGM of Qantas Airways Limited will be held at 11am on Friday 27 October 2017 in Melbourne.

Further details are available in the Investors section on the Qantas website http://investor.qantas.com/home/

### COMPANY PUBLICATIONS

In addition to the Annual Report, the following publications can be accessed from http://investor.qantas.com/home/:
— Annual Review
— Databook
— Traffic and Sustainability Statistics
— Corporate Governance Statement
— Workplace Gender Equality Report

### REGISTERED OFFICE

Qantas Airways Limited ABN 16 009 661 901
10 Bourke Road, Mascot NSW 2020 Australia

Telephone +61 2 9691 3636
Facsimile +61 2 9490 1888

www.qantas.com

### QANTAS SHARE REGISTRY

Link Market Services Limited
Level 12, 680 George Street, Sydney NSW 2000 Australia; or
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

### STOCK EXCHANGE

Australian Securities Exchange
Exchange Centre, 20 Bridge Street,
Sydney NSW 2000 Australia

### ADDITIONAL SHAREHOLDER INFORMATION

Using your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of your registered address, you are able to view your holding online through Qantas' share registry, Link Market Services. Log on at www.linkmarketservices.com.au, where you will have the option to:
— View your holding balance
— Retrieve holding statements
— Review your dividend payment history
— Access shareholder forms

The Investor Centre also allows you to update or add details to your shareholding, including the following:
— Change or amend your address if you are registered with an SRN
— Nominate or amend your direct credit payment instructions
— Set up or amend your DRP instructions
— Sign up for electronic communications
— Add/change TFN/ABN details

### COMPANY SECRETARIES

Andrew Finch

Anna Pritchard

Debra Smith

An electronic copy of this Annual Report is available at http://investor.qantas.com/home/

QANTAS AIRWAYS LIMITED
ABN 16 009 661 901