18 September 2020

ASX Market Announcements Office
Australian Securities Exchange Limited

Lodged electronically via ASX Online

2020 Annual Report

Please see attached the 2020 Annual Report for Qantas Airways Limited.

Yours faithfully,

Andrew Finch
Group General Counsel and Company Secretary

Authorised for release by Qantas' Board of Directors.

QANTAS ANNUAL REPORT 2020

In November 1920, World War One veterans Hudson Fysh (left) and Paul McGinness (right) envisaged an air service connecting Australia to the world, forming Queensland and Northern Territory Aerial Services Ltd (Q.A.N.T.A.S) at Winton.

100

Recognising our 100-year history

From humble beginnings to becoming the national carrier, Qantas has been part of Australia for 100 years in 2020.

While times have changed, the Qantas spirit remains the same — and we'll continue to close the tyranny of distance for all the communities we serve.

In 1921, operations moved to Longreach with the first Qantas aircraft — an Avro 504K built in Sydney.

By 1947, the first Qantas Constellations were flying services from Sydney to London — on what is still known as the Kangaroo Route — stopping at Darwin, Singapore, Calcutta, Karachi, Cairo, Castel Benito and Rome, finishing in London.

Contents

Arrival of the first international repatriation flight from Wuhan, China in February 2020.

Financial Snapshot[1]

$3.5 billion
CASH BALANCE

$1.1 billion
OPERATING CASH FLOW

$4.5 billion
TOTAL LIQUIDITY

$4.7 billion
NET DEBT
(net debt range: $4.5 to $5.6 billion)

Other Highlights

100+
INTERNATIONAL REPATRIATION FLIGHTS
OPERATED ON BEHALF OF AUSTRALIAN GOVERNMENT

91%
QANTAS LOYALTY
PROFITABILITY MAINTAINED VS FY19 DESPITE COVID-19

150,000
JETSTAR FARES
SOLD IN THREE DAYS DURING BRIEF BORDER REOPENING IN JUNE

1 Refer to the Review of Operations section in the Qantas Annual Report 2020 for definitions and explanations of non-statutory measures. Unless otherwise stated, amounts are reported on an underlying basis.

Five-year History[1]

FINANCIAL PERFORMANCE

		2020	2019 (restated)	2018	2017	2016
Revenue and Other Income	$M	14,257	17,966	17,128	16,057	16,200
Statutory (Loss)/Profit Before Tax	$M	(2,708)	1,192	1,352	1,181	1,424
Statutory (Loss)/Profit After Tax	$M	(1,964)	840	953	853	1,029
Underlying Profit Before Tax[2]	$M	124	1,326	1,565	1,401	1,532
Underlying Earnings Before Interest and Tax (EBIT)	$M	395	1,608	1,747	1,590	1,751
Operating Margin	%	2.8	9.0	10.2	9.9	10.8
Underlying Earnings per Share[2]	cents per share	5.9	57.3	63.0	54.6	53.1
Statutory Earnings per Share	cents per share	(129.6)	51.5	54.4	46.0	49.4
Return on Invested Capital (ROIC)[2]	%	5.8	19.2	21.4	20.1	22.7
Share Price at 30 June	$	3.78	5.40	6.16	5.72	2.82
Dividend per Share[4]	cents per share	–	25	17	14	7
Cash flow from operations	$M	1,083	3,164	3,413	2,704	2,819
Net free cash flow[2]	$M	(488)	1,601	1,442	1,309	1,674
Net on balance sheet debt	$M	3,173	2,980	3,054	3,062	2,880
Net Debt[2]	$M	4,734	4,710	4,903	5,212	5,646
Net capital expenditure[2]	$M	1,571	1,563	1,971	1,534	1,032
Unit Revenue (RASK)[2]	c/ASK	8.99	8.85	8.40	8.00	8.08
Total unit cost[2,3]	c/ASK	(8.87)	(7.97)	(7.37)	(7.07)	(7.05)
Ex-fuel unit cost[2,3]	c/ASK	(4.41)	(4.23)	(5.37)	(5.03)	(4.79)

STATISTICS

		2020	2019	2018	2017	2016
Available Seat Kilometres (ASKs)[1]	M	111,870	151,430	152,428	150,323	148,691
Revenue Passenger Kilometres (RPKs)[1]	M	92,027	127,492	126,814	121,178	119,054
Passengers carried	'000	40,475	55,813	55,273	53,659	52,681
Revenue Seat Factor	%	82.3	84.2	83.2	80.6	80.1
Aircraft at end of period		314	314	313	309	303

1 2019 has been restated for the impact of the adoption of AASB 16 *Leases* and the IFRIC agenda decision in relation to fair value hedges. 2018 has been restated for the impact of AASB 15 *Revenue from Contracts with Customers*, however 2016 and 2017 continue to be reported under previous accounting standards.
2 For non-statutory measures refer to the definitions in the Review of Operations.
3 The comparative period has been adjusted for foreign exchange movements to make it comparable to the current year. 2019 and 2020 reflect the foreign exchange rates as presented in the 2020 Annual Report. The same applies for 2018, 2017, 2016 which have been adjusted for foreign exchange in line with the 2019, 2018 and 2017 Annual Report respectively. 2019 and 2020 have also been adjusted for the impact of the sale of domestic terminal leases and depreciation and amortisation.
4 Dividend per share is calculated as the interim and final dividend in relation to the relevant financial year.

Chairman's Report

"Aviation is all about connecting people and places, which is exactly what the public health response to COVID-19 is designed to avoid."

The Qantas Group has seen many challenges in its 100 years, but none with the huge impact of the COVID-19 crisis.

Aviation is all about connecting people and places, which is exactly what the public health response to COVID-19 is designed to avoid. The impact this is having on the global travel industry — and on the Qantas Group — is clear.

Our revenue was $4 billion lower in FY20 compared with the prior year, with most of that fall happening within three months. Passenger numbers in that last quarter were down 98 per cent.

With such a precipitous drop, it was critical that we moved quickly to protect our balance sheet. And, by extension, to protect the future of the company.

In a matter of weeks from March 2020, we cancelled dividends, grounded most of our aircraft and stood down the majority of our people. Annual executive bonuses were cancelled, and the Board and Group Management Committee showed important leadership by taking no salary for several months, then a reduced salary for months after that.

Sadly, at least 6,000 Qantas Group employees will lose their jobs as a result of this crisis. Thousands more will be stood down for an extended period, due to what IATA expects could be several years of reduced travel demand.

A large number of our people have spent their whole careers at Qantas and Jetstar. Generations of families work here — sometimes, side-by-side. Many describe the airline as an extended family. So, while we know job cuts and stand downs are absolutely necessary, we also know there is a significant human impact that is deeply regrettable.

In managing this crisis, we're focused on preserving as many jobs as possible in the long term. That means surviving through a period of far less revenue and setting up the Group for recovery in what we know will be a different market post-COVID.

In June, we announced a three-year recovery plan — the Next 100 — to achieve that. It will carve out $15 billion in costs, mostly through reduced activity, and deliver $1 billion a year in annual savings from FY23. To enable the plan, we raised $1.4 billion in an equity raising that was strongly supported by major shareholders in particular.

This support has two major foundations. The first is the fundamental importance of air transport in a country as big as Australia, and the established position Qantas and Jetstar have in that market. And the second is a track record for delivering large transformation programs in trying times. Alan Joyce and his management team led one of the most successful corporate turnarounds in 2014 and he has committed to stay on as Group CEO to guide the post-COVID recovery.

People at Qantas often say the national carrier shines brightest when faced with a crisis. This year, amidst all the challenges, we operated over 100 overseas flights on behalf of the Federal Government to help bring Australians home — including from several COVID hotspots in the early stages of the pandemic. Domestically, Qantas, QantasLink and Jetstar helped run a network that kept critical transport links across Australia open.

On behalf of the Board, I'd like to extend our sincere thanks to Alan and the whole team who have worked incredibly hard under extraordinary circumstances to guide this great company.

The challenges we face in FY21 are substantial but we have plenty of reasons to be optimistic. We know we have the strength and the strategy to get through this crisis, and to deliver for our customers, people and shareholders for many years to come.

Richard Goyder AO

CEO's Report

"This company was founded 100 years ago in the wake of a world war and a devastating pandemic. We know that things will improve, and that the Qantas Group will thrive when it does."

This year was one of sharp contrasts.

For most of FY20, the Qantas Group was focused on growth. We opened our pilot academy in Queensland, announced new routes and were actively hiring new people. We had completed historic non-stop research flights from New York and London direct to Sydney, and we were preparing to order the aircraft required to fly them commercially for Project Sunrise.

Then came the worst trading conditions in a century.

It was a sudden reversal of fortune that has been very hard for our people, customers and shareholders.

But the depth of the contrast points to the fact we entered the COVID-19 crisis in a very strong position. Perhaps the strongest of any airline in the world.

After years of record profits, our balance sheet is strong. That enabled us to raise over $2 billion in debt in addition to a $1.4 billion equity raising, giving us the extra liquidity to make it through to the other side of the crisis.

The Group's strengths are also clear in its FY20 performance.

Despite a 21 per cent drop in revenue, the Group still posted a $124 million Underlying Profit Before Tax. That was largely due to our first half result — which mostly unwound in the second half — and the rapid action to control costs as travel demand collapsed.

There were some bright spots in our portfolio. Qantas Loyalty achieved 91 per cent of its profit from last year and set a record level of member satisfaction in the last, and most challenging, quarter. Qantas Freight has benefited from the increasing shift to e-commerce. And our charter flying for resources companies performed strongly.

Support from the Australian Government — for the aviation industry and for the broader economy — was a key feature of FY20. In particular, JobKeeper provided a crucial safety net for the thousands of our people on stand down, and continues to do so.

The impact of this crisis means the Qantas Group will be smaller for some time to come. The markets we operate in will be different. And we'll need to rebuild our balance sheet. For not the first time in our history, we need to reinvent how we do things — which will result in more difficult decisions to ultimately protect the company's future.

Seeing so many people leave this organisation, and many more stood down from the jobs they love, has been the hardest part of this crisis. We continue to offer them as much support as we can. One positive is the feedback from other companies that have offered secondary employment, who describe the incredible professionalism and resilience of Qantas and Jetstar people. That spirit runs throughout the Group and it's what will help us recover.

We have received incredible support from our partners, suppliers and customers. And also from the communities we look forward to getting back to serving in the future. We thank them sincerely.

This company was founded 100 years ago in the wake of a world war and a devastating pandemic. We know that things will improve, and that the Qantas Group will thrive when it does.

Alan Joyce AC

Board of Directors

RICHARD GOYDER AO

BCom, FAICD

Chairman and Independent Non-Executive Director

Richard Goyder was appointed to the Qantas Board in November 2017 and as Chairman in October 2018.

He is Chairman of the Nominations Committee.

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

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

Mr Goyder was also formerly Chairman of the Australian B20 (the key business advisory body to the World Economic Forum that includes business leaders from all G20 economies).

Age: 60

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, a Member of the International Air Transport Association's Board of Governors, having served as Chairman from 2012 to 2013 and a Director of the Museum of Contemporary Art Australia. 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. 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: 54

Board of Directors continued

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 also formerly 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: 58

JACQUELINE HEY

BCom, Grad Cert (Mgmt), GAICD

Independent Non-Executive Director

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

She is a Member of the Audit Committee.

Ms Hey is Chair of Bendigo and Adelaide Bank Limited, a Director of AGL Energy Limited and Chairman of its Safety, Customer & Corporate Responsibility Committee. She is also a Director of Cricket Australia.

Ms Hey was formerly a Director of the Australian Foundation Investment Company Limited from 2013 to 2019, Melbourne Business School from 2013 to 2018, the Special Broadcasting Service from 2011 to 2016 and a Member of the ASIC Directory Advisory Panel from 2013 to 2016.

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

Age: 54

BELINDA HUTCHINSON AC

BEc, FCA, FAICD

Independent Non-Executive Director

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

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

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

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

Ms Hutchinson was awarded a Companion of the Order of Australia (AC) in 2020 in recognition of her service to business, tertiary education and scientific research, and for her philanthropic endeavours to address social disadvantage.

Age: 67

Board of Directors continued

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 Remuneration Committee and 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 was 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 with a Master of Arts with First Class Honours.

Age: 67

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 and Risk Committee, and a Director of the Murdoch Children's Research Institute.

Mr Rayner was formerly a Director of Centrica plc from 2004 to 2014 and Chairman of its Audit Committee from 2004 to 2013. From 2002 to 2008,

Mr Rayner was Finance Director of British American Tobacco plc based in London. Mr Rayner joined Rothmans Holdings Limited in 1991 as its Chief Financial Officer and held other senior executive positions within the Group, including Chief Operating Officer of British American Tobacco Australasia Limited from 1999 to 2001.

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

Age: 66

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 was also a Director of Fairfax Media Limited from 2014 to 2018.

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: 50

Board of Directors continued

ANTONY TYLER

BA (Jurisprudence)

Independent Non-Executive Director

Antony Tyler was appointed to the Qantas Board in October 2018.

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

Mr Tyler was Director General and Chief Executive of the International Air Transport Association from 2011 to 2016. Prior to this, Mr Tyler spent over 30 years with Cathay Pacific Airways Limited. His career includes several management and executive roles in Hong Kong, the UK, Italy, Japan, Canada, the Philippines and Australia before serving in the role of Chief Executive Officer from 2007 to 2011.

He is a Non-Executive Director of Bombardier Inc, BOC Aviation Limited and Trans Maldivian Airways Limited and a Fellow of the Royal Aeronautical Society.

Age: 65

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 Ampol Limited (formerly Caltex Australia Limited) and a number of Brookfield Multiplex Group companies.

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

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

Age: 66

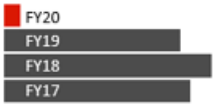
Review of Operations

For the year ended 30 June 2020

RESULTS HIGHLIGHTS

Underlying Profit Before Tax

124 $M



FY20	124
FY19	1,326
FY18	1,565
FY17	1,401

Statutory (Loss)/Profit Before Tax

(2,708) $M

FY20	(2,708)
FY19	1,192
FY18	1,352
FY17	1,181

Return on Invested Capital

5.8 %

FY20	5.8%
FY19	19.2%
FY18	21.4%
FY17	20.1%

The Qantas Group applied AASB 16 Leases from 1 July 2019. The results for the 12 months ended 30 June 2019 have been restated on the same basis for comparison purposes.

The Qantas Group reported an Underlying Profit Before Tax[1] (Underlying PBT) of $124 million for the 12 months ended 30 June 2020, a decrease of $1,202 million from the full year 2018/19 primarily due to the impact of COVID-19 in the second half. The Group's Statutory Loss Before Tax of $(2,708) million was down $3,900 million from the prior year. The Statutory Loss Before Tax for this financial year included a net $2,832 million of costs, mostly non-cash, which were not included in Underlying PBT. Items outside of Underlying PBT included asset impairments including the A380 fleet, Recovery Plan restructuring costs including redundancies, de-designated hedging and costs such as those associated with transformation and discretionary non-executive employee bonuses. This compares with $134 million of net costs that were not included in Underlying PBT in the prior year.

In the first half of 2019/20 the Qantas Group reported an Underlying PBT of $771 million, a decrease of only $4 million from the prior year, as revenue strength offset temporary headwinds totalling $119 million including the impact of protests in Hong Kong, subdued demand in global freight markets and other increases in costs associated with foreign exchange rates on non-fuel costs.

During the second half of 2019/20 the measures taken by governments across the world to slow the spread of COVID-19 severely impacted airlines, as travel restrictions and border closures were imposed. Because of these measures, the Qantas Group suffered a $3,967 million decline in total revenue as both domestic and international air travel was virtually halted in the fourth quarter. The Group quickly shifted its focus to preserving liquidity, partially mitigating the 82 per cent fall in Total Revenue in the fourth quarter through a 75 per cent reduction in net operating expenses[2], a good proxy for the Group's operating cash costs. Due to the action taken, the Group was able to reduce the combined impact of COVID-19 on the Group earnings for the 2019/20 financial year to $1,224 million[3].

Despite the grounding of most of the domestic fleet in the fourth quarter, Group Domestic[4] remained profitable, contributing Underlying EBIT of $285 million to the Group's overall result. The international businesses[5] fell into an Underlying EBIT loss of $82 million as the record result from the Freight business could not offset the losses from the passenger airlines which were driven by international border closures.

Qantas Loyalty maintained its value proposition for its members and partners despite the grounding of the Group's airlines and was the largest contributor to the Group's earnings.

The Financial metrics for the 2019/20 financial year are:

- Statutory Earnings Per Share was a loss of 129.6 cents per share, reflecting the Statutory Loss and the reduction in average shares on issue from the off-market share buy-back conducted in the first half
- Return on Invested Capital (ROIC)[6] of 5.8 per cent
- Operating cash flow of $1,083 million.

At the end of the first half of 2019/20, Net Debt[7] was towards the bottom of the target range, the Group retained strong liquidity and had an unencumbered aircraft asset base of $4.9 billion[8]. This put the Group in a strong financial position to weather the impacts of the COVID-19 pandemic.

In the second half, the Group's focus turned to safely hibernating the airlines, cutting costs and preserving liquidity. The Group's variable cost base adjusted as activity declined, with a commensurate reduction in fuel consumption costs, aircraft operating variable and manpower costs as approximately 25,000 employees were stood down. Fixed costs and depreciation and amortisation non-cash charges continued to impact the Group's profitability.

1. Underlying Profit Before Tax (Underlying PBT) is the primary reporting measure used by the Qantas Group's Chief Operating Decision-Making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas Domestic, Qantas International, Jetstar Group and Qantas Loyalty operating segments is Underlying Earnings Before Net Finance Costs and Income Tax Expense (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying PBT to Statutory (Loss)/ Profit Before Tax on Page 20.
2. Net operating expenses is gross expenditure less depreciation and amortisation, on an underlying basis.
3. Underlying PBT for 2H20 compared to 2H19 excluding the movement of discount rate changes on provisions and depreciation/amortisation expense.
4. Group Domestic includes Qantas Domestic and Jetstar Domestic.
5. International businesses or Group International includes Qantas International, Jetstar International Australian operations, Jetstar New Zealand (including Jetstar Regionals), Jetstar Asia (Singapore), and the contributions from Jetstar Japan and Jetstar Pacific.
6. Return on Invested Capital is calculated as ROIC EBIT for the 12 months ended 30 June 2020, divided by the 12 month Average Invested Capital. ROIC EBIT is derived by adjusting Underlying EBIT to account for leased aircraft as if they were owned and non-aircraft leases as if they were service costs. This is calculated as Underlying EBIT excluding lease depreciation under AASB 16 and including notional depreciation for aircraft (to account for them as if they were owned aircraft) and the full cash payment for non-aircraft leases (to account for them as service costs). Refer to Note 2 for detail.
7. Net Debt under the Group's Financial Framework includes net on balance sheet debt and capitalised aircraft lease liabilities.
8. Based on Aircraft Value Analysis Company Limited (AVAC) market values as at 31 December 2019, representing 51 per cent of aircraft in the Group's total fleet of 316.

Review of Operations continued

For the year ended 30 June 2020

RESULTS HIGHLIGHTS (CONTINUED)

The impact of the government-imposed lockdowns, travel restrictions and border closures on the broader economy has been profound. This prompted the Australian Government and to a lesser extent the various state governments to establish a series of measures to support businesses and employees that have been severely affected. The Group and its employees benefited from a number of these programs including:

- The Australian Aviation Financial Relief Package including the refunding and waiving of a range of government charges to the aviation industry including fuel excise, Airservices Australia charges on domestic airline operations and domestic and regional aviation security charges
- The JobKeeper Payment, intended to help keep more Australians in jobs and support affected businesses. The majority of the benefit received by the Group was paid directly through to employees on stand down and the rest used to subsidise wages of those still working.

In addition, the Australian Government commissioned Qantas to conduct various charter repatriation flights and rescue missions, including to Wuhan, Tokyo, Hong Kong, London, Lima, Buenos Aires, Johannesburg, New Delhi and Chennai. Along with other Australian domestic airlines, Qantas also performed several domestic, regional and international flights as part of the Minimum Viable Network intended to maintain vital air transport links. Qantas also secured a contract to conduct freight services under the International Freight Assistance Mechanism to ensure import and export freight routes remained open.

Liquidity was boosted by cutting capital expenditure outflows, cancelling shareholder distributions and sourcing additional funding through $1.75 billion in new debt, with no financial covenants and $1.36 billion through a fully underwritten Institutional Placement initiated as part of the Group's Three-Year Recovery Plan. At 30 June 2020, cash and cash equivalents totalled $3.5 billion with total liquidity at $4.5 billion including the undrawn revolving credit facilities. Net Debt was $4.7 billion towards the bottom of the Net Debt target of $4.5 billion to $5.6 billion. Importantly, the Group maintained its investment grade credit rating of Baa2 from Moody's Investor Services.

The Group's usually strong cash flow generation ability was impacted by lower earnings and the working capital movements associated with lower revenue received in advance, lower receivables, payables (including refunds) and hedge settlements. Net capital expenditure[9] of $1.6 billion was invested in the business, skewed towards the first half, and $647 million of surplus capital was returned to shareholders through $204 million of fully franked dividends and $443 million of off-market share buy-backs completed in the first half.

Giving consideration to the requirement to protect the strength of the balance sheet, maintain a minimum level of liquidity and the uncertainty of the near-term outlook for the business, the Board has decided not to make further shareholder distributions until the Group's earnings and balance sheet have fully recovered in accordance with the Financial Framework. The off-market share buy-back of up to $150 million and the interim dividend of $201 million announced in February 2020 were cancelled in March 2020 and revoked in June 2020 respectively.

THREE-YEAR RECOVERY PLAN

The measures taken to cut costs and preserve liquidity through the fourth quarter ensured the Group was well positioned to launch its Three-Year Recovery Plan to rightsize the business, restructure its cost base and recapitalise its balance sheet through the fully underwritten Institutional Placement. A retail Share Purchase Plan was launched on 2 July 2020 consistent with listing requirements, with the $71.7 million raised providing an additional liquidity buffer in the 2020/21 financial year.

The Recovery Plan is targeting a total of $15 billion in savings over the three years, including significant activity-based savings associated with the reduced flying, rightsizing benefits and restructuring that are expected to deliver $1 billion in ongoing annual savings from 2022/23.

	Target		
Key area of focus	**Metrics**	**Timeframe**	**As at end of August 2020**
Cost Savings	Restructuring benefits of $0.6b in FY21, $0.8b in FY22, $1b by FY23	FY23	**On track to achieve FY21 target**
	6,000 FTE reduction	FY21	**On track**
	Group Unit Cost (ex-fuel and depreciation) 10% less than FY20	FY23	**Restructuring in progress**
Deleverage the Balance Sheet	Gross debt reduction of $1.75b	FY23	**Capital allocation is prioritising debt reduction**
	Net debt/ EBITDA <2.5 times	FY22	**Net debt/EBITDA to peak in FY21**
Cash Flow	Sustainable positive net free cash flow	FY22 onwards	**Negative net free cash flow in FY21 due to restructuring expenses and payments for FY20 deferred payables**
	Flying activity is contribution positive (RASK-Variable cost/ASK >0)	From FY21	**Disciplined restart of the network with flexibility to adjust for border closures**
	Capex for FY21 <$0.7b	FY21	**Majority of expense is for capitalised maintenance**
Fleet Management	Defer deliveries of A321neos and 787-9 aircraft	Jun-20	**Complete**
	Retire 6 x 747s; 12 x A380s in long term storage	Dec-20	**Complete**
Customer and Brand	Maintain Customer Advocacy (NPS) premium to domestic competitor	Ongoing	**Measured by Qantas customer research programs**
	Maintain brand and reputation	Ongoing	**Source – Qantas internal research and Corporate Trust Research**
Qantas Loyalty	Return to double digit growth	FY22	**Program enhancements underway to achieve growth ambitions**
Employee Engagement	Employee sentiment	Ongoing	**Establishing formal monitoring system for recovery phase**

9. Net Capital Expenditure is equal to net investing cash flows in the Consolidated Cash Flow Statement of $1,571 million. During the year ended 30 June 2020, there were no new aircraft leases entered into and no returns of leased aircraft.

Review of Operations continued

For the year ended 30 June 2020

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

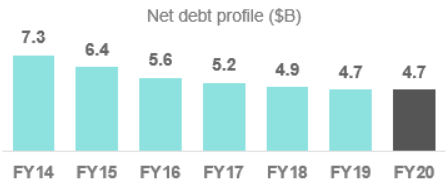
Qantas' Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings Per Share (EPS) growth over the cycle, which in turn should generate Total Shareholder Returns (TSR) in the top quartile of the ASX100 and a basket of global airlines[10], the Financial Framework has three clear priorities and associated long-term targets:

1. Maintaining an Optimal Capital Structure	2. ROIC > WACC[12] Through the Cycle	3. Disciplined Allocation of Capital
Minimise cost of capital by targeting a net debt range of $4.5 billion to $5.6 billion[11]	Deliver ROIC > 10 per cent[13] through the cycle	Grow Invested Capital with disciplined investment, return surplus capital

MAINTAINABLE EPS[14] GROWTH OVER THE CYCLE

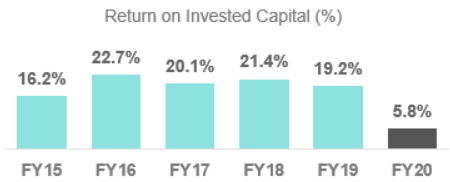
TOTAL SHAREHOLDER RETURN IN THE TOP QUARTILE

Maintaining an Optimal Capital Structure



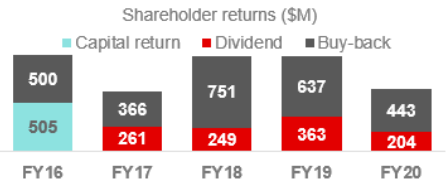
The Group's Financial Framework targets an optimal capital structure to achieve the lowest cost of capital. This results in a net debt target range of $4.5 billion to $5.6 billion, based on the Invested Capital as at 30 June 2020 of approximately $6 billion. It is defined as net debt/ROIC EBITDA range of 2.0-2.5 times where ROIC is fixed at 10 per cent. This capital structure optimises the Group's cost of capital and preserves financial strength with the objective of enhancing long-term shareholder value. At 30 June 2020, net debt was $4.7 billion which is towards the bottom of the net debt target range. The Group's optimal capital structure is consistent with investment grade credit metrics. The Group is rated Baa2 with Moody's Investor Services.

ROIC > WACC Through the Cycle



Return on Invested Capital (ROIC) for the 12 months to 30 June 2020 was 5.8 per cent, below the Group's target for value creation of 10 per cent. This was due primarily to the impact of government-imposed travel restrictions and border closures impacting earnings in the second half of the 2019/20 financial year.

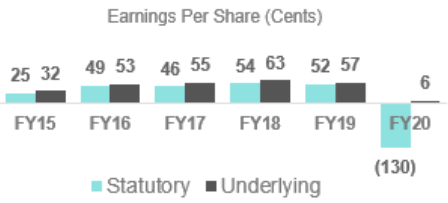
Disciplined Allocation of Capital



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

- $647 million was distributed to shareholders in the first half of 2019/20 through $204 million fully franked dividends and an off-market share buy-back of $443 million. Distributions for the second half were cancelled as the Group took steps to conserve cash.

Maintainable EPS Growth Over the Cycle



Statutory Earnings Per Share was a loss of 129.6 cents, due to the significant Statutory Loss After Tax and reduction in average shares from the off-market share buy-back in the first half of 2019/20. The Group purchased 79.7 million shares or 5.1 per cent of issued capital for $443 million at an average price of $5.56.

10. Target Total Shareholder Returns within the top quartile of the ASX100 and the global listed airline peer group as stated in the 2019 Annual Report, with reference to the 2019-2021 Long Term Incentive Plan (LTIP).
11. Based on the Invested Capital of approximately $6 billion as at 30 June 2020.
12. Weighted Average Cost of Capital, calculated on a pre-tax basis.
13. Target of greater than 10 per cent ROIC allows ROIC to be greater than pre-tax WACC through the cycle.
14. Earnings Per Share.

Review of Operations continued

For the year ended 30 June 2020

GROUP PERFORMANCE

Underlying PBT for 2019/20 was $124 million, including the impact government-imposed travel restrictions and border closures due to the COVID-19 pandemic had on second half earnings. This was 91 per cent lower than the Underlying PBT of $1,326 million in 2018/19. Ticketed passenger revenue[15] declined by 25 per cent as the airlines were virtually grounded during the fourth quarter. Net freight revenue increased by $74 million as increased demand for freight in the second half coincided with a significant reduction in available passenger aircraft bellyspace. Other revenue declined 21 per cent due primarily to the decrease in third-party service revenue including catering, following the sale of the business as well as the impact of COVID-19. Actions taken to cut variable costs reduced total underlying expenditure by $2.5 billion, which helped to partially offset the steep decline in revenue in the fourth quarter.

Group Underlying Income Statement Summary[16]	June 2020 $M	June 2019 (restated) $M	Change $M	Change %
Net passenger revenue	12,183	15,696	(3,513)	(22)
Net freight revenue	1,045	971	74	8
Other revenue	1,029	1,299	(270)	(21)
Revenue and other income	**14,257**	**17,966**	**(3,709)**	**(21)**
Operating expenses (excluding fuel)	(8,893)	(10,599)	1,706	16
Fuel	(2,895)	(3,846)	951	25
Depreciation and amortisation[16]	(2,021)	(1,936)	(85)	(4)
Share of net (loss)/profit of investments accounted for under the equity method	(53)	23	(76)	(330)
Total underlying expenditure	**(13,862)**	**(16,358)**	**2,496**	**15**
Underlying EBIT	**395**	**1,608**	**(1,213)**	**(75)**
Net finance costs	(271)	(282)	11	4
Underlying PBT	**124**	**1,326**	**(1,202)**	**(91)**

Operating Statistics		June 2020	June 2019 (restated)	Change	Change %
Available Seat Kilometres (ASK)[17]	M	111,870	151,430	(39,560)	(26)
Revenue Passenger Kilometres (RPK)[18]	M	92,027	127,492	(35,465)	(28)
Passengers carried	000	40,475	55,813	(15,338)	(28)
Revenue Seat Factor[19]	%	82.3	84.2	(1.9)pts	n/a
Operating Margin[20]	%	2.8	9.0	(6.2)pts	n/a
Unit Revenue (RASK)[21]	c/ASK	8.99	8.85	0.14	1.5
Total unit cost[22]	c/ASK	(8.87)	(7.97)	(0.90)	(11.3)
Normalised ex-fuel unit cost[23]	c/ASK	(4.41)	(4.23)	(0.18)	(4.3)

Group capacity (ASK) decreased by 26 per cent mainly due to the grounding of the airlines in the fourth quarter, while demand (measured by RPK) decreased by 28 per cent, resulting in a 1.9 percentage point decrease in Revenue Seat Factor. Group Unit Revenue increased by 1.5 per cent from the prior year, with an increase[24] of 2.8 per cent in the first half and a decline[25] of 2.5 per cent in the second half. The Group's Total Unit Cost increased by 11.3 per cent as a result of higher fuel prices, foreign exchange impacts and other costs.

TRANSFORMATION

In the fourth quarter, the focus shifted to preserving liquidity and transformation activities essentially ceased. The Group's significant track record in delivering transformation including $3.2 billion in benefits over the past five years give it confidence that it will deliver on the Three-Year Recovery Plan initiated to assist the Group to recover from the consequences of COVID-19.

15. Uplifted passenger revenue included in net passenger revenue.
16. Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT such as those items identified by Management as not representing the underlying performance of the business. Refer to the reconciliation on page 20.
17. ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
18. RPK – total number of passengers carried, multiplied by the number of kilometres flown.
19. Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.
20. Operating Margin is Group Underlying EBIT divided by Group total revenue.
21. Unit Revenue (RASK) is calculated as ticketed passenger revenue divided by Available Seat Kilometres (ASK).
22. Total Unit Cost is Underlying PBT less ticketed passenger revenue per ASK.
23. Normalised ex-fuel unit cost is measured as Underlying PBT less ticketed passenger revenue, fuel, depreciation and amortisation and share of profit/(loss) of investments accounted for under the equity method, adjusted for the impact of changes in foreign exchange rates and the non-cash impact of discount rate changes on provisions per ASK and normalised for the impact of the sale of domestic terminal leases.
24. Compared to the first half of 2018/19 financial year.
25. Compared to the second half of 2018/19 financial year.

Review of Operations continued

For the year ended 30 June 2020

CASH GENERATION

Cash Flow Summary	June 2020 $M	June 2019 (restated) $M	Change $M	Change %
Operating cash flows	1,083	3,164	(2,081)	(66)
Investing cash flows	(1,571)	(1,563)	(8)	(1)
Net free cash flow	**(488)**	**1,601**	**(2,089)**	**(130)**
Financing cash flows	1,853	(1,150)	3,003	261
Cash at beginning of year	2,157	1,694	463	27
Effect of foreign exchange on cash	(2)	12	(14)	(117)
Cash at end of year	**3,520**	**2,157**	**1,363**	**63**

Debt Analysis		June 2020 $M	June 2019 (restated) $M	Change $M	Change %
Net on balance sheet debt[26]	$M	3,173	2,980	193	6
Capitalised aircraft lease liabilities[27]	$M	1,561	1,730	(169)	(10)
Net Debt[28]		**4,734**	**4,710**	**24**	**1**
Net Debt/EBITDA[29]	times	2.2	1.6	0.6	38

Operating cash flows for 2019/20 were $1,083 million, $2,081 million lower than the prior year, reflecting the lower earnings and working capital movements associated with lower revenue received in advance, lower receivables, payables (including refunds) and hedge settlements.

Net capital expenditure of $1.6 billion was skewed to the first half and included investment in replacement fleet such as the final delivery payments for three 787-9 Dreamliners for Qantas International, customer experience initiatives including lounges, the A380 reconfigurations and Wi-Fi installation on the Qantas Domestic fleet.

Net financing cash inflows of $1,853 million included $2,155 million draw down of debt, offset by scheduled debt repayments of $625 million, dividends of $204 million and an off-market share buy-back totalling $443 million. Net proceeds from the fully underwritten placement totalled $1,342 million.

At 30 June 2020, the Group's unencumbered asset base had an approximate value of $2.5 billion[30], including 46 per cent of the Group fleet[31], land, spare engines and other assets.

Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changes in market conditions and earnings scenarios. At 30 June 2020, the Group's leverage metrics were within investment grade metrics Baa2, with Net Debt/EBITDA of 2.2 times.

26. Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents.
27. Capitalised aircraft lease liabilities is a non-statutory measure. It is measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis. Residual value of capitalised aircraft lease liability denominated in foreign currency is translated at a long-term exchange rate. Where leased aircraft were classified as finance leases under the previous accounting standard (AASB 117), the capitalised amount and notional depreciation for ROIC is consistent with the recognised accounting values.
28. Net debt is a non-statutory measure. It includes on balance sheet debt and capitalised aircraft lease liabilities under the Group's Financial Framework.
29. Management's estimate based on Moody's methodology.
30. Aircraft valuations based on the average of AVAC and AVITAS market values 30 June 2020.
31. Based on number of aircraft as at 30 June 2020. The Group's fleet totalled 314 aircraft including Jetstar Asia (Singapore) owned fleet and excludes Jetstar Pacific (Vietnam) and Jetstar Japan.

Review of Operations continued

For the year ended 30 June 2020

FLEET

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

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

In the first half of 2019/20, the Group took delivery of three additional 787-9 aircraft for Qantas International, taking that fleet to 11 aircraft, and retired one 747-400, while five Q300s and one A320-200 were transferred from Jetstar to QantasLink.

At 30 June 2020, the Qantas Group fleet[32] totalled 314 aircraft.

Fleet Summary (Number of aircraft)	June 2020	June 2019
A380	12	12
747-400/400ER	4	7
A330-200/300	28	28
737-800	75	75
787-9	11	8
717-200	20	20
Q200/300/400	50	45
F100	17	17
A320-200	4	2
Total Qantas (including QantasLink and Network Aviation)	**221**	**214**
Q300	-	5
A320/A321-200	76	78
787-8	11	11
Total Jetstar Group	**87**	**94**
737-300/400F	5	5
767-300F	1	1
Total Freight	**6**	**6**
Total Group	**314**	**314**

Through the second half of 2019/20, the Group's fleet strategy adjusted to the new demand environment post-COVID. The Group has accelerated the retirement of the 747-400s, with all having left the fleet by the end of July 2020. The A380 fleet has been put into long-term storage for the foreseeable future. Jetstar Asia's fleet will reduce from 18 to 13 with a mixture of lease returns and aircraft redeployment to Australia. Jetstar Group A320ceos continue to be transferred to QantasLink for redeployment into the growing resources sector market in Western Australia.

SEGMENT PERFORMANCE

Segment Performance Summary	June 2020 $M	June 2019 (restated) $M	Change $M	Change %
Qantas Domestic	173	778	(605)	(78)
Qantas International	56	323	(267)	(83)
Jetstar Group	(26)	400	(426)	(107)
Qantas Loyalty	341	376	(35)	(9)
Corporate	(134)	(171)	37	22
Unallocated/Eliminations	(15)	(98)	83	85
Underlying EBIT	**395**	**1,608**	**(1,213)**	**(75)**
Net finance costs	(271)	(282)	11	4
Underlying PBT	**124**	**1,326**	**(1,202)**	**(91)**

32. Includes Qantas Airways, Jetstar Australia and New Zealand, Jetstar Asia (Singapore), Qantas Freight and Network Aviation, and excludes aircraft operated by Jetstar Japan and Jetstar Pacific (Vietnam).

Review of Operations continued

For the year ended 30 June 2020

QANTAS DOMESTIC

Revenue

4,672 $M

FY20	4,672
FY19	6,098
FY18	5,945
FY17	5,632

Underlying EBIT

173 $M

FY20	173
FY19	778
FY18	765
FY17	645

Operating Margin

3.7 %

FY20	3.7%
FY19	12.8%
FY18	12.9%
FY17	11.5%

Metrics		June 2020	June 2019	Change
ASKs	M	25,773	33,866	(23.9%)
Seat factor	%	75.9	77.8	(1.9)pts

Qantas Domestic remained profitable despite the impact of government-imposed travel restrictions, reporting an Underlying EBIT of $173 million, compared with $778 million in 2018/19.

The near record performance in the first half more than offset the second half underlying loss. Excluding the impact of depreciation and amortisation the second half was profitable at an EBITDA level. As the travel restrictions took hold, Qantas Domestic experienced a sharp decline in demand, with the airline virtually grounded in the fourth quarter. Flying was reduced to the government-sponsored Minimum Viable Network to provide vital links to regional Australia and between capital cities. The high variable versus fixed cost mix meant that as the fourth quarter ticketed passenger revenue decreased by 97 per cent, net operating expenses were able to be reduced by 83 per cent. This variable cost base provides Qantas Domestic with the flexibility to respond to changing demand profiles while minimising cash costs as the recovery unfolds.

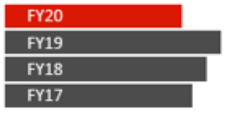
To support the recovery of domestic travel, Qantas Domestic:

- Introduced a “Fly Well” program for the health and safety of our customers at each point of the journey
- Is adding capacity, routes and lounges as demand returns, including new regional routes to Ballina and Orange
- Is deploying further A320 capacity to Western Australia to support resources sector demand growth.

QANTAS INTERNATIONAL

Revenue

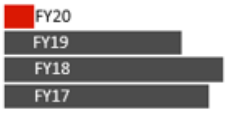
6,077 $M



FY20	6,077
FY19	7,420
FY18	6,925
FY17	6,413

Underlying EBIT

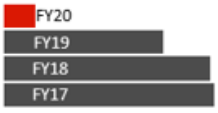
56 $M



FY20	56
FY19	323
FY18	398
FY17	374

Operating Margin

0.9 %



FY20	0.9%
FY19	4.4%
FY18	5.7%
FY17	5.8%

Metrics		June 2020	June 2019	Change
ASKs	M	50,484	69,571	(27.4%)
Seat factor	%	84.1	86.0	(1.9)pts

Qantas International remained profitable, reporting an Underlying EBIT of $56 million for 2019/20 even as the international passenger operations moved into losses as a result of international border closures. The result was supported by a record performance from freight due to increased air freight demand while passenger aircraft bellyspace capacity remained constrained.

The impact of the grounding of the passenger fleet in the fourth quarter resulted in a 100 per cent decrease in ticketed passenger revenue. Qantas International acted swiftly to mitigate the fall in revenue by reducing net operating expenses by 89 per cent. The Australian Government engaged the Group to conduct charter repatriation and rescue flights, and along with the Minimum Viable Network and International Freight Assistance Mechanism, this ensured that vital transport and freight links were maintained despite the grounding of the passenger fleet.

The fleet plan for Qantas International has been realigned to the recovery profile:

- A321 freighter conversion is in progress, with first delivery expected in October 2020 to meet demand for increased dedicated freighter capacity
- Deferred delivery of three 787-9 Dreamliners in line with the Group’s requirements
- A380 fleet moved to long-term storage in July 2020 for the foreseeable future
- Retirement of the remaining 747-400ER fleet early, completed in July 2020.

Review of Operations continued

For the year ended 30 June 2020

JETSTAR GROUP

Revenue

3,006 $M

Underlying EBIT

(26) $M

Operating Margin

(0.9) %

Metrics		June 2020	June 2019	Change
ASKs	M	35,613	47,993	(25.8%)
Seat factor	%	84.3	86.1	(1.8)pts

The Jetstar Group reported a small loss of $26 million at an Underlying EBIT level including the combined losses from Jetstar's International businesses.

The Jetstar Australia and New Zealand business was profitable despite the profound impact of travel restrictions due to COVID-19 and the $33 million impact of industrial action. This was due to the large variable cost base of the Jetstar operations where net operating expenses were reduced by 95 per cent in the fourth quarter as Ticketed Passenger Revenue declined by 99 per cent.

Jetstar's Domestic business delivered an Underlying EBIT of $112 million, while the combined international business fell into losses of $138 million driven by international border closures across the Jetstar Group's airlines in Australia, New Zealand and Asia.

Jetstar's airlines in Asia fell into losses as the impact of COVID-19 spread through South East Asia, Vietnam and Japan. The previously announced exit of Jetstar Pacific is well advanced, with commercial functions transitioned and rebranding to Pacific Airlines and reservation system cutover completed. Jetstar Asia's fleet will be reduced from 18 to 13 with a mixture of lease returns and aircraft redeployment to Australia, resulting in redundancies of 25 per cent of staff. Jetstar Japan is implementing its own restructuring program and operated at approximately 75 per cent of its 2018/19 capacity during the August peak holiday period.

The New Zealand domestic operation was returning to near full capacity by the end of August 2020 but remains flexible to evolving domestic travel restrictions in the country, providing confidence for Australian domestic leisure demand recovery when borders open.

QANTAS LOYALTY

Revenue

1,224 $M

Underlying EBIT

341 $M

Operating Margin

27.9 %

Metrics		June 2020	June 2019	Change
QFF members	M	13.4	12.9	4.2%

Qantas Loyalty reported an Underlying EBIT of $341 million, after reporting a record first half of 2019/20. It provided an important source of diversified earnings and positive cash flow as the Group's airlines moved into hibernation. Second half revenue from points sales to external partners and other non-airline revenue was down 13 per cent. Points earned from flying on the Group's airlines declined in the fourth quarter, reducing intercompany revenue, but had no impact on EBIT.

Qantas Loyalty experienced a short-term decline in points earned through credit card spend and engagement in travel-related products, particularly in the fourth quarter. Meanwhile, the retail businesses such as Qantas Wine, Qantas Shopping and Qantas Store delivered growth, supporting earnings diversification.

Despite the grounding of the airlines, the program maintained its relevance to both members and partners, achieving record customer satisfaction in the fourth quarter, demonstrating the success of the program enhancements including tier status extension and increased availability of Classic Reward seats to popular destinations, improving the redemption value proposition.

Demand for Qantas Points remains strong with expanded opportunities to earn 'on the ground' including the launch of the Afterpay partnership and BP fuel partnership, with 500,000 members linking their accounts. Growth of new businesses and program launches continue to diversify member offerings with the Points Club and Qantas Insurance expanding into car insurance through the year, and the launch of home insurance expected in the next financial year.

Review of Operations continued

For the year ended 30 June 2020

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Loss Before Tax of $2,708 million for 2019/20 compares to a Statutory Profit Before Tax of $1,192 million for 2018/19.

Underlying PBT

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

Underlying PBT includes the impact of COVID-19 on the operating performance of the Group. Group Revenue for 2019/20 as recognised within Underlying PBT is down $3.7 billion compared to 2018/19, which is consistent with the impact on Statutory Loss primarily due to the impact of COVID-19.

Likewise, the impact of the decisive actions taken by the Group to mitigate the impact of COVID-19 including a reduction in flight capacity domestically and internationally (including a reduction in costs from fuel and variable cost reductions), workforce stand downs and operational cost-out measures have also been recognised in Underlying PBT. Government support to mitigate the impact of COVID-19 from travel restrictions and border closures including the Australian Aviation Financial Relief Package, JobKeeper Payment, Minimum Viable Network flights and International Freight Assistance Mechanism payments, together with costs to operate or payments to employees are also recorded in Underlying PBT.

Items which are identified by Management and reported to the CODM 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, transformational/restructuring initiatives, transactions involving investments, impairments of assets and other transactions outside the ordinary course of business.

The impact of COVID-19 and the Group's Recovery Plan have resulted in items not included in Underlying PBT, including asset impairments (including the A380 fleet), Recovery Plan restructuring costs including redundancies and de-designated hedging due to significant decrease in flying activity. These are in addition to transformation costs directly incurred to enable the delivery of transformation benefits.

	2020 $M	2019 (restated) $M
Reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax		
Underlying PBT	**124**	**1,326**
Items not included in Underlying PBT		
– Transformation costs and discretionary bonus for non-executive employees	(191)	(254)
– Recovery Plan restructuring costs	(642)	-
– Impairment/(reversal of impairment) of assets and related costs	(1,428)	39
– De-designation of fuel and foreign exchange hedges	(571)	-
– Net gain on disposal of assets	-	192
– Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision	-	(105)
– Other	-	(6)
Total items not included in Underlying PBT	**(2,832)**	**(134)**
Statutory (Loss)/Profit Before Income Tax Expense	**(2,708)**	**1,192**

In the 2020 financial year, the items outside of Underlying PBT included:

Items Outside of Underlying PBT	Description
Transformation costs and discretionary bonus for non-executive employees	$191 million including $161 million directly incurred to enable the delivery of transformation benefits and $30 million of discretionary bonus for non-executive employees announced in previous financial years.
Recovery Plan restructuring costs	$642 million including people restructuring costs of $575 million and fleet restructuring costs of $67 million resulting from the announced post-COVID Recovery Plan. People restructuring costs primarily relate to the announced restructure, resulting in the reduction of around 6,000 roles.
Impairment of assets and related costs	Impairments of assets and related costs includes: – $1,087 million impairment of the Group's A380 fleet, including related spares, inventories and onerous contracts. With the impact of COVID-19 and the closure of international borders, the Group's A380 fleet is expected to be grounded for the foreseeable future – $341 million of other impairments of assets.
De-designation of fuel and foreign exchange hedges	$571 million of de-designated hedging resulting from significant decrease in flying activity in the last quarter of the 2019/20 financial year and into the 2020/21 financial year.

Refer to Note 2(B) of the Financial Report for details of items not included in Underlying PBT.

Review of Operations continued

For the year ended 30 June 2020

MATERIAL BUSINESS RISKS

The aviation industry is subject to numerous inherent foreseeable risks that can impact operations if left untreated. In rare circumstances 'black swan' risk events can materialise, resulting in unexpected consequences such as those that the aviation industry is experiencing due to COVID-19. The COVID-19 pandemic has impacted Qantas' operations significantly, including its strategic and financial objectives.

Material business risks arising from COVID-19, notably liquidity risks, are being critically managed to ensure the ongoing sustainability of the Group. To minimise this consequence, Management has established a Three-Year Recovery Plan to rightsize and transform the Group in response to COVID-19 impacts to guide the Group's recovery and return to growth. As the impact of COVID-19 evolves, the Group continues to plan for a wide range of scenarios and risks.

Other inherent risks that can impact the Group's operations include 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, or international conflicts.

General economic conditions post-crisis: As air travel is closely linked with economic growth, the Qantas Group's operating and financial performance is influenced by a variety of general economic and business conditions in Australia and overseas. A sustained decline in consumer and business demand as part of a broader deterioration of economic conditions is likely to have a material adverse effect on the financial condition and business of the Qantas Group.

COVID-19 has created considerable uncertainty and volatility surrounding these macroeconomic factors, and any further deterioration may have a material adverse impact on the business, financial condition and prospects of the Qantas Group.

Human resources and industrial action risk: The Qantas Group operates in a highly regulated employment market and a portion of the Qantas Group's employees are represented by unions and are party to collective bargaining arrangements. Any significant enterprise bargaining dispute between the Qantas Group and its employees, including in relation to the Recovery Plan could lead employees to take industrial action, including work stoppages. This could disrupt the Qantas Group's day-to-day operations as well as lead to reputational damage.

The COVID-19 crisis has necessitated the standing down of a significant portion of employees. While the need to stand down employees will decrease over time, any significant successful legal challenge to the Qantas Group's ability to stand down employees could likely have a material adverse effect on the Qantas Group's financial performance and condition.

The Qantas Group also has certain Key Management Personnel whose institutional knowledge, expertise, relationships and experience are considered important to the continued success of the business. The loss of key personnel could adversely impact the Qantas Group's business and future performance.

Further, given employee costs represent a significant component of the Qantas Group's operating expenses, increases in labour costs (whether as a result of enterprise agreement negotiations, union action or otherwise) would likely have a material adverse effect on the Qantas Group's financial performance and condition.

Customer risk: The ongoing success of the Qantas Group depends to a large degree on customer satisfaction and loyalty, particularly in light of the significant competition for passengers that characterises the aviation industry.

The significant financial and operational challenges posed by COVID-19, the impact of the pandemic on the travel industry and the response of the Qantas Group to these challenges could also impact customer satisfaction and loyalty. In particular, a diminution of customer satisfaction due to the cancellation and refund policies of the Qantas Group in the context of COVID-19 may impact the Qantas Group's reputation and its ability to attract customers in the future.

In addition, the Qantas Group is vulnerable to longer-term changes in consumer preferences in relation to its service offerings, the markets in which it operates, and consumer sentiment towards leisure travel. Any failure by the Qantas Group to predict or respond to such changes in a timely and cost-effective manner may adversely impact the Qantas Group's future operating and financial performance.

Competitive intensity: Ordinarily, the international and domestic aviation markets in which the Qantas Group operates are highly competitive, and growth in market capacity ahead of underlying demand impacts profitability on an industry-wide basis. Its competitors include many major foreign airlines (including government-owned or controlled airlines), some with more financial resources or lower cost structures than Qantas. This competition may increase with the expansion of existing airlines, the consolidation of existing airlines and/or the creation of alliances between airlines, or new airlines entering the market.

Australia's aviation policies favour the creation of a more competitive environment, including more liberal rights of entry into Australian domestic and international markets. These policies have attracted offshore competitors (predominantly state-sponsored airlines) to the Australian international aviation market, which has further increased competition for passengers on international routes.

Additionally, the Qantas Group ordinarily faces high levels of price competition in the markets in which it operates, which places significant pressure on the Qantas Group to price match by offering heavily discounted fares. Aggressive pricing by competitors seeking to gain market share can materially adversely affect the Qantas Group's revenues and yield performance. The financial impact of any discounting of fares as a result of competitive pressures is exacerbated by the high fixed costs and low profit margins that characterise the aviation industry. The combined effect of these factors may have a material adverse effect on the revenue and financial condition of the Qantas Group.

Review of Operations continued

For the year ended 30 June 2020

MATERIAL BUSINESS RISKS (CONTINUED)

Reputational and brand risk: The Qantas brand carries significant commercial value and the continued success of the Qantas Group relies on the maintenance of a positive reputation and brand recognition among customers, suppliers, strategic partners and governments. Any negative publicity (for example, due to a safety incident, labour dispute, regulatory investigation or public customer complaint) may damage Qantas' reputation and have a negative impact on its business operations and financial performance.

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 continued focus on forecasting and the operational agility of our aviation operations are supporting the Group to manage the residual uncertainty. Accordingly, the size of the Group's fuel and foreign exchange risk will vary in line with operational changes. The Qantas Group manages fuel and foreign exchange risks through a comprehensive hedging program. Qantas will continue to hedge its fuel and foreign exchange risk in line with this program. In early April, the Qantas Group closed out its over-hedged position through to September 2020, which significantly lowered the exposure to further hedging losses in the short-term. The Qantas Group has some fuel hedging arrangements beyond September 2020 in the form of outright options with a base layer of collars. The collars remain subject to market price movements. There are no margin call obligations on the Qantas Group's hedging position.

Cyber security and data governance: The global cyber and privacy landscape is constantly evolving and at the same time, data governance has become an important function for many organisations including the Qantas Group. Qantas remains focused on embedding cyber security, privacy and data governance into business processes, taking a security and privacy by design approach and creating a cybersafe and privacy orientated culture that builds on an established safety culture. The Group is also enhancing its Data Governance Framework to ensure ethical and commercial data risks are managed in addition to data protection and privacy. Qantas has a defined Risk and Control Framework, aligned with industry standards, which is designed to protect the confidentiality, integrity, availability and privacy of data and to maintain compliance with regulatory requirements. The Qantas Group's cyber security and data privacy-related controls operate to reduce the likelihood and severity of cyber security and data privacy related incidents and related impacts. The Group's cyber and data privacy risks are continuously monitored by the Group Cyber and Privacy Committee and are subject to independent assurance including for material third-party suppliers.

Key business partners and alliances: The Qantas Group has relationships with a number of key business partners. In order to continue to maximise mutual benefit from both a financial and customer proposition perspective, governance structures are in place to track and report performance against common strategic objectives. The Qantas Group continues to proactively build relationships with existing and new industry partners through ongoing dialogue with relevant authorities and stakeholder groups.

Risk of increase in airport services-related costs or change in availability of airport facilities: The Qantas Group is exposed to the risk of increases in airport services-related costs (including air traffic control, airport, transit, take-off and landing fees and security charges). The availability and cost of airport facilities are fundamental to the ability of the Qantas Group to operate.

These costs represent a significant portion of the Qantas Group's operating costs and have a financial impact on its operations. Most Australian airports are privately owned and owners have flexibility to increase charges to airlines. There can be no assurance that major airport operators will not continue to increase their fees or that the Qantas Group will not incur new costs in Australia or elsewhere (for example, additional fees assessed against environmental criteria such as emissions levels or noise pollution). Further, it is likely that security and health measures around the world will continue to be increased in response to the COVID-19 experience and the perceived threat of terrorism, which may lead to increases in airport clearance and security charges. To the extent that the Qantas Group is unable to pass on any fee increases to its customers, these developments could have a material adverse effect on the Qantas Group's operational results and financial position.

In addition, health concerns during the COVID-19 crisis and in the period following it are likely to impact the availability of airport slots and facilities in ways that are difficult to predict. This, too, could have a material adverse effect on the Qantas Group's operations and Recovery Plan.

Climate change: The Qantas Group is subject to short-term and long-term climate-related physical and transition risks. These risks are an inherent part of the operations of an airline and are managed by undertaking scenario analysis, strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate policies) impact the proximity of climate-related risks. The Qantas Group has also set ambitious but achievable targets to reduce our emissions by capping emissions at 2020 levels and achieving net-zero emissions by 2050, while also investing in the development of sustainable aviation fuels. The Qantas Group is responding to increased demand for transparency on identification and management of climate-related risks by aligning our corporate disclosures with the Taskforce on Climate-Related Financial Disclosures (TCFD), including further developing and disclosing findings from the scenario analysis first undertaken during the year ending 30 June 2020. These disclosures are available at https://www.qantas.com/au/en/qantas-group/acting-responsibly/our-planet.html.

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

Corporate Governance Statement

For the year ended 30 June 2020

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 ethics at all times.

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 has endorsed the ASX Corporate Governance Principles and Recommendations (ASX Principles) 3rd Edition throughout 2019/20, and at the date of this Statement has considered, and in essence adopted, the 4th Edition ASX Principles.

Accordingly, Qantas Airways Limited (Qantas) has disclosed its 2020 Corporate Governance Statement in the Corporate Governance section on the Qantas website. As required, Qantas has also lodged its Corporate Governance Statement with the ASX.

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

THE BOARD LAYS SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

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

THE BOARD IS STRUCTURED TO ADD VALUE

The Qantas Board currently has 10 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 2020.

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 2019/20 Board and Committee meetings is detailed on page 26 of the Qantas Annual Report 2020.

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 Qantas and its controlled entities (Qantas Group or Group) undertakes business. The Principles and Group Policies, including the Qantas Group Code of Conduct and Ethics, are detailed in the Qantas Group Business Practices document. This framework is supported by a rigorous Whistleblower Program, which provides a protected disclosure process for all Disclosing Persons.

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

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

Corporate Governance Statement continued

For the year ended 30 June 2020

THE BOARD SAFEGUARDS THE INTEGRITY OF CORPORATE FINANCIAL REPORTING

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

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

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

THE BOARD MAKES TIMELY AND BALANCED DISCLOSURE

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

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

THE BOARD RESPECTS THE RIGHTS OF SHAREHOLDERS

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

Shareholders also have the option to receive communications from, and send communications to, Qantas and its Share Registry electronically, including email notifications 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 2019/20, the two Board committees responsible for oversight of risk-related matters, the Audit Committee and the Safety, Health, Environment and Security Committee, undertook their annual review of the effectiveness of Qantas' implementation of its risk management system and internal control framework.

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

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

THE BOARD REMUNERATES FAIRLY AND RESPONSIBLY

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

Information about remuneration of Executive Management is disclosed to the extent required, together with the process for evaluating performance, in the Remuneration Report from page 30 to 54 of the Qantas Annual Report 2020.

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 52 to 53 of the Qantas Annual Report 2020).

Directors' Report

For the year ended 30 June 2020

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 2020. 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:

Richard Goyder AO

Alan Joyce AC

Maxine Brenner

Jacqueline Hey

Belinda Hutchinson AC

Michael L'Estrange AO

Paul Rayner

Todd Sampson

Antony Tyler

Barbara Ward AM

Richard Goodmanson (retired 25 October 2019)

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.

DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

During the year, the Directors paid a fully franked final dividend of $204 million (13 cents per ordinary share) in relation to the year ended 30 June 2019.

In addition, during the year ended 30 June 2020, the Group completed an off-market share buy-back of 79.7 million shares at a buy-back price of $5.56 per ordinary share. Of the amount paid, $1.19 was paid as a return of capital and $4.37 was paid as a fully franked dividend.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Qantas Group that occurred during the financial year under review that are not otherwise disclosed in this report.

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 22.

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 104 for events which occurred subsequent to balance date. Other than the matters disclosed on page 104, since the end of the year and to the date of this Report no other matter or circumstance has arisen that has significantly affected or may significantly affect the Qantas Group's operations, results of those operations or state of affairs in future years.

Directors' Report continued

For the year ended 30 June 2020

DIRECTORS' MEETINGS

The number of Directors' meetings held (including meetings of Committees of Directors) and attendance of Directors during 2019/20 is as follows:

	Qantas Board													
	Scheduled Meetings		Un-Scheduled Meetings		Sub-Committee Meetings[1]		Audit Committee[2]		Safety, Health, Environment and Security Committee[2]		Remuneration Committee[2]		Nominations Committee[2]	
Directors	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]
Richard Goyder[4]	7	7	13	13	3	3	-	-	-	-	-	-	2	2
Alan Joyce	7	7	13	13	3	3	-	-	3	3	-	-	-	-
Maxine Brenner	7	7	13	13	-	-	4	4	-	-	4	4	-	-
Richard Goodmanson[6]	3	3[5]	1	1[5]	-	-	-	-	1	1[5]	-	-	1	1[5]
Jacqueline Hey	7	7	12	13	-	-	4	4	-	-	-	-	-	-
Belinda Hutchinson	7	7	13	13	-	-	4	4	3	3			-	-
Michael L'Estrange	7	7	13	13	-	-	-	-	3	3	4	4	-	-
Paul Rayner	7	7	13	13	-	-	-	-	-	-	4	4	2	2
Todd Sampson	7	7	13	13	-	-	-	-	-	-	4	4	-	-
Antony Tyler[7]	7	7	13	13	-	-	-	-	3	3	-	-	1	1[5]
Barbara Ward	7	7	13	13	3	3	4	4	3	3	-	-	2	2

1. Sub-Committee meetings convened for specific Board-related business.
2. 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.
3. Number of meetings held and requiring attendance.
4. The Chairman attends all committee meetings.
5. Number of meetings held during the period that the Director held office.
6. Mr Goodmanson retired as a Non-Executive Director on 25 October 2019.
7. Mr Tyler was appointed Chair of the Safety, Health, Environment & Security Committee on 25 October 2019 and a Member of the Nominations Committee on 18 February 2020.

DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2020 – FOR THE PERIOD 1 JULY 2017 TO 30 JUNE 2020

Richard Goyder	Qantas Airways Limited	Current, appointed 17 November 2017
	Woodside Petroleum Ltd	Current, appointed 1 August 2017
Alan Joyce	Qantas Airways Limited	Current, appointed 28 July 2008
Maxine Brenner	Qantas Airways Limited	Current, appointed 29 August 2013
	Origin Energy Limited	Current, appointed 15 November 2013
	Orica Limited	Current, appointed 8 April 2013
	Growthpoint Properties Australia Limited	Current, appointed 19 March 2012
Jacqueline Hey	Qantas Airways Limited	Current, appointed 29 August 2013
	AGL Energy Limited	Current, appointed 21 March 2016
	Bendigo and Adelaide Bank Limited	Current, appointed 5 July 2011
	Australian Foundation Investment Company	Ceased, appointed 31 July 2013 and ceased 18 January 2019
Belinda Hutchinson	Qantas Airways Limited	Current, appointed 12 April 2018
	AGL Energy Limited	Ceased, appointed 22 December 2010 and ceased 12 December 2018
Michael L'Estrange	Qantas Airways Limited	Current, appointed 7 April 2016
	Rio Tinto Limited	Current, appointed 1 September 2014
	Rio Tinto plc	Current, appointed 1 September 2014
Paul Rayner	Qantas Airways Limited	Current, appointed 16 July 2008
	Treasury Wine Estates Limited	Current, appointed 9 May 2011
	Boral Limited	Current, appointed 5 September 2008
Todd Sampson	Qantas Airways Limited	Current, appointed 25 February 2015
	Fairfax Media Limited	Ceased, appointed 29 May 2014 and ceased 7 December 2018

Directors' Report continued

For the year ended 30 June 2020

DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2020 – FOR THE PERIOD 1 JULY 2017 TO 30 JUNE 2020 (CONTINUED)

Antony Tyler	Qantas Airways Limited	Current, appointed 26 October 2018
Barbara Ward	Qantas Airways Limited	Current, appointed 19 June 2008
	Ampol Limited (formerly Caltex Australia Limited)	Current, appointed 1 April 2015
	Brookfield Capital Management Limited[1]	Current, appointed 1 January 2010

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.

QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF QANTAS AS AT 30 JUNE 2020

Andrew Finch – Company Secretary	- BCom, LLB (UNSW), LLM (Hons I) (USyd), MBA (Exec) (AGSM) - Appointed as Company Secretary on 31 March 2014 - Joined Qantas on 1 November 2012 - 2002 to 2012 – Mergers and Acquisitions Partner at Allens, Sydney (previously Allens Arthur Robinson and Allen & Hemsley) - 1999 to 2001 – Managing Associate at Linklaters, London - 1993 to 1999 – Various roles at Allens, Sydney including Senior Associate (1997 to 1999) and Solicitor (1993 to 1997) - Admitted as a solicitor of the Supreme Court of NSW in 1993
Nicole Malone – Company Secretary	- BEc/LLB (Hons I) (UAdel), BCL (Oxon) - Appointed as a Company Secretary on 18 February 2020 - Joined Qantas on 6 December 2010 - Admitted as a solicitor of the High Court of Australia and the Supreme Court of Victoria in 2006 and the Supreme Court of NSW in 2011 - 2007 to 2010 – Solicitor at Baker & McKenzie
Benjamin Elliott – Company Secretary	- BBC, GIA (Affiliate) - Appointed as a Company Secretary on 18 February 2020 - Joined Qantas on 14 August 2013 - 2018 to 2020 – Manager, Group Secretariat - 2014 to 2018 – Manager, Corporate Governance - 2013 to 2014 – Manager, Public Company

Directors' Report continued

For the year ended 30 June 2020

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	**2020**	**2019[1]**
Richard Goyder	139,433	130,000
Alan Joyce	2,892,475	2,728,924
Maxine Brenner	39,498	30,065
Jacqueline Hey	47,603	38,170
Belinda Hutchinson	25,633	16,200
Michael L'Estrange	24,445	15,012
Paul Rayner	297,342	287,909
Todd Sampson	23,528	7,095
Antony Tyler	52,000	-
Barbara Ward	54,127	44,694

1. As at 30 August 2019.

Rights held in trust under the Non-Executive Director Fee Sacrifice Share Acquisition Plan[1]:

	Number of Rights	
Directors	**2020**	**2019[2]**
Belinda Hutchinson	8,432	-
Paul Rayner	8,020	-
Todd Sampson	4,010	-

1. Refer to page 52 for information regarding the operation of the Non-Executive Director Fee Sacrifice Share Acquisition Plan.
2. The Non-Executive Director Fee Sacrifice Share Acquisition Plan was introduced in December 2019.

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

	Number of Shares	
Deferred shares held in trust under:	**2020**	**2019**
2017/18 Short Term Incentive Plan	-	154,118
2018/19 Short Term Incentive Plan	97,768	97,768

	Number of Rights	
Rights granted under:	**2020**	**2019**
2018-2020 Long Term Incentive Plan	687,000[1]	687,000
2019-2021 Long Term Incentive Plan	651,000[2]	651,000
2020-2022 Long Term Incentive Plan	743,000[3]	-
Total Rights	**2,081,000**	**1,338,000**

1. Mr Joyce offered and the Board agreed to defer the decision of whether his Rights will be forfeited or allowed to convert to shares until at least August 2021.
2. Shareholders approved the award of these Rights on 26 October 2018. Performance hurdles will be tested as at 30 June 2021 to determine whether any Rights vest to Mr Joyce.
3. Shareholders approved the award of these Rights on 25 October 2019. Performance hurdles will be tested as at 30 June 2022 to determine whether any Rights vest to Mr Joyce.

Directors' Report continued

For the year ended 30 June 2020

PERFORMANCE RIGHTS

Performance Rights are awarded to select Qantas Group Executives under the Qantas Long Term Incentive Plan (LTIP). Refer to pages 44 to 45 for further details.

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

	Number of Rights	
Performance Rights Reconciliation	**2020**	**2019**
Rights outstanding as at 1 July	12,699,500	15,121,500
Rights granted	4,086,000	3,602,500
Rights forfeited	(1,175,189)	(1,278,263)
Rights exercised	(6,003,175)	(4,746,237)
Rights outstanding as at 30 June	**9,607,136**[1]	**12,699,500**[1]

1. The movement of Rights outstanding as at 30 June 2020 to the date of this Report is explained in the footnotes below.

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

The following Rights were outstanding at 30 June 2020:

				Number of Rights					
Name	**Testing Period**	**Grant Date**	**Value at Grant Date**	**2020 Net Vested**	**2020 Unvested**	**2020 Total**	**2019 Net Vested**	**2019 Unvested**	**2019 Total**
2017–2019 Long Term Incentive Plan	30 Jun 19[1]	5 Sep 16	$1.96	-	-	**-**	-	4,858,000	**4,858,000**
2017–2019 Long Term Incentive Plan	30 Jun 19[1]	21 Oct 16	$1.95	-	-	**-**	-	1,172,000	**1,172,000**
2018–2020 Long Term Incentive Plan	30 Jun 20[2]	5 Sep 17	$2.98	-	2,241,000	**2,241,000**	-	2,569,500	**2,569,500**
2018–2020 Long Term Incentive Plan	30 Jun 20[2]	27 Oct 17	$3.30	-	728,500	**728,500**	-	728,500	**728,500**
2019–2021 Long Term Incentive Plan	30 Jun 21	5 Sept 18	$3.35	-	2,274,000	**2,274,000**	-	2,678,500	**2,678,500**
2019–2021 Long Term Incentive Plan	30 Jun 21	26 Oct 18	$2.33	-	693,000	**693,000**	-	693,000	**693,000**
2020–2022 Long Term Incentive Plan	30 Jun 22	4 Oct 19	$4.06	-	2,927,636	**2,927,636**	-	-	**-**
2020–2022 Long Term Incentive Plan	30 Jun 22	26 Oct 19	$3.59	-	743,000	**743,000**	-	-	**-**
Total				**-**	**9,607,136**	**9,607,136**	**-**	**12,699,500**	**12,699,500**

1. Following the testing of performance hurdles as at 30 June 2019 and the Board's approval of the 2017-2019 vesting outcome on 21 August 2019, 100 per cent of Rights vested and converted to shares after the release of the 2018/19 full-year financial results.
2. Following the testing of performance hurdles as at 30 June 2020 and the Board's approval of the 2018-2020 vesting outcome on 19 August 2020, 50 per cent of Rights vested and converted to shares after the release of the 2019/20 full-year financial results for Executives other than the CEO. For the CEO, the CEO offered, and the Board agreed, to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to shares.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED)

REMUNERATION REPORT

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

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. It describes the Qantas Executive Remuneration Framework (Remuneration Framework) and pay outcomes for 2019/20, and the intended Remuneration Framework in 2020/21, in a simple and transparent way.

The impact of COVID-19 on our industry has been extraordinary. Our recovery, and the recovery of the aviation industry, is expected to be long and challenging. Qantas is well placed to respond to these challenges, and we have begun implementing our Three-Year Recovery Plan. The plan creates the platform for our future profitability, long-term shareholder value and preservation of as many jobs as possible.

Remuneration Outcomes in 2019/20

During March 2020, Qantas updated the ASX and the media on the impact of COVID-19 on our business and our people. This included announcing that:

- The CEO and Executive Management would take no Base Pay for the remainder of 2019/20;
- Non-Executive Directors would take no fees for the remainder of 2019/20; and
- Annual incentives would not be paid for 2019/20.

In relation to the 2018-2020 Long Term Incentive Plan (LTIP), the performance condition against the ASX100 peer group was not achieved. However, Qantas' three-year relative Total Shareholder Return (TSR) performance against the airline peer group was ranked 1st of the 18 airlines, resulting in partial vesting.

Consequently, for Executive Management, 50 per cent of Rights vested and converted to shares, with the remaining Rights lapsing. **I would note, however, that the sum total of forgone Base Pay for Executive Management (excluding the CEO) to 30 June 2020, was greater than the sum total of the value of the 2018-2020 LTIP vested outcome for Executive Management.**

In relation to the 2018-2020 LTIP for the CEO, the CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to shares.

As a result of these decisions, the CEO's total pay outcome for 2019/20 is 83 per cent lower than in 2018/19. A detailed explanation of the CEO's pay for 2019/20 is provided in the Remuneration Report.

These decisions are reflected in this year's Remuneration Report.

Remuneration Framework Review – 2020/21

The Board has structured the Remuneration Framework for 2020/21 to appropriately support the longer-term nature of the Recovery Plan. In doing so, the Board has made the following two changes to the Remuneration Framework for the 2020/21 year only:

- Changing the relative weighting of incentive plan opportunities for Executives, with a decrease in the weighting towards annual incentives and an increase in the weighting towards long-term incentives. This is a pay mix change only and there is no increase in the "at target" pay for Executives; and
- Aligning STIP Scorecard performance measures for 2020/21 with the Qantas Group strategic priorities in rebuilding the business.

At the request of the Board, the CEO has agreed to stay for the next three years as the Recovery Plan is implemented. This further aligns with the changes to the weighting from short term towards long-term incentives for 2020/21.

In addition, the Board has approved that effective 1 July 2020:

- The CEO will continue to take no Base Pay in July and will forgo 35 per cent of Base Pay from 1 August 2020 until 31 October 2020;
- The Chairman will continue to take no fees in July and will forgo 35 per cent of fees from 1 August 2020 until 31 October 2020;
- Executive Management will take a 15 per cent reduction in Base Pay until 31 October 2020; and
- Non-Executive Directors will take a 15 per cent reduction in fees until 31 October 2020.

The CEO, Executive Management and Non-Executive Directors will return to full pay from 1 November 2020.

Furthermore, Ms Hudson commenced in her Key Management Personnel (KMP) role, as Chief Financial Officer, on 1 October 2019 and her Base Pay was set at a level below her predecessor as she was new to the role. Consistent with the approach taken with members of Executive Management to date, and following a very strong performance by Ms Hudson in her role, her Base Pay was realigned and increased to $1,020,000 with effect from 1 July 2020.

The Qantas Board remains committed to a Remuneration Framework that supports business objectives, operates sustainably and is market competitive. I invite you to review the 2020 Remuneration Report.

Paul Rayner
Chairman, Remuneration Committee

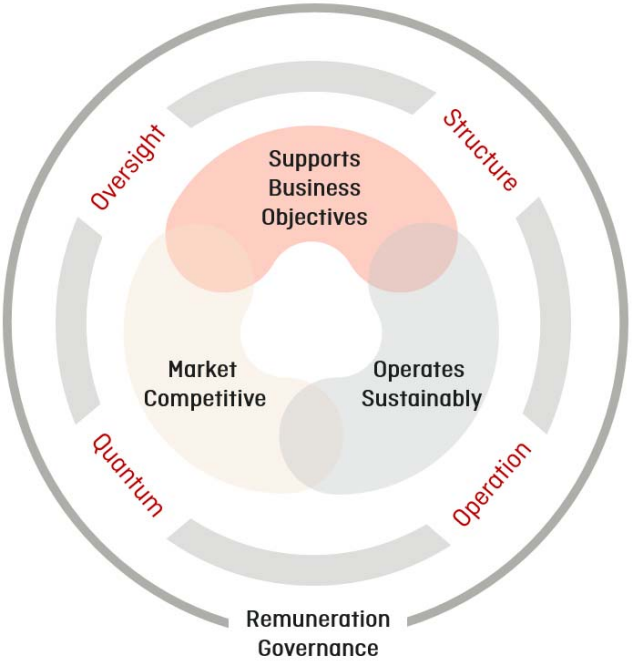
Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

1 REMUNERATION REPORT SUMMARY

The objectives of, and approach to, Qantas' Executive Remuneration Framework are summarised as follows:



Remuneration Objectives

- **Supports Business Objectives:** Encourages the pursuit of growth and the success of Qantas. Aligned with Qantas' purpose, values, strategy and risk appetite. Aligned with shareholder requirements.
- **Operates Sustainably:** Encourages sound management of financial and non-financial risks. Encourages good conduct and discourages misconduct. Considers cost and reputational factors and complies with relevant laws and regulations.
- **Market Competitive:** Attracts, motivates and appropriately rewards a capable management team.

Remuneration Effectiveness

- **Oversight:** Remuneration governance roles clearly defined for the Board; Remuneration Committee; Safety, Health, Environment and Security Committee; Audit Committee; and the Board's independent remuneration consultant (EY).
- **Structure:** Design elements that reward for performance, but also protect against unintended or unjustified pay outcomes.
- **Operation:** Demonstrated history of aligning remuneration outcomes with performance, appropriate application of Board discretion and adjusting remuneration outcomes based on individual performance and conduct.
- **Quantum:** Remuneration decisions made with reference to comparable roles in other listed Australian companies.

A more detailed description is provided on pages 37 to 38.

The structure of the Executive Remuneration Framework is as follows:

Base Pay	Fixed salary inclusive of superannuation	Cash			
Annual Incentive Also referred to as the Short Term Incentive Plan (or STIP)	– An annual incentive opportunity – Balanced scorecard (financial + non-financial measures) – Individual performance (achievements and conduct) – Delivered 2/3rds cash and 1/3rd shares	Cash			
		Shares	Deferral Period	Additional Lock	Clawback applies
		Performance	Restriction		
Long Term Incentive Also referred to as the Long Term Incentive Plan (or LTIP)	– Awards of Rights – Qantas' 3-year TSR performance relative to: - A global airline peer group - ASX100 companies – Rights may convert to shares on vesting	50% Rights may vest, subject to Qantas' TSR performance relative to ASX100 companies		Additional Lock	
		50% Rights may vest, subject to Qantas' TSR performance relative to airline peers		Additional Lock	
		Performance		Restriction	
		Year 1	**Year 2**	**Year 3**	**Year 4**

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

2019/20 ANNUAL INCENTIVE PLAN

Annual Incentive – Structure

Also referred to as the Short Term Incentive Plan (or STIP).

The STIP is an annual incentive opportunity 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.

Purpose

Reward for individual and Qantas Group performance, aligned with annual performance objectives.

Target and Maximum Opportunity

% of Base Pay	CEO	Executive KMP
Target	100%	80%
Maximum	200%	160%

Business Performance

STIP Scorecard:

- A single Qantas Group Scorecard that applies to the CEO and Executive Management
- A balanced set of financial and non-financial measures.

Individual Performance

Individual Performance Factor (IPF):

- Delivery against individual objectives
- Behaviour and how it aligns to the Qantas Group beliefs.

STIP Formula

Base Pay x Target Opportunity x STIP Scorecard Outcome x IPF

Delivery

Cash: 2/3rds

Shares: 1/3rd with 2-year deferral period and an additional 1-year trading restriction, during which shares cannot be traded and are subject to clawback.

Disclosure

In addition to required statutory disclosures, Qantas chooses to disclose the full value of each year's STIP award (in years where the STIP award is made), 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 deferral period).

Board Discretion

The Board retains discretion over any awards made under the STIP.

Previously, the Board has applied its discretion in circumstances where, although scorecard measures had been achieved or exceeded, the Board deemed it more appropriate to make a nil or reduced award under the STIP or to deliver a higher proportion of an award in Qantas shares.

Annual Incentive Outcomes for 2019/20

2019/20 STIP Outcome

The Board exercised its discretion and made no awards under the 2019/20 STIP.

While the Board sees the balanced scorecard approach as an important design element of the STIP, it recognises that the overall STIP outcome must be considered in the context of the severe impact of COVID-19 on Qantas' operations and financial position.

Therefore, in March 2020 the Board determined that no awards be made under the 2019/20 STIP.

2019/20 STIP Scorecard

Prior to the severe impact of COVID-19 on our business, the STIP Scorecard was tracking for a strong overall outcome with financial measures forecast to be above threshold and/or target. As at 31 December 2019, the STIP Scorecard was tracking to achieve an outcome of 88 per cent.

The COVID-19 pandemic resulted in a dramatic decline in traveller demand, triggering a drastic reduction in flying. Therefore, the financial target components of the STIP Scorecard were not met.

There was good performance against non-financial components of the STIP Scorecard, including measures of Operational Safety, Workplace Safety and Customer performance. This performance would have resulted in a partial award under the 2019/20 STIP (estimated at 31 per cent). However, the Board applied its discretion and determined the STIP Scorecard outcome to be zero.

2019/20 STIP Scorecard:

Strategic Objective	Weighting (target)	Outcome
Group Profitability	50%	●
Workplace and Operational Safety	15%	●
Customer	15%	◐
Maximise Our Leading Domestic Position	10%	◐
Transformation and Growth	10%	●
STIP Scorecard Outcome	100%	**0%**

● Target achieved or exceeded

◐ Partial achievement against targets

● No achievement against targets

Further detail on the STIP is provided on pages 42 to 43.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

LONG TERM INCENTIVE PLAN

Long Term Incentive – Structure

Also referred to as the Long Term Incentive Plan (or LTIP).

The LTIP is a 4-year plan that involves an upfront award of a fixed number of Rights. If performance and service conditions are achieved over a 3-year period, Rights vest and convert to Qantas shares. The vested shares are then subject to a 1-year trading restriction during which the shares cannot be traded and are subject to clawback.

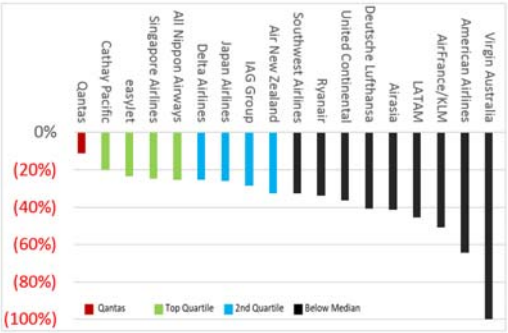
Purpose	Reward for longer-term Qantas Group performance.
Target Opportunity and Allocation Methodology	The number of Rights awarded under the LTIP has been calculated applying a face value methodology. The number of Rights awarded is the maximum number of Rights that may vest and convert to Qantas shares. The target opportunity for the CEO and Executive KMP is as follows: **Target Opportunity** — **CEO**: 185% — **Executive KMP**: 95% (% of Base Pay on a face value basis) The number of Rights awarded is determined by applying the following formula: Base Pay x Target Opportunity ÷ Face Value of Right
Business Performance	Qantas' 3-year Total Shareholder Return (TSR) performance relative to: – A global airline peer group – ASX100 companies.
Delivery	If performance and service conditions are achieved, Rights vest and convert to Qantas shares. A 1-year trading restriction on vested shares applies, during which the shares cannot be traded and are subject to clawback.
Disclosure	In addition to the required statutory disclosures, Qantas chooses to disclose the full value of LTIP awards that vest during the year, disclosing the value of the LTIP awards based on the share price at the end of the performance period.
Historic LTIP awards (prior to 1 July 2019)	Prior to 1 July 2019, the LTIP was a 3-year plan, as follows: – A 3-year performance period – If performance and service conditions are achieved, Rights vest and convert to Qantas shares with no further restrictions. The 2018-2020 LTIP operated on this basis.

Further detail on the LTIP is provided on pages 44 to 45.

Long Term Incentive Outcomes for 2019/20

2018-2020 LTIP – Achievement of Performance Conditions	Qantas and the aviation industry have been disproportionately impacted by COVID-19. However, Qantas continued to outperform its industry peers and competitors. Qantas' 3-year relative TSR performance was ranked: – 1st in the airline peer group – performance condition fully achieved – 68th in the ASX100 – performance condition not achieved. Based on this performance, 50 per cent vesting was achieved.
LTIP Outcomes	Notwithstanding that the LTIP performance conditions were partially achieved, the CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to Shares. Therefore, the CEO's LTIP outcome in 2019/20 is nil. For Executive Management, 50 per cent of Rights awarded under the 2018-2020 LTIP vested and converted to shares.
Longer term TSR Performance	The TSR performance of Qantas (and the aviation industry as a whole) has been disproportionately impacted by COVID-19. Prior to COVID-19, Qantas had achieved continued longer-term share price growth, resulting in top quartile relative TSR performance against the airline peer group and ASX100 group over multiple rolling 3-year periods. Given the impact of COVID-19 on the aviation industry, Qantas' TSR performance over the current 3-year performance period (to 30 June 2020) is below median compared to other ASX100 companies. However, Qantas continues to outperform its airline peers, achieving top quartile relative TSR performance for the fifth consecutive rolling 3-year period.

QANTAS AND AIRLINE PEERS – 3-YEAR TSR PERFORMANCE[1]



QANTAS ROLLING 3-YEAR RELATIVE TSR PERFORMANCE[1] HISTORY

LTIP Period	Airline Peer Group	ASX100 Peer Group
2018-2020	Top quartile	Below Median
2017-2019	Top quartile	Top quartile
2016-2018	Top quartile	Top quartile
2015-2017	Top quartile	Top quartile
2014-2016	Top quartile	Top quartile
2013-2015	Above median	Top quartile

1. TSR performance, applying the LTIP performance test methodology (which applies the average closing share price over the six months preceding the test date of 30 June 2020).

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

REMUNERATION OUTCOMES FOR THE CEO IN 2019/20

CEO Remuneration Outcomes – Key Points

The CEO remuneration outcomes reflect the commitment from the CEO and Board to ensure that remuneration outcomes reflect the prevailing economic challenges that Qantas, its shareholders, customers and employees are experiencing.

The CEO's total pay outcome for 2019/20 was 83 per cent lower than 2018/19. The CEO's pay outcome for 2019/20 is as follows:

- Zero Base Pay from 1 April 2020
- Zero Annual Incentive award
- Zero vesting under the Long Term Incentive Plan.

Base Pay

The CEO did not receive a Base Pay increase during 2019/20.

In addition, the CEO elected to forgo 100 per cent of Base Pay from 1 April 2020 to 30 June 2020.

Base Pay (cash) is $1,606,497 (Base Pay of $2,170,000 less Base Pay forgone $542,500 less superannuation contributions of $21,003).

CEO REMUNERATION OUTCOMES – BASE PAY (CASH)

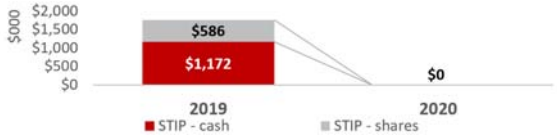
Annual Incentive – 2019/20 STIP

The Board applied its discretion and determined that the 2019/20 STIP Scorecard Outcome was zero.

As result, the CEO received no award under the 2019/20 STIP.

The STIP Scorecard Outcome is detailed on page 47.

CEO REMUNERATION OUTCOMES – ANNUAL INCENTIVE



Long Term Incentive – 2018-2020 LTIP

Qantas' TSR performance over the 3-year performance period was better than all other airlines that comprise the airline peer group of the 2018-2020 LTIP.

This would have permitted 50 per cent of the CEO's Rights to vest and convert to Qantas shares. However, the CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to Shares. As result, the CEO's LTIP outcome for 2019/20 was zero.

CEO REMUNERATION OUTCOMES – LONG TERM INCENTIVE

Remuneration Outcomes for the CEO for 2019/20

The remuneration outcomes for the CEO in 2019/20 are detailed in the following table. These outcomes are aligned with Qantas' performance during 2019/20.

CEO Remuneration Outcomes[1,2]	2020 $'000	2019 $'000	2020 vs 2019 % change
Base Pay (cash)	1,606	2,149	(25%)
STIP – cash bonus	-	1,172	(100%)
STIP – share-based	-	586	(100%)
LTIP	-	6,329	(100%)
Other	138	(239)	n/a
Total	**1,744**	**9,997**	**(83%)**

1. Detail of non-statutory remuneration methodology is explained on page 41 & 46.
2. A reconciliation of remuneration outcomes to statutory remuneration disclosures is provided on page 41.

Statutory Remuneration Disclosures

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

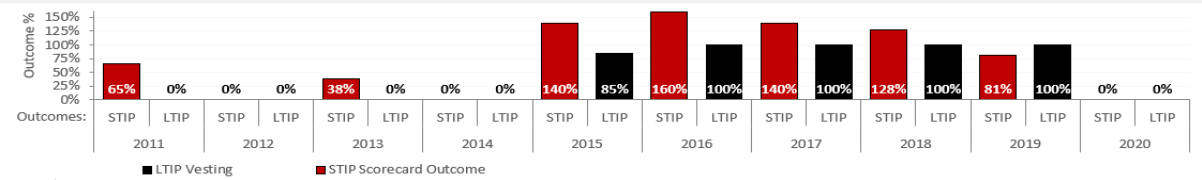
The statutory disclosures differ from the remuneration outcomes for the CEO due to the accounting treatment of share-based payments for the STIP and LTIP.

CEO Statutory Remuneration	2020 $'000	2019 $'000
Base Pay (cash)	1,606	2,149
STIP – cash bonus	-	1,172
STIP – share-based	603	1,206
LTIP	2,411	2,277
Other	138	(239)
Total	**4,758**	**6,565**

CEO Remuneration Outcomes History (2010/11 to 2019/20)

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

	2011	2012	2013	2014	2015	2016	2017	2018[2]	2019[3]	2020
Underlying PBT ($M)	$552	$95	$186	($646)	$975	$1,532	$1,401	$1,565	$1,326	$124
ROIC %[1]				(1.5%)	16.2%	22.7%	20.1%	21.4%	19.2%	5.8%



1. ROIC % information is only available from 2013/14.
2. The Group adopted AASB 15 *Revenue from Contracts with Customers* effective 1 July 2018 using the full retrospective method of adoption. 2018 has been restated.
3. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. 2019 has been restated.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

CHANGES TO THE REMUNERATION FRAMEWORK FOR 2020/21

The impact of COVID-19 on the aviation industry has been particularly severe and the industry's recovery is expected to be long and challenging[1]. The Board has structured the Remuneration Framework for 2020/21 aligned to Management's implementation of its Recovery Plan as follows:

Pay Mix Change for Executives for 2020/21

The Board has changed the pay mix that will apply for Executives for 2020/21. This involves changing the relative weighting of incentive plan 'at target' opportunities for Executives, with a decrease in the weighting toward annual incentives and an increase in weighting toward long-term incentives. This is a pay mix change only and there is no increase in the total target pay for each Executive.

In addition, participation in the 2021-2023 LTIP, which normally applies to Senior Executives only, will be extended to a broader management population (Executives). This will involve no increase to total target pay for each Executive, as each Executive's LTIP opportunity will be offset by a reduction in their annual incentive opportunity for 2020/21.

This one-off change aligns the broader Management team with the immediate priorities of the post COVID-19 Recovery Plan.

In this context, at the Board's request, the CEO has agreed to continue in his position and lead the Recovery Plan for the next three years.

For the CEO, the pay remix involves:

- Decreasing his target STIP opportunity for 2020/21 to 50 per cent of Base Pay (2019/20: 100 per cent of Base Pay)
- Increasing his target LTIP opportunity for 2020/21 to 235 per cent of Base Pay (2019/20: 185 per cent of Base Pay)

Shareholder approval will be sought at the 2020 Annual General Meeting for the CEO's award of 1,349,000 Rights under the 2021-2023 LTIP.

STIP Scorecard for 2020/21

Each year, the Board aligns the performance measures that comprise the STIP Scorecard with the Qantas Group's strategic priorities. For 2020/21, this involved aligning these performance measures with the key financial, operational and safety measures supporting the Recovery Plan. For 2020/21, the Board selected cash preservation and Recovery Plan metrics as the key financial performance measures for the Qantas Group, with a weighting of 50 per cent of the STIP Scorecard. In addition, the maximum STIP Scorecard outcome was reduced from 175 per cent to 150 per cent for 2020/21. Therefore, for the CEO, assuming a maximum STIP Scorecard outcome of 150 per cent and an indicative IPF of 1.2, the maximum STIP award for 2020/21 would be 90 per cent of Base Pay.

The Board believes that these changes to the Remuneration Framework appropriately support the Qantas Group's key business objectives for 2020/21.

1. International Air Transport Association (IATA) Press release, 9 June 2020

CHANGES TO THE REMUNERATION FRAMEWORK IMPLEMENTED FOR 2019/20

As disclosed in the 2019 Remuneration Report, the Board made a number of changes to the structure of the Remuneration Framework effective from 1 July 2019.

These changes, individually and collectively, provide an avenue for Directors and Executives to have financial exposure should financial or non-financial risks materialise, as well as an enhanced ability to clawback remuneration for Executives (both the ability to clawback and quantum of equity available for clawback).

Minimum Shareholding Guidelines

While formal shareholding guidelines had not previously applied, Directors and Executive Management have held material holdings in Qantas shares. Notwithstanding this, the following shareholding guidelines were introduced:

Individual	Guideline[1]
Non-Executive Directors	1 times base fee
CEO	1.5 times Base Pay
Executive Management	0.75 times Base Pay

1. Value of shareholding to be acquired over a maximum 5-year timeframe.

Additional Trading Restriction Period on STIP and LTIP

An additional 1-year trading restriction is to apply to vested STIP shares and Rights that vest and convert to shares under the LTIP (commencing with the 2019/20 STIP and 2020-2022 LTIP). The additional trading restriction applies both during employment and post-cessation of employment. These shares are not forfeited on cessation of employment but are subject to clawback.

Approach to Clawback

The clawback policy has been expanded to give the Board broader circumstances in which clawback may be applied. This applies in cases of financial misstatement, fraud, dishonesty and misconduct, with application on both the individual who committed the misconduct and those accountable for those individuals. The additional 1-year trading restriction also provides an enhanced mechanism to enable clawback of vested equity. When combined with the performance periods and the existing deferral period, this provides a 4-year period under both the STIP and LTIP where clawback could be enforced.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

REMUNERATION REPORT FOR 2019/20

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.

CEO and Executive KMP (and their statutory remuneration disclosures) are listed on page 40. Non-Executive Director KMP (and their statutory remuneration disclosures) are listed on page 53.

2 REMUNERATION GOVERNANCE

The objectives of Qantas' Executive Remuneration Framework are to:

- **Support Business Objectives** by:
  - Encouraging the pursuit of growth and the success of Qantas
  - Aligning with Qantas' purpose, values, strategy and risk appetite
  - Aligning with shareholder requirements.
- **Operate Sustainably** by:
  - Encouraging the sound management of financial and non-financial risks
  - Encouraging good conduct and discouraging misconduct
  - Considering cost and reputational factors and complying with relevant laws and regulations.
- **Be Market Competitive** to attract, motivate and appropriately reward a capable management team.

These objectives are achieved by the Board applying the following robust approach to remuneration governance and effectiveness, described below across the areas of oversight, structure, operation and quantum:

Oversight	The remuneration governance role of the Board; the Remuneration Committee; the Safety, Health, Environment and Security Committee; the Audit Committee; and the Board's independent remuneration consultant (EY) are clearly defined. 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 remuneration matters at Qantas. The Committee makes recommendations it believes are appropriate from the perspective of business performance, individual performance and conduct, risk, governance, quantum and market conditions. The Safety, Health, Environment and Security Committee and the Audit Committee have appropriate input into remuneration decision making. The Chairs of both committees regularly attend Remuneration Committee meetings and provide input into remuneration decision making. A member of the Remuneration Committee is also a member of the Safety, Health, Environment and Security Committee and the Audit Committee. During 2019/20, the Remuneration Committee re-appointed EY as its remuneration consultant. The Remuneration Committee has established protocols in relation to the appointment and use of remuneration consultants to support compliance with the Corporations Act 2001, which are incorporated into the terms of engagement with EY. The Remuneration Committee did not seek a formal remuneration recommendation (as defined in the *Corporations Act 2001*) during 2019/20.
Structure	The Framework has design elements that protect against the risk of unintended and unjustified pay outcomes. These design elements include: - Diversity in incentive plan performance measures, which as a suite of measures cannot be directly and imprudently influenced by any individual employee - Individual performance being defined and assessed in terms of both achievements and conduct - The Board retaining discretion over remuneration outcomes - 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 three years - Deferral of a portion of awards under the STIP for two years, with an additional one-year trading restriction providing alignment with shareholder interests - Deferral of Rights that vest and convert to shares under the LTIP, with shares being subject to a one-year trading restriction to provide further alignment with shareholder interests.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

	– Clawback being available in the event of serious misconduct, breach of obligations to the Group 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 a deferral period and/or additional one-year trading restriction be forfeited;
	  – Cause some or all LTIP Rights which have not yet vested to lapse or LTIP Rights which have vested and converted to shares that are subject to a trading restriction be forfeited; and/or
	  – In the case of serious misconduct, cancel any post-employment benefits for the relevant employee(s) where possible.

Operation	The Qantas Board has a demonstrated history of aligning remuneration outcomes with performance. The Board has applied its discretion in the past to ensure remuneration outcomes are appropriate and has adjusted individual remuneration outcomes based on performance and conduct. Examples of where the Board has applied its discretion, including 2019/20, are provided on page 42.
Quantum	Base Pay and incentive plan opportunities are set with reference to external market data, including comparable roles in other listed Australian companies. Remuneration is benchmarked against ASX50 companies and a revenue-based peer group of other listed Australian companies. The Board believes these are the appropriate benchmarks, as these are the comparator groups whose roles best mirror the size, complexity and challenges in managing Qantas' businesses and are also the peer groups with which Qantas competes for executive talent.

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 or unlisted entities) while in possession of material non-public information relevant to the entity.

In addition, nominated employees (including the CEO and Executive Management) and Non-Executive Directors 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 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

3 REMUNERATION OUTCOMES FOR 2019/20

The following table summarises the remuneration decisions and outcomes for the CEO and Executive KMP for the year ended 30 June 2020. The remuneration outcomes detailed in this table are better aligned to the current year performance and are therefore particularly useful in understanding current year pay and its alignment with performance, in comparison to the statutory remuneration disclosures.

In regards to the 2018-2020 LTIP, the performance measures being Qantas' TSR relative to companies with ordinary shares included in the ASX100 and an airline peer group (Global Listed Airlines), were tested as at 30 June 2020. Qantas' three-year relative TSR performance was ranked 1st in the airline peer group and 68th in the ASX100. Based on this performance, 50 per cent vesting was achieved. Notwithstanding that the LTIP conditions were partially achieved, the CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to shares. Therefore, the CEO's LTIP outcome in 2019/20 is nil. For Executive Management, 50 per cent of Rights awarded under the 2018-2020 LTIP vested and converted to shares, with the remaining Rights lapsing. The total value of the vested LTIP awards for Executive Management, excluding the CEO, was less than the total Base Pay foregone in 2019/20.

Remuneration Outcomes Table – CEO and Executive KMP[1]

$'000s		Base Pay (Cash)[2]	STIP Cash Bonus[3]	STIP Deferred Award[3]	LTIP[4,5]	Other Benefits[6]	Total
Current Executives							
Alan Joyce	**2020**	**1,606**	**-**	**-**	**-**	**138**	**1,744**
Chief Executive Officer	2019	2,149	1,172	586	6,329	(239)	9,997
Andrew David	**2020**	**749**	**-**	**-**	**314**	**50**	**1,113**
CEO Qantas Domestic	2019	999	397	198	1,582	96	3,272
Gareth Evans	**2020**	**795**	**-**	**-**	**333**	**86**	**1,214**
CEO Jetstar Group	2019	1,060	467	233	1,917	61	3,738
Vanessa Hudson[7,8]	**2020**	**576**	**-**	**-**	**66**	**169**	**811**
Chief Financial Officer from 1 October 2019	2019	n/a	n/a	n/a	n/a	n/a	n/a
Tino La Spina	**2020**	**749**	**-**	**-**	**314**	**97**	**1,160**
CEO International from 1 October 2019 Chief Financial Officer to 30 September 2019	2019	999	419	209	1,582	21	3,230
Olivia Wirth	**2020**	**635**	**-**	**-**	**141**	**145**	**921**
CEO Qantas Loyalty	2019	846	375	187	699	110	2,217
Total	**2020**	**5,110**	**-**	**-**	**1,168**	**685**	**6,963**
	2019	6,053	2,830	1,413	12,109	49	22,454

1. Detail of non-statutory remuneration methodology is explained on pages 41 and 46.
2. Base Pay (Cash) is Base Pay less superannuation contributions. (Superannuation is reported in Other Benefits.)
3. The full value of STIP awards made to each Executive during the 2018/19 financial year is calculated by adding the STIP Cash Bonus and the STIP Deferred Award. For 2019/20 the value is nil as no award was made.
4. LTIP awards vested in 2019/20 at 50% for Executive Management other than the CEO. The total value of these vested LTIP awards for Executive Management, excluding the CEO, was less than their total FAR foregone in 2019/20. The CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to shares. LTIP awards vested in 2018/19 at 100%.
5. The number of Rights vested multiplied by the Qantas share price of $3.78 at 30 June 2020, as at the end of the performance period (2019: 30 June 2019).
6. Other Benefits are detailed on page 46.
7. 2019/20 remuneration reflects the full-year remuneration for Ms Hudson. This differs to the Statutory Remuneration disclosure, which includes only the remuneration for the period of time in a key management role for Ms Hudson (1 October 2019 to 30 June 2020).
8. Superannuation benefits are provided through a defined benefit superannuation plan. The amount disclosed has been measured in accordance with AASB 119 *Employee Benefits*.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

4 STATUTORY REMUNERATION DISCLOSURES FOR 2019/20

The statutory remuneration disclosures for the year ended 30 June 2020 are detailed below. These are prepared in accordance with Australian Accounting Standards and differ from the 2019/20 remuneration outcomes on page 39. These differences arise due to the accounting treatment of share-based payments for the STIP and LTIP. The statutory disclosures include an accounting remuneration value for:

- **Prior years' STIP awards**

  Accounting standards require STIP remuneration to be expensed (and therefore included as statutory remuneration) in financial years which differ from the year of scorecard performance.

  Despite no awards being made under the 2019/20 STIP, a value for STIP awards is still required to be included in the statutory remuneration table. This is due to the fact that deferred shares granted under the 2017/18 STIP and 2018/19 STIP have a future service period, during which the recipient must remain employed by the Group for the awards to vest. Therefore, the 2019/20 statutory remuneration table includes a value for part of those prior year STIP awards.

- **LTIP awards that have not vested**

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

  The performance measures for the 2018-2020 LTIP, being Qantas' TSR relative to companies with ordinary shares included in the ASX100 and an airline peer group (Global Listed Airlines), were tested as at 30 June 2020. Qantas' three-year relative TSR performance was ranked 1st in the airline peer group and 68th in the ASX100. Based on this performance, 50 per cent vesting was achieved. Notwithstanding that the LTIP conditions were partially achieved, the CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to Shares. . For Executive Management, 50 per cent of Rights awarded under the 2018-2020 LTIP vested and converted to shares, with the remaining Rights lapsing.

  Additionally, LTIP awards that will be assessed for vesting in future years are expensed over the three-year testing period. Therefore, the statutory disclosures include an accounting value for part of the 2019-2021 and the 2020-2022 LTIP awards.

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]**	**STIP Deferred Shares**	**LTIP Rights**	**Sub-Total**	**Non-Cash Benefits[1,3]**	**Post-Employment Benefits[4]**	**Other Long-Term Benefits[5]**	**Sub-Total**	**Total**
Current Executives											
Alan Joyce	**2020**	**1,606**	**-**	**603**	**2,411**	**4,620**	**28**	**53**	**57**	**138**	**4,758**
Chief Executive Officer	2019	2,149	1,172	1,206	2,277	6,804	41	51	(331)	(239)	6,565
Andrew David	**2020**	**749**	**-**	**192**	**583**	**1,524**	**54**	**50**	**(54)**	**50**	**1,574**
CEO Qantas Domestic	2019	999	397	351	529	2,276	30	48	19	97	2,373
Gareth Evans	**2020**	**795**	**-**	**227**	**621**	**1,643**	**21**	**50**	**15**	**86**	**1,729**
CEO Jetstar Group	2019	1,060	467	421	590	2,538	33	48	(20)	61	2,599
Vanessa Hudson[6,7]	**2020**	**384**	**-**	**78**	**218**	**680**	**36**	**105**	**(1)**	**140**	**820**
Chief Financial Officer from 1 October 2019	**2019**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tino La Spina	**2020**	**749**	**-**	**201**	**583**	**1,533**	**35**	**52**	**10**	**97**	**1,630**
CEO International from 1 October 2019 Chief Financial Officer to 30 September 2019	2019	999	419	361	529	2,308	67	48	(95)	20	2,328
Olivia Wirth	**2020**	**635**	**-**	**171**	**420**	**1,226**	**94**	**51**	**-**	**145**	**1,371**
CEO Qantas Loyalty	2019	846	375	312	302	1,835	87	48	(24)	111	1,946
Total	**2020**	**4,918**	**-**	**1,472**	**4,836**	**11,226**	**268**	**361**	**27**	**656**	**11,882**
	2019	6,053	2,830	2,651	4,227	15,761	258	243	(451)	50	15,811

1. Short-term employee benefits include Base Pay (cash), STIP cash bonus and non-cash benefits.
2. Base Pay (Cash) is Base Pay less superannuation contributions. (Superannuation is reported in Post-Employment Benefits).
3. Non-Cash Benefits includes the value of travel benefits whilst employed and other minor benefits.
4. Post-Employment Benefits includes superannuation and an accrual for post-employment travel of $31,000 for Mr Joyce and $35,000 for each other Executive (2019: $30,000 for Mr Joyce and $27,000 for each other Executive).
5. Other Long-Term Benefits includes 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 annual leave than they accrue during the current year.
6. 2019/20 remuneration reflects the period of time in a key management role for Ms Hudson (1 October 2019 to 30 June 2020).
7. Superannuation benefits are provided through a defined benefit superannuation plan. The amount disclosed has been measured in accordance with AASB 119 *Employee Benefits*.

On 24 August 2020, the Group announced a reduction to its Group Management Committee as it continues to respond to the expanding COVID-19 crisis with the CEO of Qantas International, Mr La Spina, leaving the Group in light of what is likely to be the extended grounding of this part of the airline.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

CEO's Statutory Remuneration Disclosure to Remuneration Outcome for 2019/20

Reconciliation	($'000s)	Description
Statutory Remuneration Disclosure	**4,758**	
Accounting value of share-based payments – Less: Accounting value for STIP share awards – Less: Accounting value for LTIP share awards	 (603) (2,411)	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. For 2019/20, the Statutory Remuneration Disclosure includes: – A value resulting from the expense of deferred shares from the 2017/18 and 2018/19 STIP awards. No value was included for the 2019/20 STIP as the CEO did not receive an award under the 2019/20 STIP. – A value resulting from the expense of LTIP Rights from the 2018-2020, 2019-2021 and 2020-2022 LTIP awards. Statutory remuneration includes the full expense of LTIP Rights irrespective of whether performance conditions are achieved or expected to be achieved. For the 2018-2020 LTIP the CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to Shares. The CEO's LTIP outcome in 2019/20 is nil but a value is still included as statutory remuneration. If Rights convert to shares, the value of the award of the 2018-2020 LTIP will be disclosed in the Remuneration Outcome for that year. Testing for the 2019-2021 and 2020-2022 LTIP awards will be undertaken as at 30 June 2021 and 30 June 2022 respectively to determine whether the CEO receives any shares under these awards.
Current year STIP share awards and vesting of LTIP awards – Add: 2019/20 STIP share awards – Add: 2018–2020 LTIP vesting	 - -	In a year where STIP share awards are made or LTIP awards vest, the Remuneration Outcomes disclosure includes: – The full value of STIP shares awarded even though these awards are still subject to a two-year deferral period and an additional one-year trading restriction. – The full value of the shares that vested under the LTIP even where these shares are subject to an additional one-year trading restriction. No awards were made to the CEO in 2019/20 and therefore these values are nil.
Remuneration Outcome – Total	**1,744**	

5 EXECUTIVE REMUNERATION STRUCTURE

The Qantas Executive Remuneration Framework, as it applies to the CEO and Executive Management, is summarised on pages 32 to 35. Additional detail on the structure and operation of each element of the framework is provided below.

Base Pay

(also referred to as Fixed Annual Remuneration)

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

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

In performing a Base Pay review, the Board makes reference to external market data including comparable roles in other listed Australian companies. Remuneration is benchmarked against ASX50 companies and a revenue-based peer group of other listed Australian companies. The Board believes these are the appropriate benchmarks, as these are the comparator groups whose roles best mirror the size, complexity and challenges in managing Qantas' businesses and are also the peer groups with whom Qantas competes for executive talent.

There was no increase to the Base Pay of the CEO and other Executive Management during 2019/20. In addition, the CEO and Executive Management elected to forego 100 per cent of their Base Pay from 1 April 2020 to 30 June 2020. It is not expected that the Base Pay of the CEO and other Executive Management will change for 2020/21, except for Ms Hudson.

Ms Hudson commenced in her KMP role on 1 October 2019 and her Base Pay was set at a level below her predecessor as she was new to the role. Consistent with the approach taken with members of Executive Management to date and following a very strong performance by Ms Hudson in her role, Ms Hudson's Base Pay was realigned and increased to $1,020,000 with effect from 1 July 2020.

The Base Pay for each Executive KMP is outlined on page 49.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Annual Incentive

STIP Overview

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.

Calculation of STIP Awards

STIP awards are calculated as follows:

STIP Award	=	Base Pay	X	'Target' Opportunity	X	STIP Scorecard Outcome	X	Individual Performance Factor

'Target' Opportunity

Each STIP participant has a 'Target' STIP Opportunity expressed as a percentage of Base Pay, as follows:

- For the CEO, 100 per cent of Base Pay
- For Executive Management, 80 per cent of Base Pay.

Performance Conditions – STIP Scorecard

The Board sets a scorecard of performance conditions for the 2019/20 STIP (the STIP Scorecard).

The STIP Scorecard contains a mix of Group financial and non-financial measures.

Underlying PBT is the key budgetary and financial performance measure for the Qantas Group and is therefore the key performance measure in the STIP Scorecard, with a weighting of 50 per cent.

Other financial and non-financial measures comprise the remaining 50 per cent of the STIP Scorecard. The Board sets targets for each STIP Scorecard measure. At the end of the financial year, the Board assesses performance against each measure and determines the overall STIP Scorecard outcome.

A detailed description of the STIP Scorecard measures and the 2019/20 STIP Scorecard outcome is provided on pages 47 to 48.

Performance Conditions – Individual Performance Factor (IPF)

An individual's performance is recognised via an IPF. The IPF is a measure of individual performance that assesses:

- What an individual has achieved
- How they went about it (their conduct and behaviours).

An individual's behaviour is assessed against the Qantas Group Beliefs. The Qantas Group Beliefs are:

- Everyone has the right to return home safely
- Customers determine our success
- Being a fit, agile and diverse organisation drives innovation and simplicity
- Working together in an inclusive manner always delivers the optimal Group outcome
- Each employee deserves respect, trust and good leadership.

IPFs are generally in the range of 0.8 to 1.2. However, in the case of under-performance the IPF may be zero. In exceptional circumstances the IPF may be as high as 1.5.

Board Discretion

Board discretion is a key element of the design of the STIP.

While the Board sees the STIP Scorecard approach as an important design element of the STIP, it also recognises that remuneration outcomes must be considered in the context of Qantas' overall business performance, the operating environment and non-financial considerations. Circumstances may occur where scorecard measures have been achieved or exceeded, but in the view of the Board it is more appropriate to make no award under the STIP or to deliver a higher proportion of an award in Qantas shares. Likewise, there may be circumstances where performance is below an agreed target where the Board may determine that it is appropriate to pay a partial STIP award. This circumstance has not occurred.

Therefore, each year the Board considers whether to apply its discretion. The Board may determine that:

- No award be made (as it did in 2011/12 and 2013/14)
- Only a partial award be made (as it did in 2010/11 and 2012/13)
- Any award will be entirely deferred and/or delivered in Qantas shares (as it did in 2010/11)
- A higher proportion of the award be made in Qantas shares (as it did in 2016/17)
- Any award be reduced (as it did in 2018/19).

For 2019/20, the Board exercised discretion not to make any awards under the 2019/20 STIP.

Delivery of STIP Awards

No awards were made under the 2019/20 STIP. 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.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

STIP Award Deferral and Trading Restriction	No awards were made under the 2019/20 STIP. In a year where STIP awards are made, any shares awarded would be subject to: – A two-year deferral period; and – A one-year trading restriction. The trading restriction would apply to these shares both during employment and post-cessation of employment (shares subject to the trading restriction are not forfeited on cessation of employment, but are subject to clawback). The additional trading restriction strengthens the ability to clawback vested equity, if required.
Maximum and Minimum STIP Outcome	The maximum outcome under the STIP is capped at 200 per cent of Base Pay for the CEO and 160 per cent of Base Pay for other Executive Management. The minimum outcome is nil, which would occur if the threshold level of performance is missed on each STIP measure, if an individual's performance does not warrant an award, or if the Board determines that no award be made. Practically, for 2020/21, should the STIP Scorecard produce a maximum outcome of 150 per cent, and assuming the CEO's IPF and each of Executive Management's IPFs were indicatively 1.2, then the maximum outcome under the STIP for 2020/21 would be approximately 90 per cent of Base Pay for the CEO and 72 per cent of Base Pay for other Executive Management.
Cessation of Employment (plans prior to 1 July 2019)	In general, Executives ceasing employment during the year forfeit any right to participate in that year's STIP and forfeit any shares awarded under prior year STIPs that are subject to a deferral period. In limited circumstances (for example, retirement, employer-initiated terminations (with no record of poor performance), death or total and permanent disablement), the Board may: – For the current year STIP, make a pro-rated award that has regard to actual performance against the performance measures (as determined by the Board following the end of the performance period), and the portion of the performance period that the Executive served – For shares awarded under prior year STIPs that are subject to a deferral period, remove that restriction.
Cessation of Employment (current plan)	In general, where an Executive resigns, is terminated for cause or is terminated in other circumstances involving unacceptable performance or conduct, they forfeit any right to participate in that year's STIP and forfeit any shares awarded under prior year STIPs that are subject to a deferral period. For shares subject to the additional trading restriction, forfeiture does not apply. That is, for any shares awarded under prior year STIPs where the deferral period has been served, but the shares are subject to the additional trading restriction, the Executive retains those shares subject to the additional trading restriction. The additional trading restriction strengthens the ability to clawback vested equity, if required. In limited circumstances (for example, retirement, employer-initiated terminations (with no record of poor performance), death or total and permanent disablement): – For the current year STIP, the Executive will receive a pro-rated award based on the 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 – For shares awarded under prior year STIPs that are subject to a deferral period, allow the Executive to continue to hold those shares. The original deferral period and additional trading restriction continue to apply and these shares are subject to clawback. On cessation of employment, a tax liability arises on shares that are subject to a deferral period or trading restriction, notwithstanding that those trading restrictions continue to apply. Accordingly, a portion of the shares may be released to assist with funding the tax liability that arises for the Executive.
Disclosure	In addition to required statutory disclosures, Qantas chooses to disclose the full value of each year's STIP award in the Remuneration Outcomes Table on page 39. This involves 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 two-year deferral period) and a one-year trading restriction. No awards were made under the 2019/20 STIP and therefore the value for the 2019/20 STIP is nil. Disclosure of STIP awards in the Statutory Remuneration Table on page 40 is based on the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. The STIP awards are disclosed as either: – A cash incentive for any cash bonus paid – A share-based payment for any component awarded in deferred shares. Where share-based STIP awards involve deferral over multiple reporting periods, they are reported against each period in accordance with accounting standards.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Long Term Incentive Plan (LTIP)

LTIP Overview

The LTIP is a four-year plan that involves an upfront award of a fixed number of Rights over Qantas Shares. If performance and service conditions are achieved over a three-year period, Rights vest and convert to Qantas shares. The vested shares are then subject to a one-year trading restriction during which the shares cannot be traded and are subject to clawback.

If the three-year performance conditions or service conditions are not met, the Rights lapse.

Performance Conditions

The performance measures for each of the 2018-2020 LTIP (tested at 30 June 2020), 2019-2021 LTIP (to be tested at 30 June 2021) and 2020-2022 LTIP (to be tested at 30 June 2022) are Qantas' TSR compared to:

- A global airline peer group
- ASX100 companies.

Up to 50 per cent of the total number of Rights granted may vest based on Qantas' TSR performance in comparison to the global airline peer group, and up to 50 per cent of the total number of Rights granted may vest based on Qantas' TSR performance in comparison to the ASX100 companies.

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

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

The peer groups selected provide a comparison of relative shareholder returns relevant to most Qantas investors:

- The global airline peer group was chosen for relevance to investors, including investors based outside Australia, with a primary interest in the aviation industry sector
- The ASX100 peer group was chosen for relevance to investors with a primary interest in the equity market for major Australian listed companies (of which Qantas is one).

The vesting scale for both the ASX100 and the global listed airline peer groups is as follows:

Qantas' TSR Performance Relative to Each Peer Group	Vesting Scale
Below 50th percentile	Nil vesting
50th to 75th percentile	Linear scale: 50 per cent to 100 per cent vesting
Above 75th percentile	100 per cent 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 airline 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 each of the 2018-2020 LTIP, 2019-2021 LTIP and 2020-2022 LTIP, the global listed airline peer group comprised: Air Asia, Air France/KLM, Air New Zealand, All Nippon Airways, American Airlines, Cathay Pacific, Delta Airlines, Deutsche Lufthansa, easyJet, International Consolidated Airlines Group, Japan Airlines, LATAM Airlines Group, Ryanair, Singapore Airlines, Southwest Airlines, United Continental and Virgin Australia.

Review of Performance Conditions

The Remuneration Committee regularly reviews the appropriateness of the performance measures. This includes considering other measures such as Return on Invested Capital. In 2019/20, the Remuneration Committee determined that the current measures remained the most appropriate. These measures are aligned with returns achieved for shareholders and are consistent with the Group Financial Framework.

Vesting of LTIP Award

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

Trading Restriction (commencing with 2020-2022 LTIP)

Any shares awarded under the LTIP will be subject to a one-year trading restriction.

Shares subject to the trading restriction are not forfeited on cessation of employment but are subject to clawback. The additional trading restriction strengthens the ability to clawback vested equity, if required.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Cessation of Employment (plans prior to 1 July 2019)	In general, any Rights which have not vested are forfeited if the Executive ceases employment with the Qantas Group. In limited circumstances approved by the Board (for example, retirement, employer-initiated terminations (with no record of poor performance), death or total and permanent disablement), a deferred cash payment may be made. This payment is determined with regard to the value of the LTIP Rights which would have vested and converted to shares had they not lapsed, and the portion of the performance period that the Executive served prior to cessation of employment. The Board retains discretion to determine otherwise in appropriate circumstances, which may include retaining some or all of the LTIP Rights.
Cessation of Employment (commencing with 2020-2022 LTIP)	In general, when an Executive resigns, is terminated for cause or is terminated in other circumstances involving unacceptable performance or conduct, any Rights which have not vested will be forfeited. For any shares awarded under the LTIP that are now subject to an additional trading restriction, the Executive will continue to hold those shares and the additional trading restriction continues to apply. That is, forfeiture does not apply to those shares during the trading restriction period. These shares are subject to clawback. On cessation of employment, a tax liability arises on shares that are subject to the one-year trading restriction, notwithstanding that the trading restriction continues to apply. Accordingly, a portion of the shares may be released to assist with funding the tax liability that arises for the Executive. In limited circumstances (for example, retirement, employer-initiated terminations (with no record of poor performance), death or total and permanent disablement), Rights will remain on foot on a pro-rata basis and may vest at the end of the performance period, subject to the satisfaction of the relevant performance and service conditions of the LTIP. Any shares allocated following vesting of the LTIP will be subject to a trading restriction.
Allocation Methodology	The number of Rights granted to the CEO and Executive Management under the LTIP is calculated on a face value basis. This number of Rights is the maximum that may vest at the end of the performance period. The 'Target' LTIP opportunity for the CEO and other Executive KMP is provided on a face value basis in the Summary of Key Contract Terms on page 49.
Allocation Methodology Used in 2019/20 Award to the CEO	At each year's AGM, Qantas seeks shareholder approval for any award of Rights to the CEO. At the 2019 AGM, shareholders approved an award of 743,000 Rights to the CEO (under the 2020-2022 LTIP), being the maximum number of Rights that may vest and convert to shares. The Notice of Meeting for the 2019 AGM set out the proposed number of LTIP Rights to be granted to the CEO on a face value basis as follows: **Number of Rights awarded** = (Base Pay x 'Target' LTIP Opportunity) / (Face Value (Share Price) as at 30 June 2019) **743,000 Rights awarded** = ($2,170,000 x 185%) / ($5.40)
Change of Control	In the event of a change of control, the Board determines whether the LTIP Rights vest or otherwise.
Disclosure	In addition to the required statutory disclosures, Qantas chooses to disclose the full value of LTIP awards that vest during the year in the Remuneration Outcomes Table on page 39. The full value is equal to the number of Rights vested, multiplied by the Qantas share price at the end of the performance period, even where these shares are subject to an additional one-year trading restriction. The statutory remuneration disclosure amortises the accounting value of LTIP awards over the relevant performance and service period as per the accounting standards. The accounting value for the LTIP awards does not have regard to whether performance conditions were achieved.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Other Benefits

Non-Cash Benefits	Non-cash benefits, as disclosed in the remuneration tables, include travel entitlements while employed and other minor benefits.
Travel	Travel concessions are provided to permanent Qantas employees, consistent with practice in the airline industry. Travel at concessionary prices is on a sub-load basis; that is, subject to considerable restrictions and limits on availability. The policy includes specified direct family members or a nominated travel companion. In addition to this, and consistent with practice in the airline industry, the CEO and Executive Management and their eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual. Post-employment travel concessions are also available to all permanent Qantas employees who qualify by achieving a service condition. The CEO and Executive Management and their eligible beneficiaries are also entitled to a number of free trips for personal purposes after ceasing employment. An estimated present value of these entitlements accrues over the service period of the individual and is disclosed as a post-employment benefit.
Superannuation	Superannuation includes statutory and salary sacrifice superannuation contributions and is disclosed as a post-employment benefit.
Other Long-Term Benefits	The movement in accrual of annual leave and long service leave is included in Other Long-Term Benefits. The accounting value of other long-term benefits may be negative, for example, where an Executive's annual leave balance decreases as a result of taking more annual leave than they accrued during the year.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

6 ANNUAL INCENTIVE OUTCOME 2019/20 STIP

The Board determined that despite good performance against the non-financial components of the STIP Scorecard that would have permitted a partial award under the 2019/20 STIP (as outlined in the table below), the Group's financial position did not warrant any awards. Therefore, the Board applied its discretion and determined the STIP Scorecard outcome to be zero.

Nonetheless, in the interests of transparency, the table below summarises performance versus target against each scorecard category under the 2019/20 STIP. In some instances, full-year outcomes were not available as measurement was impractical during the period of significantly reduced flying. In these instances, the Board assessed performance based on year to date results.

Scorecard Category/ Strategic Objective	Measures	Scorecard Weighting 'Target' (Range of Outcomes)	Actual Outcome	Comment
Group Profitability	Underlying Profit Before Tax (PBT)	50% (0-100%)	⬟	Prior to the impact of COVID-19, the Underlying PBT target was forecast to be achieved in full. As a result of the impact of COVID-19 on the business, the Underlying PBT threshold as set by the Board was not achieved.
Workplace and Operational Safety	Workplace Safety measures Board's assessment of Operational Safety	15% (0-22.5%)	●	Workplace Safety targets overall were achieved. Operational Safety performance continued to remain strong. Overall, there was an at target outcome to the STIP Scorecard under the Workplace and Operational Safety measure.
Customer	Net Promoter Score (NPS) Punctuality	15% (0-22.5%)	◉	Target or threshold performance was achieved by Qantas International, Qantas Domestic and Qantas Frequent Flyer, with above target performance achieved by QantasLink. However, Jetstar Australia Domestic's and Jetstar Australia Long-Haul's NPS performance was below threshold. Based on outperforming Virgin's on-time performance, the target for this measure was assessed as partially achieved. Overall, there was a partial contribution to the STIP Scorecard under the Customer measure.
Maximise our Leading Domestic Position	Australian Domestic network advantage Combined Qantas Domestic and Jetstar Domestic Profit Margin: EBIT per ASK	10% (0-15%)	◉	Qantas Domestic and Jetstar maintained the Group's network advantage in the Australian domestic market, with an at target outcome to the STIP Scorecard. Prior to the impact of COVID-19, the Group Domestic Profit Margin target was forecast to be exceeded. As a result of the impact of COVID-19 on the business, the Group Domestic Profit Margin threshold was not achieved.
Transformation and Growth	Transformation benefits Qantas Loyalty Underlying EBIT Jetstar in Asia: Underlying EBIT for Jetstar Asia and Jetstar Japan Qantas Distribution Platform benefit American Airlines Joint Business revenue	10% (0-15%)	⬟	The Transformation and Growth category of the STIP Scorecard comprised of financial measures. This scorecard category was on track to achieve an at target outcome. However, due to the impact of COVID-19 on the business, there was nil achievement for this category and therefore nil contribution to the STIP Scorecard.
2019/20 STIP Scorecard Outcome		**100% (0-175%)**	**0%**	Zero outcome reflects exercise of Board's discretion

KEY: ● Target achieved or exceeded ◉ Partial achievement against targets ⬟ No achievement against targets

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Additional Descriptions of 2019/20 STIP Scorecard Measures

Group Profitability	Underlying PBT was the primary financial performance measure for the Qantas Group for 2019/20 and is therefore the primary performance measure under the STIP. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of the Group. The Underlying PBT target is based on the annual financial budget. For reasons of commercial sensitivity, the annual Underlying PBT target is not disclosed. Underlying PBT is derived by adjusting Statutory PBT for items which do not represent the underlying performance of the business (such as transformational/restructuring initiatives, transactions involving investments, impairment of assets and other transactions outside the ordinary course of business). The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period. These items are excluded both when setting the STIP profit target and when determining the profit outcome. As a result, Executives are neither advantaged nor disadvantaged as a result of these items being excluded.
Workplace and Operational Safety	As safety is always our first priority, the STIP Scorecard includes an assessment of both Workplace and Operational safety. In addition, the Board retains an overriding discretion to scale down the STIP outcome (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 considering the specific circumstances and following the recommendation of the Safety, Health, Environment and Security Committee. The Safety, Health, Environment and Security Committee performs an assessment of both Workplace Safety performance and Operational Safety performance. The objective of the Workplace Safety targets is to reduce employee injuries. Targets were therefore set across: – Total Recordable Injury Frequency Rate – Lost Work Case Frequency Rate – Short Term Impairment Injury Frequency Rate – Long Term Impairment Injury Frequency Rate. Operational Safety performance is assessed against outcome-based measures (including operational occurrences that pose a significant threat to the safety of employees and customers) and risk-based lead indicators commonly associated with aviation industry accidents, such as flight data trends, Technical Dispatch Reliability and reporting rates.
Customer	Customer service is measured against NPS targets. This is a survey-based measure of how strongly our customers promote the services of our businesses. Individual NPS targets are set for Qantas International, Qantas Domestic, QantasLink, Qantas Frequent Flyer, Jetstar Australia Domestic and Jetstar Australia Long-Haul. On-time departures for Qantas Domestic and QantasLink continue to be a particular area of focus and is therefore 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.
Maximise our Leading Domestic Position	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. Maintaining our Australian domestic network advantage balances the long-term domestic network advantage with short-term profitability. This measure aligns maintaining the leading premium domestic network and the leading price-sensitive domestic network via measures of peak-hour frequency and capacity positions across key routes and ports. For reasons of commercial sensitivity, these targets are not disclosed.
Transformation and Growth	Continuing to transform the business remains a strategic priority. Therefore, a transformation benefit target is included as a performance measure. To support the strategic initiative of growing diversified earnings, a STIP target was set to grow Qantas Loyalty EBIT. Growing in Asia and profitably growing Jetstar Japan are key areas of focus. Therefore, a target measuring Jetstar Asia's and Jetstar Japan's Underlying EBIT is included as a STIP measure. To support the successful introduction of the Qantas Distribution Channel, which provides agents with direct access to sell Qantas product, STIP measures were set that align with the benefits to be achieved. To support the establishment of the expanded codeshare relationship between Qantas and American Airlines, a revenue growth measure was selected as a STIP Scorecard measure.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

7 LONG TERM INCENTIVE OUTCOME 2018-2020

Qantas TSR Performance[1]	Qantas TSR Rank vs Airlines	Qantas TSR Rank vs ASX100	Vesting of 2018-2020 LTIP
-11%	1st	68th	50%

Prior to COVID-19, Qantas' TSR Performance was positive. As at 30 June 2020, Qantas' TSR Performance was -11%.

The three-year performance measures under the 2018-2020 LTIP are Qantas' TSR compared to:

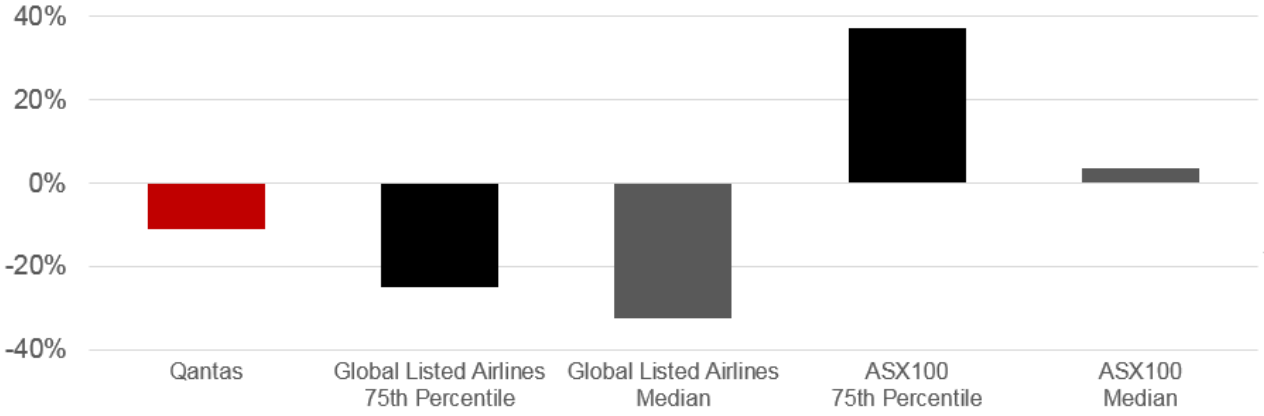
- A global airline peer group
- ASX100 companies.

The airline industry was severely and disproportionately impacted by COVID-19 and therefore Qantas' TSR performance versus other ASX100 companies was below median.

Qantas continues to be the best airline of companies in the global airline peer group, continuing to outperform competitors and peers with top quartile relative TSR performance versus airline peer group companies for five straight rolling three-year periods.

Based on this performance, 50 per cent vesting was achieved.

Qantas' Three-Year TSR Performance[1] vs Peer Groups (%)



1. TSR performance, applying the LTIP performance test methodology (which applies the average closing share price over the six months preceding the test date of 30 June 2020).

8 SUMMARY OF KEY CONTRACT TERMS AS AT 30 JUNE 2020

Contract Details	Alan Joyce[4]	Andrew David[5]	Gareth Evans[5]	Vanessa Hudson[5]	Tino La Spina[5]	Olivia Wirth[5]
Base Pay per contract	$2,170,000	$1,020,000	$1,081,000	$850,000	$1,020,000	$867,000
Base Pay - 1 April 2020 - 30 June 2020	$0	$0	$0	$0	$0	$0
Actual Base Pay[1]	$1,627,500	$765,000	$810,750	$637,500	$765,000	$650,250
Pay Mix:						
- STIP 'Target'[2]	100%	80%	80%	80%	80%	80%
- LTIP 'Target'[2,3]	185%	95%	95%	95%	95%	95%
	An annual benefit of trips for these Executives and eligible beneficiaries during employment,[6] at no cost to the individual, is as follows:					
	4 long-haul 12 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul	2 long-haul 6 short-haul
	The same benefit is provided for use post-employment, based on the period of service in an Executive Management role within the Qantas Group.					
Notice	Employment may be terminated by either the Executive or Qantas by providing six months' written notice.[7] Each Executive's contract includes a provision that limits any termination payment to the statutory limit prescribed under the *Corporations Act 2001*.					
Severance	A severance payment of six months' Base Pay applies where termination is initiated by Qantas.[7]					

1. Actual Base Pay is the Base Pay per contract less the three months of zero pay from 1 April 2020 to 30 June 2020.
2. Opportunity expressed as a percentage of Base Pay.
3. Rights awarded on a face value basis.
4. Target Remuneration Mix for the CEO for 2019/20 was Base Pay 26%, Annual Incentive 26% and Long Term Incentive (on a face value basis) 48%. With Long Term Incentive valued on a fair value basis, the pay mix was Base Pay 33%, Annual Incentive 33%, Long Term Incentive 33%.
5. Target Remuneration Mix for Executive KMP for 2019/20 was Base Pay 36%, Annual Incentive 29% and Long Term Incentive (on a face value basis) 35%. With Long Term Incentive valued on a fair value basis, the pay mix was Base Pay 43%, Annual Incentive 35%, Long Term Incentive 22%.
6. These benefits are not cumulative and lapse if they are not used during the calendar year in which the entitlements arise.
7. Other than for misconduct or unsatisfactory performance.

Directors' Report continued

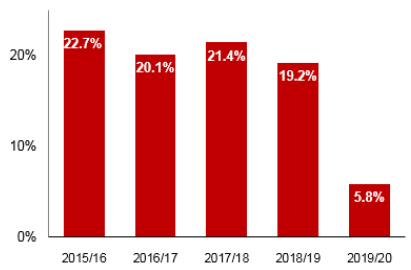
For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

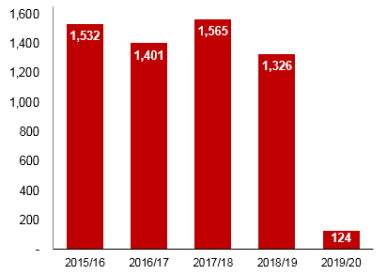
9 QANTAS FINANCIAL PERFORMANCE HISTORY

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

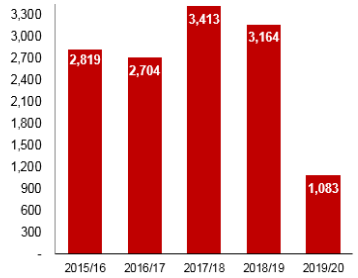
Return on Invested Capital[1,2] (ROIC%)



Underlying Profit before Tax[1,2,3] ($M)

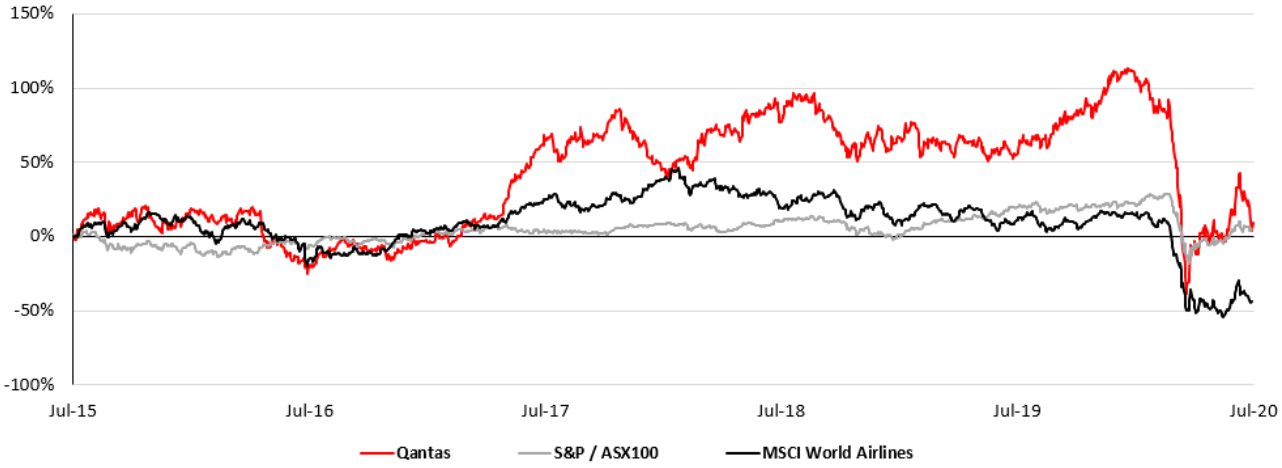


Operating Cash Flow[1] ($M)



1. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. 2019 has been restated.
2. The Group adopted AASB 15 *Revenue from Contracts with Customers* effective 1 July 2018 using the full retrospective method of adoption. 2018 has been restated.
3. 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. Statutory (Loss)/Profit After Tax for 2019/20 was ($1,964) million (Restated 2019: $840 million; 2018: $953 million; 2017: $853 million; and 2016: $1,029 million).

Qantas' Five-Year TSR Performance



10 EQUITY INSTRUMENTS

The following tables set out the holdings of equity instruments granted as remuneration.

Shares Awarded Under the Short Term Incentive Plan

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

		Number of Shares					
Short Term Incentive Plan		**1 July 2019**	**Commenced as KMP**	**Granted[1,2]**	**Vested and Transferred**	**Forfeited**	**30 June 2020**
Alan Joyce	**2020**	**501,130**	**-**	**97,768**	**(347,012)**	**-**	**251,886**
	2019	837,750	-	154,118	(490,738)	-	501,130
Andrew David	**2020**	**142,616**	**-**	**33,088**	**(92,536)**	**-**	**83,168**
	2019	212,493	-	50,080	(119,957)	-	142,616
Gareth Evans	**2020**	**170,838**	**-**	**38,963**	**(112,132)**	**-**	**97,669**
	2019	266,089	-	58,706	(153,957)	-	170,838
Vanessa Hudson[3]	**2020**	**n/a**	**52,894**	**-**	**n/a**	**-**	**52,894**
	2019	n/a	n/a	n/a	n/a	n/a	n/a
Tino La Spina	**2020**	**145,120**	**-**	**34,926**	**(92,536)**	**-**	**87,510**
	2019	217,947	-	52,584	(125,411)	-	145,120
Olivia Wirth	**2020**	**124,706**	**-**	**31,250**	**(81,649)**	**-**	**74,307**
	2019	187,494	-	43,057	(105,845)	-	124,706

1. Shares awarded under the 2017/18 STIP awards (granted 31 August 2018) were delivered to participants in deferred shares that are subject to a two-year deferral period. The deferral period on these shares applied throughout 2019/20.
2. Shares awarded under the 2018/19 STIP awards (granted 30 August 2019) were delivered to participants in deferred shares that are subject to a two-year deferral period. The deferral period on these shares applied throughout 2019/20.
3. Ms Hudson commenced as a KMP on 1 October 2019.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Rights Awarded Under the Long Term Incentive Plan

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

		Number of Rights					
Long Term Incentive Plan		**1 July 2019**	**Commenced as KMP**	**Granted[1,2]**	**Vested and Transferred[3]**	**Lapsed/ Forfeited**	**30 June 2020[4]**
Alan Joyce	**2020**	**2,510,000**	**-**	**743,000**	**(1,172,000)**	**-**	**2,081,000**
	2019	2,806,000	-	651,000	(947,000)	-	2,510,000
Andrew David	**2020**	**616,500**	**-**	**179,500**	**(293,000)**	**-**	**503,000**
	2019	696,000	-	157,500	(237,000)	-	616,500
Gareth Evans	**2020**	**697,500**	**-**	**190,000**	**(355,000)**	**-**	**532,500**
	2019	809,500	-	166,500	(278,500)	-	697,500
Vanessa Hudson[5]	**2020**	**n/a**	**97,000**	**149,500**	**n/a**	**-**	**246,500**
	2019	n/a	n/a	n/a	n/a	n/a	n/a
Tino La Spina	**2020**	**616,500**	**-**	**179,500**	**(293,000)**	**-**	**503,000**
	2019	696,000	-	157,500	(237,000)	-	616,500
Olivia Wirth	**2020**	**337,500**	**-**	**152,500**	**(129,500)**	**-**	**360,500**
	2019	308,500	-	133,500	(104,500)	-	337,500

1. Rights under the 2020-2022 LTIP were granted on 25 October 2019 to Mr Joyce (following approval by shareholders at the 2019 AGM) and 4 October 2019 for other Executives and will be tested against the performance hurdles as at 30 June 2022. The number of Rights granted was determined using the face value of a Right on 30 June 2019 of $5.40, being the start of the performance period. The fair value of a Right on the grant date was $3.59 for Mr Joyce and $4.06 per Right for other Executives.
2. Rights under the 2019-2021 LTIP were granted on 26 October 2018 to Mr Joyce (following approval by shareholders at the 2018 AGM) and 5 September 2018 for other Executives and will be tested against the performance hurdles as at 30 June 2021. The number of Rights granted was determined using the face value of a Right on 30 June 2018 of $6.16, being the start of the performance period. The fair value of a Right on the grant date was $2.33 for Mr Joyce and $3.35 per Right for other Executives.
3. 100% of Rights under the 2017-2019 LTIP (granted on 21 October 2016 to Mr Joyce and 5 September 2016 for other Executives) vested following the testing of performance hurdles as at 30 June 2019 and the Board's approval of the 2017-2019 LTIP vesting outcome on 21 August 2019.
4. Rights under the 2018-2020 LTIP (granted on 27 October 2017 to Mr Joyce and 5 September 2017 for Other Executives) are included in the 30 June 2020 balance. The number of Rights granted was determined using the face value of a Right on 30 June 2017 of $5.72, being the start of the performance period. The fair value of a Right on the grant date was $3.30 for Mr Joyce and $2.98 per Right for other Executives. For Executive Management, 50% of these Rights vested following the testing of performance hurdles as at 30 June 2020 and the Board's approval of the 2018-2020 LTIP vesting outcome on 19 August 2020. The CEO offered and the Board agreed to defer the decision until at least August 2021 as to whether his Rights will be forfeited or allowed to convert to shares.
5. Ms Hudson commenced as a KMP on 1 October 2019.

Equity Holdings and Transactions

Executive 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 2019**	**Commenced as KMP**	**Awarded as Remuneration[1]**	**Rights Converted to Shares**	**Other Changes[2]**	**Interest in Shares 30 June 2020**
Alan Joyce	**3,230,054**	-	97,768	1,172,000	(1,519,012)	**2,980,810**
Andrew David	**499,573**	-	33,088	293,000	(742,493)	**83,168**
Gareth Evans	**507,641**	-	38,963	355,000	(355,000)	**546,604**
Vanessa Hudson[3]	**n/a**	58,568	-	-	-	**58,568**
Tino La Spina	**263,009**	-	34,926	293,000	(245,536)	**345,399**
Olivia Wirth	**124,706**	-	31,250	129,500	(211,149)	**74,307**

1. Shares awarded under the 2017/18 STIP are subject to a deferral period until after the release of the 2019/20 full-year financial results. Shares awarded under the 2018/19 STIP are subject to a deferral period until after the release of the 2020/21 full-year financial results.
2. Other changes include shares purchased, sold, and forfeited, and on cessation as KMP.
3. Ms Hudson commenced as a KMP on 1 October 2019.

Other than share-based payment compensation, all equity instrument transactions between the Executive 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 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Performance Remuneration Affecting Future Periods

The fair value of share-based payments granted is amortised over the service period, therefore remuneration in respect of these awards may be reported in future years. The following table summarises the maximum value of the 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	2017/18 $'000	2018/19 $'000	2019/20 $'000	2018-2020 $'000	2019-2021 $'000	2020-2022 $'000	Total $'000	2021 $'000	2022 $'000	2023 $'000	Total $'000
Alan Joyce	52	216	-	133	625	2,040	**3,066**	1,848	1,061	157	**3,066**
Andrew David	17	73	-	26	194	499	**809**	502	268	39	**809**
Gareth Evans	20	86	-	28	205	528	**867**	541	285	41	**867**
Vanessa Hudson	9	59	-	5	77	415	**565**	322	211	32	**565**
Tino La Spina	18	77	-	26	194	499	**814**	507	269	38	**814**
Olivia Wirth	14	69	-	12	164	424	**683**	422	229	32	**683**

11 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 2020 was $1.92 million (2019: $2.67 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. Non-Executive Director fees remained unchanged in 2019/20. From 1 April 2020 to 30 June 2020, all Non-Executive Directors elected to forego 100 per cent of their fees.

	Board		Committees[1]	
	Chair[2]	Member	Chair	Member
Board Fees – per contract	$610,000	$158,000	$63,500	$31,750
Board Fees – 1 April 2020 to 30 June 2020	$0	$0	$0	$0
Actual Board Fees[3]	$457,500	$118,500	$47,625	$23,813

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.
3. Actual Board Fees is the Board Fees per agreement less the three months of zero pay from 1 April 2020 to 30 June 2020.

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

In December 2019, a Non-Executive Director Fee Sacrifice Share Acquisition Plan was introduced whereby Non-Executive Directors can elect to sacrifice a percentage of their Board or Board and Committee fees in return for a grant of Rights to the equivalent value of the same number of Qantas ordinary shares. Each Right granted will convert automatically to one fully-paid Qantas ordinary share at the Conversion Date, which is six months from the Grant Date subject to remaining as a Non-Executive Director on the Conversion Date. The plan is designed to provide Non-Executive Directors the opportunity to build their shareholding in a tax effective manner and to further align their interests with the interests of shareholders. The plan commenced in March 2020, but following approval from the Board, each participating Non-Executive Director elected to withdraw as a result of the Board's decision to receive nil fees from 1 April 2020 to 30 June 2020.

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

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

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration for 2019/20 – Non-Executive Directors

		Short-Term Employee Benefits			Post-Employment Benefits			
$'000		Base Pay (Cash)	Non-Cash Benefits	Sub-Total	Superannuation	Travel	Sub-Total	Total
Richard Goyder	**2020**	**442**	**37**	**479**	**16**	**29**	**45**	**524**
Chair	2019	457	72	529	19	36	55	584
Maxine Brenner	**2020**	**152**	**57**	**209**	**14**	**12**	**26**	**235**
Non-Executive Director	2019	202	131	333	19	12	31	364
Richard Goodmanson[1,2]	**2020**	**94**	**-**	**94**	**-**	**12**	**12**	**106**
Non-Executive Director up to 26 October 2019	2019	283	14	297	-	12	12	309
Jacqueline Hey	**2020**	**130**	**11**	**141**	**12**	**12**	**24**	**165**
Non-Executive Director	2019	173	10	183	16	12	28	211
Belinda Hutchinson	**2020**	**152**	**51**	**203**	**14**	**12**	**26**	**229**
Non-Executive Director	2019	196	56	252	19	12	31	283
Michael L'Estrange	**2020**	**152**	**11**	**163**	**14**	**12**	**26**	**189**
Non-Executive Director	2019	184	10	194	17	12	29	223
Paul Rayner	**2020**	**175**	**24**	**199**	**15**	**12**	**27**	**226**
Non-Executive Director	2019	233	51	284	21	12	33	317
Todd Sampson	**2020**	**130**	**106**	**236**	**12**	**12**	**24**	**260**
Non-Executive Director	2019	173	70	243	16	12	28	271
Antony Tyler[2,3]	**2020**	**186**	**-**	**186**	**-**	**12**	**12**	**198**
Non-Executive Director from 26 October 2018	2019	150	-	150	-	12	12	162
Barbara Ward	**2020**	**198**	**39**	**237**	**16**	**12**	**28**	**265**
Non-Executive Director	2019	264	23	287	21	12	33	320
Total	**2020**	**1,811**	**336**	**2,147**	**113**	**137**	**250**	**2,397**
	2019	2,315	437	2,752	148	144	292	3,044

1. Mr Goodmanson retired as a Director on 25 October 2019.
2. Mr Goodmanson and Mr Tyler each received a travel allowance of $10,000 and $25,000 respectively during 2019/20 (2019: $30,000 for Mr Goodmanson and $25,000 for Mr Tyler). These amounts were included in their Base Pay (Cash).
3. 2018/19 remuneration reflects the period served by Mr Tyler as a Non-Executive Director from 26 October 2018 to 30 June 2019.

Directors' Report continued

For the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) (CONTINUED)

Equity Holdings and Transactions

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

Key Management Personnel – Non-Executive Directors	Interest in Shares as at 30 June 2019	Other Changes[1]	Ceased as Director	Interest in Shares as at 30 June 2020
Richard Goyder	**130,000**	-	-	**130,000**
Maxine Brenner	**30,065**	-	-	**30,065**
Richard Goodmanson[2]	**18,870**	-	(18,780)	**n/a**
Jacqueline Hey	**38,170**	-	-	**38,170**
Belinda Hutchinson	**16,200**	-	-	**16,200**
Michael L'Estrange	**15,012**	-	-	**15,012**
Paul Rayner	**287,909**	-	-	**287,909**
Todd Sampson	**7,095**	7,000	-	**14,095**
Antony Tyler	**-**	52,000	-	**52,000**
Barbara Ward	**44,694**	-	-	**44,694**

1. Other Changes includes shares purchased and sold.
2. Mr Goodmanson retired as a Director on 25 October 2019.

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.

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 2020 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 2020

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.

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 of non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on any information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2019/20 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 premiums 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, performed certain other services in addition to its statutory duties. The Directors are satisfied that:

a. The non-audit services provided during 2019/20 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 2019/20 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 56.

Details of the amounts paid to KPMG for audit and non-audit services provided during the year are set out in Note 28 to the Financial Statements.

Directors' Report continued

For the year ended 30 June 2020

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 2020, 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

18 September 2020

Andrew Yates
Partner

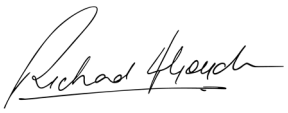
KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Limited liability by a scheme approved under Professional Standards Legislation

Rounding

Qantas is a company of a kind referred to in Australian Securities and Investments Commission (ASIC) 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:



Richard Goyder
Chairman

18 September 2020

Alan Joyce
Chief Executive Officer

18 September 2020

Financial Report

For the year ended 30 June 2020

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Consolidated Income Statement

For the year ended 30 June 2020

	Notes	2020 $M	2019 (restated)[1] $M
REVENUE AND OTHER INCOME			
Net passenger revenue		12,183	15,696
Net freight revenue		1,045	971
Other revenue and income	4(B)	1,029	1,299
Revenue and other income		**14,257**	**17,966**
EXPENDITURE			
Manpower and staff-related		3,646	4,268
Aircraft operating variable		3,520	4,010
Fuel		2,895	3,846
Depreciation and amortisation	5	2,045	1,996
Share of net loss/(profit) of investments accounted for under the equity method	14	53	(23)
Impairment/(reversal of impairment) of assets and related costs	25	1,456	(39)
De-designation of fuel and foreign exchange hedges	27(C)	571	-
Redundancies and related costs		565	65
Net gain on disposal of assets	6	(7)	(225)
Other	7	1,950	2,594
Expenditure		**16,694**	**16,492**
Statutory (loss)/profit before income tax expense and net finance costs		**(2,437)**	**1,474**
Finance income	8	33	47
Finance costs	8	(304)	(329)
Net finance costs	**8**	**(271)**	**(282)**
Statutory (loss)/profit before income tax expense		**(2,708)**	**1,192**
Income tax benefit/(expense)	9	744	(352)
Statutory (loss)/profit for the year		**(1,964)**	**840**
Attributable to:			
Members of Qantas		(1,964)	840
Non-controlling interests		-	-
Statutory (loss)/profit for the year		**(1,964)**	**840**
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic Earnings Per Share (cents)	**3**	**(129.6)**	**51.5**
Diluted Earnings Per Share (cents)	**3**	**(129.6)**	**51.3**

1. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. The comparative period presented above has been restated accordingly. Refer to Note 38 for further information.

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 2020

	2020 $M	2019 (restated)[1] $M
Statutory (loss)/profit for the year	**(1,964)**	**840**
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	(205)	51
Transfer of effective hedging gains from hedge reserve to the Consolidated Income Statement, net of tax[2]	(123)	(249)
De-designation of fuel and foreign exchange hedges to the Consolidated Income Statement, net of tax	425	-
Recognition of effective cash flow hedges on capitalised assets, net of tax	(42)	(13)
Net changes in hedge reserve for time value of options, net of tax	(232)	(47)
Foreign currency translation of controlled entities	(9)	5
Foreign currency translation of investments accounted for under the equity method	11	13
Share of other comprehensive loss of investments accounted for under the equity method	(6)	(6)
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial losses, net of tax	(40)	(121)
Fair value (losses)/gains on investments, net of tax	(16)	4
Other comprehensive loss for the year	**(237)**	**(363)**
Total comprehensive (loss)/income for the year	**(2,201)**	**477**
Attributable to:		
Members of Qantas	(2,201)	477
Non-controlling interests	-	-
Total comprehensive (loss)/income for the year	**(2,201)**	**477**

1. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. The comparative period presented above has been restated accordingly. Refer to Note 38 for further information.
2. These amounts were allocated to revenue of $10 million (2019: nil), fuel expenditure of ($129) million (2019: ($356) million), foreign exchange gains of ($57) million (2019: nil) and income tax expense of $53 million (2019: $107 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 2020

		2020 $M	2019 (restated)[1] $M
CURRENT ASSETS			
Cash and cash equivalents	21(A)	3,520	2,157
Receivables	11	522	1,101
Other financial assets	27(B), (C)	216	334
Inventories	12	306	364
Assets classified as held for sale	13	58	1
Income tax receivable	9(D)	137	-
Other	19	193	231
Total current assets		**4,952**	**4,188**
NON-CURRENT ASSETS			
Receivables	11	124	77
Other financial assets	27(B), (C)	139	184
Investments accounted for under the equity method	14	59	217
Property, plant and equipment	15	11,726	12,776
Right of use assets	16(A)	1,440	1,419
Intangible assets	17	1,050	1,225
Deferred tax assets	18	167	-
Other	19	369	449
Total non-current assets		**15,074**	**16,347**
Total assets		**20,026**	**20,535**
CURRENT LIABILITIES			
Payables		2,351	2,366
Revenue received in advance	20	2,784	4,414
Interest-bearing liabilities	21(B)	868	610
Lease liabilities	16(B)	524	459
Other financial liabilities	27(C)	238	89
Provisions	22	1,539	967
Income tax liabilities	9(D)	-	113
Total current liabilities		**8,304**	**9,018**
NON-CURRENT LIABILITIES			
Payables		99	-
Revenue received in advance	20	2,256	1,466
Interest-bearing liabilities	21(B)	5,825	4,527
Lease liabilities	16(B)	1,318	1,293
Other financial liabilities	27(C)	47	48
Provisions	22	651	475
Deferred tax liabilities	18	-	694
Total non-current liabilities		**10,196**	**8,503**
Total liabilities		**18,500**	**17,521**
Net assets		**1,526**	**3,014**
EQUITY			
Issued capital	23(A)	3,104	1,871
Treasury shares	23(B)	(51)	(152)
Reserves		(173)	111
Retained earnings		(1,357)	1,181
Equity attributable to members of Qantas		**1,523**	**3,011**
Non-controlling interests		3	3
Total equity		**1,526**	**3,014**

1. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. The comparative period presented above has been restated accordingly. Refer to Note 38 for further information.

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 2020

30 June 2020 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other Reserves[1]	Retained Earnings (restated)[2]	Non-controlling Interests	Total Equity (restated)[2]
Balance as at 1 July 2019	**1,871**	**(152)**	**101**	**36**	**2**	**(28)**	**1,181**	**3**	**3,014**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR									
Statutory loss for the year	-	-	-	-	-	-	(1,964)	-	(1,964)
Other comprehensive (loss)/income									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(205)	-	-	-	-	(205)
Transfer of effective hedging gains from hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(123)	-	-	-	-	(123)
De-designation of fuel and foreign exchange hedges to the Consolidated Income Statement, net of tax	-	-	-	425	-	-	-	-	425
Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	(42)	-	-	-	-	(42)
Net changes in hedge reserve for time value of options, net of tax	-	-	-	(232)	-	-	-	-	(232)
Defined benefit actuarial losses, net of tax	-	-	-	-	-	(40)	-	-	(40)
Foreign currency translation of controlled entities	-	-	-	-	(9)	-	-	-	(9)
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	11	-	-	-	11
Fair value losses on investments, net of tax	-	-	-	-	-	(16)	-	-	(16)
Share of other comprehensive loss of investments accounted for under the equity method	-	-	-	(6)	-	-	-	-	(6)
Total other comprehensive (loss)/income	**-**	**-**	**-**	**(183)**	**2**	**(56)**	**-**	**-**	**(237)**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(183)**	**2**	**(56)**	**(1,964)**	**-**	**(2,201)**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(95)	-	-	-	-	-	(348)	-	(443)
Capital raising	1,328	-	-	-	-	-	-	-	1,328
Dividends paid	-	-	-	-	-	-	(204)	-	(204)
Treasury shares acquired	-	(5)	-	-	-	-	-	-	(5)
Share-based payments	-	-	28	-	-	-	-	-	28
Shares vested and transferred to employees	-	106	(75)	-	-	-	(22)	-	9
Total contributions by and distributions to owners	**1,233**	**101**	**(47)**	**-**	**-**	**-**	**(574)**	**-**	**713**
Total transactions with owners	**1,233**	**101**	**(47)**	**-**	**-**	**-**	**(574)**	**-**	**713**
Balance as at 30 June 2020	**3,104**	**(51)**	**54**	**(147)**	**4**	**(84)**	**(1,357)**	**3**	**1,526**

1. Other reserves as at 30 June 2020 includes the Defined Benefit Reserve of ($73) million and the Fair Value Reserve of ($11) million.
2. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. The comparative period presented above has been restated accordingly. Refer to Note 38 for further information.

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

Consolidated Statement of Changes in Equity continued

For the year ended 30 June 2020

30 June 2019 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other Reserves[1]	Retained Earnings (restated)[2]	Non-controlling Interests	Total Equity (restated)[2]
Balance as at 1 July 2018	**2,508**	**(115)**	**106**	**300**	**(16)**	**89**	**709**	**3**	**3,584**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR									
Statutory profit for the year	-	-	-	-	-	-	840	-	840
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	51	-	-	-	-	51
Transfer of hedging gains from hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(249)	-	-	-	-	(249)
Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	(13)	-	-	-	-	(13)
Net changes in hedge reserve for time value of options, net of tax	-	-	-	(47)	-	-	-	-	(47)
Defined benefit actuarial losses, net of tax	-	-	-	-	-	(121)	-	-	(121)
Foreign currency translation of controlled entities	-	-	-	-	5	-	-	-	5
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	13	-	-	-	13
Fair value gains on investments, net of tax	-	-	-	-	-	4	-	-	4
Share of other comprehensive loss of investments accounted for under the equity method	-	-	-	(6)	-	-	-	-	(6)
Total other comprehensive (loss)/income	**-**	**-**	**-**	**(264)**	**18**	**(117)**	**-**	**-**	**(363)**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(264)**	**18**	**(117)**	**840**	**-**	**477**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(637)	-	-	-	-	-	-	-	(637)
Dividends paid	-	-	-	-	-	-	(363)	-	(363)
Treasury shares acquired	-	(98)	-	-	-	-	-	-	(98)
Share-based payments	-	-	49	-	-	-	-	-	49
Shares vested and transferred to employees	-	61	(54)	-	-	-	(5)	-	2
Total contributions by and distributions to owners	**(637)**	**(37)**	**(5)**	**-**	**-**	**-**	**(368)**	**-**	**(1,047)**
Total transactions with owners	**(637)**	**(37)**	**(5)**	**-**	**-**	**-**	**(368)**	**-**	**(1,047)**
Balance as at 30 June 2019	**1,871**	**(152)**	**101**	**36**	**2**	**(28)**	**1,181**	**3**	**3,014**

1. Other reserves as at 30 June 2019 includes the Defined Benefit Reserve of ($33) million and the Fair Value Reserve of $5 million.
2. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. The comparative period presented above has been restated accordingly. Refer to Note 38 for further information.

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 2020

	Notes	2020 $M	2019 (restated)[1] $M
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		14,460	19,050
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs and discretionary bonus payments to non-executive employees)		(12,870)	(15,425)
Cash generated from operations		**1,590**	**3,625**
Cash payments to employees for redundancies and related costs		(58)	(58)
Discretionary bonus payments to non-executive employees		(6)	(25)
Interest received		29	41
Interest paid (interest-bearing liabilities)		(146)	(161)
Interest paid (lease liabilities)	16(B)	(82)	(101)
Dividends received from investments accounted for under the equity method		15	11
Australian income taxes paid	9(D)	(255)	(156)
Foreign income taxes paid	9(D)	(4)	(12)
Net cash from operating activities	**29**	**1,083**	**3,164**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		(1,549)	(1,944)
Interest paid and capitalised on qualifying assets	8	(48)	(42)
Payments for investments held at fair value		(22)	(60)
Proceeds from disposal of property, plant and equipment		50	333
Proceeds from disposal of a controlled entity		-	139
Proceeds from disposal of shares in associate		-	11
Payments for investments accounted for under the equity method		(2)	-
Net cash used in investing activities		**(1,571)**	**(1,563)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for share buy-back	10(B)	(443)	(637)
Proceeds from share-issuance		1,342	-
Payments for treasury shares		(5)	(98)
Proceeds from interest-bearing liabilities	21(D)	2,155	1,137
Repayments of interest-bearing liabilities	21(D)	(625)	(733)
Repayments of lease liabilities	16(B)	(367)	(368)
Dividends paid to shareholders	10(A)	(204)	(363)
Aircraft lease refinancing		-	(88)
Net cash from/(used in) financing activities		**1,853**	**(1,150)**
Net increase in cash and cash equivalents held		**1,365**	**451**
Cash and cash equivalents at the beginning of the year		2,157	1,694
Effects of exchange rate changes on cash and cash equivalents		(2)	12
Cash and cash equivalents at the end of the year	**21(A)**	**3,520**	**2,157**

1. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. The comparative period presented above has been restated accordingly. Refer to Note 38 for further information.

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 2020

1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(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 2020 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 six subsidiaries that are material to the Qantas Group in 2020 and 2019. The parent has majority voting rights in respect of each of the material subsidiaries. Materiality has been assessed based on the expected long-term contribution of statutory profit/(loss) to the Qantas Group.

The Consolidated Financial Statements of Qantas for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 18 September 2020.

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

The Consolidated Financial Statements have been prepared on a going concern basis, which assumes the Group will be able to meet its obligations as and when they fall due.

ii. Basis of Preparation

The Consolidated Financial Statements are presented in Australian dollars (AUD), 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 and investments at fair value through other comprehensive income are measured at fair value
- Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell
- Net defined benefit asset/(liability) is measured at fair value of plan assets less the present value of the defined benefit obligation.

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

(B) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Group's Annual Consolidated Financial Statements for the year ended 30 June 2019, except for the below which have been adopted from 1 July 2019 including restatement of comparative reporting periods:

- AASB 16 *Leases*
- IFRIC agenda decision in relation to the treatment of fair value hedges of foreign currency risk and non-financial assets (IFRIC Fair Value hedging agenda decision).

The nature and effect of these changes are disclosed in Note 38.

In addition, the Group adopted AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions, which amends AASB 16 and became effective from 1 June 2020. The amendment provides practical relief to lessees when accounting for rent concessions directly resulting from COVID-19, by allowing entities to elect not to account for COVID-19 related rent concessions as modifications under AASB 16. The Group elected to apply the lessee practical expedient, with the impact outlined within Note 16. As a result, COVID-19 related rental waivers are recognised as negative variable lease payments within Other Expenses. Changes in scheduled lease payments due to rent deferrals have been recognised within Lease Liabilities.

(C) 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. It also requires the directors to exercise their judgment in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, as appropriate to the particular circumstances. 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 (with the exception of those arising from the adoption of AASB 16 *Lease*s and the IFRIC Fair Value hedging agenda decision as outlined above) are included in the following notes:

- Note 1(D) – Impact of COVID-19 on Financial Reporting
- Note 25 – Impairment/(Reversal of impairment) of Assets and Related Costs
- Note 27(C) – Derivatives and Hedging Instruments
- Note 30 – Superannuation
- Note 37(D) – Summary of significant accounting policies (Revenue)
- Note 37(M) – Summary of significant accounting policies (Provisions)

Notes to the Financial Statements continued

For the year ended 30 June 2020

1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONTINUED)

(D) IMPACT OF COVID-19 ON FINANCIAL REPORTING

The impact of COVID-19 on the Qantas Group has been unprecedented. The section below outlines key areas of impact relevant to the Consolidated Financial Statements for the year ended 30 June 2020. Additional information on how the Group has been impacted by and is responding to COVID-19 is provided in the Review of Operations on pages 12 to 22.

i. Overview of COVID-19 Impact on the Qantas Group and the Group's Recovery Plan

The measures taken by Governments across the world to slow the spread of COVID-19 severely impacted airlines as travel restrictions and border closures were imposed. These travel restrictions, and the resulting decrease in demand has resulted in significant capacity reductions domestically and internationally. The Group took immediate and decisive action to mitigate the impact of COVID-19, including a reduction in flight capacity (domestic and international), workforce stand downs, operational cost-out measures, capital expenditure deferrals and cancellation of proposed shareholder distributions.

Governments worldwide have announced relief packages to support affected businesses, including specifically the aviation industry, to mitigate the impact of COVID-19. The Australian Aviation Financial Relief package was introduced to provide refunds or waivers of a range of Government changes on the aviation industry. The JobKeeper Payment was introduced to help keep Australians in jobs and support affected businesses.

In addition, the Australian Government commissioned Qantas to conduct various charter repatriation flights and rescue flights. Along with other Australian domestic airlines, Qantas also operated domestic, regional and international flights as part of the Minimum Viable Network intended to maintain vital air transport links. Qantas also secured a contract to conduct freight services under the International Freight Assistance Mechanism to ensure import and export freight routes remained open.

In addition to operational responses, the Group boosted liquidity by cutting capital expenditure, cancelling shareholder distributions and sourcing additional funding through $1.75 billion in new debt, with no financial covenants, and a $1.36 billion fully underwritten Institutional Placement. Refer to the Capital Structure and Liquidity section below for further details.

Recovery Plan

In June 2020, the Group announced a three-year plan to accelerate the recovery from the COVID-19 crisis and create a stronger platform for future profitability, long-term shareholder value and to preserve as many jobs as possible.

The immediate focus of the plan is to:

- Rightsize the Group's workforce, fleet and other costs according to demand projections, with the ability to scale up as flying returns
- Restructure to deliver ongoing cost savings and efficiencies across the Group's operations in a changing market
- Recapitalise through an equity raising to strengthen the Group's financial resilience to recovery and the opportunities it presents.

The plan is designed to account for the uncertainties associated with the crisis, preserving as many key assets and skills as the Group can reasonably carry to support the eventual recovery. COVID-19 represents the biggest challenge ever faced by global aviation and the Group's response to the crisis is scaled accordingly.

Key actions of the plan include:

- Reducing the Group's pre-crisis workforce by at least 6,000 roles across all parts of the business
- Continuing the stand down for 20,000 employees, particularly those associated with international operations, until flying returns to normal
- Retiring Qantas' six remaining 747s immediately, six months ahead of schedule
- Grounding up to 100 aircraft for up to 12 months (some for longer), including most of the international fleet. The majority are expected to ultimately go back into service but some leased aircraft may be returned at the end of their current lease term. The Group's A380 fleet (12 aircraft) will be grounded for the foreseeable future
- A321neo and 787-9 fleet deliveries have been deferred to minimise capital expenditure.

Notes to the Financial Statements continued

For the year ended 30 June 2020

1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONTINUED)

(D) IMPACT OF COVID-19 ON FINANCIAL REPORTING (CONTINUED)

ii. Capital Structure and Liquidity

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[1]. 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 determined on a forward-looking basis, which is 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.

The Group responded quickly to increase liquidity following the impact of COVID-19 on the business, raising $1.75 billion in new debt funding between 31 December 2019 and 30 June 2020. The Group continues to have no financial covenants on the new debt raising.

In March 2020, the Group cancelled the off-market share buy-back announced in February 2020, which preserved $150 million in cash. In June 2020, the Group revoked the interim dividend, announced in February 2020 and deferred in March 2020, avoiding cash outflow of $201 million. Decisions on future shareholder distributions will continue to be made in line with the Group's Financial Framework.

On 25 June 2020, the Group announced a fully underwritten Institutional Placement (Placement) to raise approximately $1.36 billion and a non-underwritten retail Share Purchase Plan for eligible existing shareholders.

The Placement was completed prior to 30 June 2020 with 372.7 million shares (approximately 25 per cent increase to total shares on issue) issued at $3.65 per share. This transaction was recorded in Issued Capital and received in Cash within the Consolidated Balance Sheet for the year ended 30 June 2020.

Proceeds from the equity raising will be used to accelerate the Group's recovery, strengthen its balance sheet and position it to capitalise on opportunities aligned with its strategy.

As at 30 June 2020, including the completion of the underwritten Placement, the Group's available liquidity was $4.5 billion, including $3.5 billion of cash and cash equivalents and $1 billion undrawn facility.

As at 30 June 2020, Net Debt (as measured by the Group's Financial Framework) was $4.7 billion with no major debt maturities until June 2021 and no financial covenants on its debt.

Subsequent to year end, the retail Share Purchase Plan was completed resulting in the issuance of 22.5 million shares at $3.18 per share (totalling $71.7 million). This transaction will be recognised within the 2020/21 financial year. The Group also completed the debt raising of a 10-year, $0.5 billion unsecured bond issue as part of its ongoing management of its debt maturity profile. The proceeds will strengthen short-term liquidity and be used to pay $0.4 billion in bonds due to expire in June 2021.

The Group continues to hold an investment grade credit rating from Moody's (Baa2).

At the present time, the Group continues to consider that COVID-19 will not impact the Group's ability to continue as a going concern or to pay its debt as and when they become due and payable.

1. Net debt includes on balance sheet debt and capitalised aircraft lease liabilities under the Group's Financial Framework. Capitalised aircraft lease liabilities are measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis. Residual value of capitalised aircraft lease liabilities denominated in foreign currency is translated at the long-term exchange rate.

Notes to the Financial Statements continued

For the year ended 30 June 2020

1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONTINUED)

(D) IMPACT OF COVID-19 ON FINANCIAL REPORTING (CONTINUED)

iii. Impact on Accounting Judgements and Estimates

COVID-19, together with the Group's immediate actions and responses and the strategy within the Recovery Plan have influenced certain accounting judgements and estimates impacting the Consolidated Financial Statements for the year ended 30 June 2020.

The Group's Recovery Plan has been the primary reference where forward assumptions are required to support judgements and estimates, in addition to any previously existing sources of information.

Given the significance of the impact of COVID-19 on the Group, the judgements and estimates informed by the Recovery Plan are in some circumstances materially different from judgements made in previous financial years. There are uncertainties about future economic and market conditions which will impact the assumptions in the Recovery Plan.

The Recovery Plan assumptions have impacted key judgements and estimates within the following areas of the Financial Report:

Area of Annual Report	Impact on Judgements and Estimates
Impairment Testing	The Recovery Plan informed forecast cash flows used in the determination of the recoverable amounts of cash generating units (CGUs) using the Value in Use method. The Recovery Plan informed other asset specific impairments where assets will be idle or abandoned. The carrying value of investments has also been significantly impacted by COVID-19, requiring judgement of recoverable amounts. Refer to Note 25 for further details on impairment testing.
Fleet Strategy	The Recovery Plan informed judgements around fleet strategy during the three-year plan. This has included around 100 aircraft to be grounded for up to 12 months (some for longer, including the A380 fleet which will be grounded for the foreseeable future), early retirement of the 747 fleet, deferral of A321neo and 787-9 fleet deliveries and assumptions around aircraft lease returns provisions. Refer to Note 1(D)(i) for further information.
Provision for redundancies	The Recovery Plan informed the recognition of redundancy provisions as at 30 June 2020 for the restructuring announced on 25 June 2020. Refer to Note 22 for further details on redundancies.
Hedge designation and hedge accounting	The Recovery Plan informed key inputs to hedging designation and hedge accounting requirements including forecast fuel consumption and forecast income and expenditure denominated in foreign currencies. Refer to Note 27(C) for details on hedge designation and hedge accounting.
Provision for Employee Entitlements	The Recovery Plan informed judgements around the expected pattern of usage of leave provisions, which impacted the measurement of provisions for annual leave and long-service leave. Refer to Note 22 for further details on provisions for Employee Entitlements.
Balance Sheet Presentation	The Recovery Plan informed assumptions around the presentation of refund liabilities as payables, current or non-current treatment of Qantas Points and revenue received in advance.
Revenue Recognition (Impact of breakage Assumptions)	The significant impact of COVID-19 together with strategies within the Recovery Plan informed assumptions around customer and member behaviour and customer engagement strategies which impacted assumptions around breakage.
Income Tax	The Recovery Plan informed judgement around the recognition and recoverability of a net deferred tax asset relating to income tax losses. Refer to Note 9 for details on Income Tax and Note 18 Deferred Tax Assets.

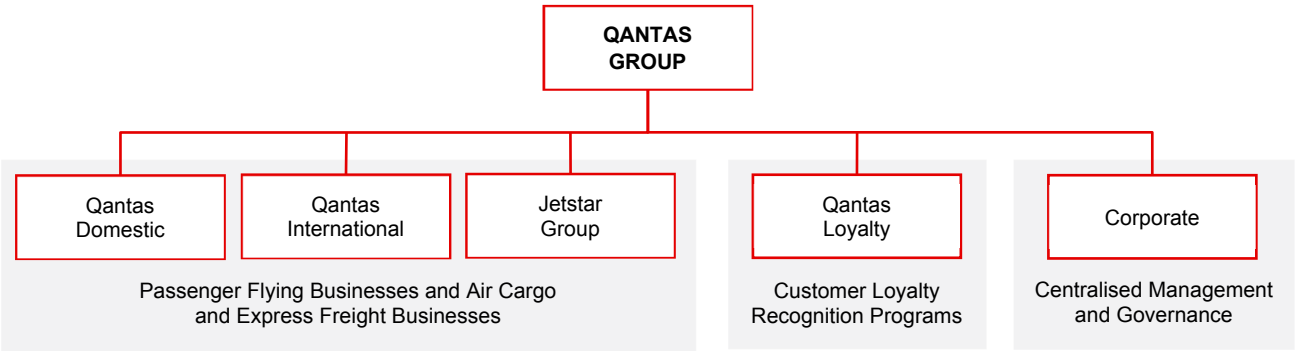
Notes to the Financial Statements continued

For the year ended 30 June 2020

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

(A) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:



i. Underlying EBIT

Underlying EBIT is the primary reporting measure used by the Qantas Group's Chief Operating Decision Making Bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of Qantas Domestic, Qantas International, Jetstar Group, and Qantas Loyalty operating segments. The primary reporting measure of the Corporate segment is Underlying PBT, as net finance costs are managed centrally and are not allocated to the Qantas Domestic, Qantas International, Jetstar Group or Qantas Loyalty operating segments.

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

ii. Analysis by Operating Segment

2020 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[1]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	4,334	5,849	2,897	1,106	7	64	14,257
Inter-segment revenue and other income	338	228	109	118	-	(793)	-
Total segment revenue and other income	**4,672**	**6,077**	**3,006**	**1,224**	**7**	**(729)**	**14,257**
Share of net (loss)/profit of investments accounted for under the equity method	3	3	(59)	-	-	-	(53)
Underlying EBITDA	**896**	**841**	**421**	**390**	**(117)**	**(15)**	**2,416**
Depreciation and amortisation[2]	(723)	(785)	(447)	(49)	(17)	-	(2,021)
Underlying EBIT	**173**	**56**	**(26)**	**341**	**(134)**	**(15)**	**395**
Net finance costs					(271)		(271)
Underlying PBT					**(405)**		**124**
ROIC %[3]							**5.8%**

1. Unallocated/Eliminations represents unallocated and other businesses of the Qantas Group that are not considered to be reportable segments including consolidation elimination entries. It also includes the impact of discount rate changes on provisions (refer to Note 7) and changes in presentation of income/expenses where the determination of whether the Group is acting as principal or agent is made on consolidation.
2. Depreciation and amortisation differs from the depreciation and amortisation recognised in the Consolidated Income Statement due to items not included in Underlying PBT. Refer to Note 2(B).
3. ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital. Refer to Note 2(C).

Notes to the Financial Statements continued

For the year ended 30 June 2020

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

(A) OPERATING SEGMENTS (CONTINUED)

2019 (restated)[1] $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[2]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	5,730	7,125	3,823	1,488	4	(204)	17,966
Inter-segment revenue and other income	368	295	138	166	-	(967)	-
Total segment revenue and other income	**6,098**	**7,420**	**3,961**	**1,654**	**4**	**(1,171)**	**17,966**
Share of net profit of investments accounted for under the equity method	8	9	6	-	-	-	23
Underlying EBITDA	**1,503**	**1,045**	**836**	**414**	**(156)**	**(98)**	**3,544**
Depreciation and amortisation[3]	(725)	(722)	(436)	(38)	(15)	-	(1,936)
Underlying EBIT	**778**	**323**	**400**	**376**	**(171)**	**(98)**	**1,608**
Net finance costs					(282)		(282)
Underlying PBT					**(453)**		**1,326**
ROIC %[4]							**19.2%**

1. The Group adopted AASB 16 *Leases* effective 1 July 2019 using the full retrospective method of adoption and adopted the IFRIC agenda decision in relation to fair value hedges ("IFRIC Fair Value hedging agenda decision") retrospectively. The comparative period presented above has been restated accordingly. Refer to Note 38 for further information.
2. Unallocated/Eliminations represents unallocated and other businesses of the Qantas Group which are not considered to be reportable segments including consolidation elimination entries. It also includes the impact of discount rate changes on provisions (refer to Note 7) and changes in presentation of income/expenses where the determination of whether the Group is acting as principal or agent is made on consolidation.
3. Depreciation and amortisation differs from the depreciation and amortisation recognised in the Consolidated Income Statement due to items not included in Underlying PBT. Refer to Note 2(B).
4. ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital. Refer to Note 2(C).

Passenger revenue primarily arises within the Qantas Domestic, Qantas International and Jetstar Group segments. Freight revenue primarily arises within Qantas International, except when belly space is utilised in Qantas Domestic and Jetstar Group.

Marketing revenue and redemption revenue in relation to the issuance and redemption of Qantas Points is recognised within the Qantas Loyalty segment. Marketing revenue on inter-segment Qantas Point issuances is eliminated on consolidation. Redemption revenue arising from Qantas Group flight redemptions is recognised within Net Passenger Revenue on consolidation. The inter-segment arrangements with Qantas Loyalty are not designed to derive a net profit from inter-segment Qantas Point issuances and redemptions.

Redemption revenue in relation to products provided by suppliers outside the Group, such as Qantas Store redemptions and other carrier redemptions is recognised in the Consolidated Income Statement net of related costs, as the Group is an agent. For the purposes of segment reporting, the Qantas Loyalty segment reports these redemptions on a gross basis. Adjustments are made within consolidation eliminations to present these redemptions on a net basis at a Group level within Other Revenue and Income.

(B) 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 CODM 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 includes the impact of COVID-19 on the operating performance of the Group. Group Revenue for 2019/20, as recognised within Underlying PBT, is down $3.7 billion compared to 2018/19, consistent with Statutory Loss primarily due to the impact of COVID-19.

Likewise, the impact of the decisive actions taken by the Group to mitigate the impact of COVID-19 including a reduction in flight capacity domestically and internationally (including reductions in costs from fuel and variable costs), workforce stand downs and operational cost-out measures have also been recognised in Underlying PBT. Government support to mitigate the impact of COVID-19 from travel restrictions and border closures including the Australian Aviation Financial Relief Package, JobKeeper Payment, Minimum Viable Network flights and International Freight Assistance Mechanism payments, together with costs to operate or payments to employees are also recorded in Underlying PBT.

Items which are identified by Management and reported to the CODM 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, transformational/restructuring initiatives, transactions involving investments, impairments of assets and other transactions outside the ordinary course of business.

Notes to the Financial Statements continued

For the year ended 30 June 2020

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

(B) UNDERLYING PROFIT BEFORE TAX (UNDERLYING PBT) AND RECONCILIATION TO STATUTORY PROFIT BEFORE TAX (CONTINUED)

The impact of COVID-19 and the Group's Recovery Plan have resulted in items not included in Underlying PBT, including asset impairments (including the A380 fleet), Recovery Plan restructuring costs including redundancies and de-designated hedging due to a significant decrease in flying activity. These are in addition to transformation costs directly incurred to enable the delivery of transformation benefits.

	2020 $M	2019 (restated) $M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY (LOSS)/PROFIT BEFORE TAX		
Underlying PBT	**124**	**1,326**
Items not included in Underlying PBT		
– Transformation costs and discretionary bonus for non-executive employees	(191)	(254)
– Recovery Plan restructuring costs	(642)	-
– (Impairment)/reversal of impairment of assets and related costs	(1,428)	39
– De-designation of fuel and foreign exchange hedges	(571)	-
– Net gain on disposal of assets	-	192
– Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair value hedging agenda decision	-	(105)
– Other	-	(6)
Total items not included in Underlying PBT	**(2,832)**	**(134)**
Statutory (Loss)/Profit Before Income Tax Expense	**(2,708)**	**1,192**

In the 2020 financial year, the items outside of Underlying PBT included:

Item Outside of Underlying PBT	Description
Transformation costs and discretionary bonuses for non-executive employees	$191 million including redundancy and related costs of $44 million, fleet restructuring costs of $62 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet), other upfront costs of $55 million directly incurred to enable the delivery of transformation benefits and $30 million of discretionary bonuses to non-executive employees which will be paid to non-executive employees after the employees' post-wage freeze collective agreement is voted upon and approved.
Recovery Plan restructuring costs	$642 million including people restructuring costs of $575 million and fleet restructuring costs of $67 million resulting from the announced COVID-19 Recovery Plan. People restructuring costs include redundancy costs and the remeasurement of employee entitlement provisions due to rightsizing and restructuring strategies in the Recovery Plan. Fleet restructuring costs resulted from changes to fleet strategy as a result of the Recovery Plan.
Impairment of assets and related costs	Impairments of assets and related costs includes: - $1,087 million impairment of the Group's A380 fleet, including related spares, inventories and onerous contracts. With the impact of COVID-19 and the closure of international borders, the Group's A380 fleet is expected to be grounded for the foreseeable future - $23 million impairment relating to the early retirement of the Group's 747 fleet - $150 million impairment of property, plant and equipment, intangible assets and other assets not expected to be recovered in the Recovery Plan - $25 million impairment of the Group's investment in Jetstar Pacific - $73 million impairment of Goodwill and indefinite lived intangible assets in Jetstar Asia - $70 million impairment of the Group's investment in Helloworld. Refer to Note 25 for details on impairment of assets and related costs.
De-designation of fuel and foreign exchange hedges	The Group hedges fuel price risk in accordance with the Treasury Risk Management Policy. Hedge accounting is applied when the requirements of AASB 9 *Financial Instruments* are met. Where the forecast fuel purchase transaction is no longer expected to occur, then hedge accounting is discontinued prospectively, and the amount accumulated in equity is reclassified to the Consolidated Income Statement. The significant decrease in flying activity in the last quarter of the 2019/20 financial year and into the 2020/21 financial year has resulted in hedge accounting being discontinued where forecast fuel purchases are no longer expected to occur. De-designation of fuel and foreign exchange hedges of $571 million has been recognised immediately in the Consolidated Income Statement. Refer to Note 27 for further details on de-designation of fuel and foreign exchange hedges.

Notes to the Financial Statements continued

For the year ended 30 June 2020

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

(B) UNDERLYING PROFIT BEFORE TAX (UNDERLYING PBT) AND RECONCILIATION TO STATUTORY PROFIT BEFORE TAX (CONTINUED)

The 2019 financial year included the following items (restated where relevant for the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision):

Items Outside of Underlying PBT	Description
Transformation costs and discretionary bonuses for non-executive employees	$254 million included redundancy and related costs of $65 million, fleet restructuring costs of $107 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet), other upfront costs of $55 million directly incurred to enable the delivery of transformation benefits and $27 million of discretionary bonuses to non-executive employees which will be paid to non-executive employees after the employees post-wage freeze collective agreement is voted upon and approved.
Reversal of impairment of associate	$39 million relating to the Group's investment in Helloworld Travel Limited. The reversal of the impairment has been recognised as an item outside of Underlying PBT consistent with the treatment of the original impairment.
Net gain on disposal of assets	Net gain on disposal of assets of $192 million is comprised of: – Net gain on disposal of a controlled entity of $47 million arising from the sale of the Qantas Catering business – Net gain on disposal of Airport Terminal assets of $141 million primarily relating to the gain on disposal of Melbourne Domestic Terminal assets – Net gain on partial disposal of associate of $4 million relating to the Group's investment in Helloworld Travel Limited. The Group sold 2 million shares for $5.50 per share in September 2018.
Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision	Following the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision, the Group put in place accounting hedge designations to manage the foreign exchange movements of foreign currency by designating foreign currency interest-bearing liabilities and lease liabilities as the hedging instrument in a cash flow hedge relationship. In accordance with AASB 9, these designations apply prospectively from 1 July 2019. For comparative periods before the designation (which have been restated for the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision) the foreign exchange movements were recognised immediately in the Consolidated Income Statement. As the difference between reporting periods arose due to the timing of accounting hedge designations, the impact on the Consolidated Income Statement in the comparative period has been recognised outside of Underlying PBT to ensure comparability.

(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.

i. ROIC EBIT

ROIC EBIT is derived by adjusting Underlying EBIT for the period to exclude leased aircraft depreciation under AASB 16 and include notional depreciation for these aircraft to account for them as if they were owned.

In addition, for non-aircraft leases, ROIC EBIT is reduced for the full lease payments rather than depreciation under AASB 16 to account for these items as a service cost. The objective of these adjustments is to show an EBIT result which is indifferent to the financing or ownership structure of aircraft assets and that treats non-aircraft leases as a service cost rather than a debt repayment.

	2020 $M	2019 (restated) $M
ROIC EBIT		
Underlying EBIT	395	1,608
Add back: Lease depreciation under AASB 16	402	351
Less: Notional depreciation[1]	(108)	(114)
Less: Cash expenses for non-aircraft leases	(225)	(187)
ROIC EBIT	**464**	**1,658**

1. For calculating ROIC, capitalised leased aircraft are included in the Group's Invested Capital at the AUD market value (referencing AVAC) at the date of commencing operations at the prevailing AUD/USD rate. This value is depreciated notionally in accordance with the Group's accounting policies, with the calculated depreciation reported above known as notional depreciation. Where leased aircraft were classified as finance leases under the previous accounting standard (AASB 117), the capitalised amount and notional depreciation for ROIC is consistent with the recognised accounting values.

Notes to the Financial Statements continued

For the year ended 30 June 2020

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

(C) RETURN ON INVESTED CAPITAL (CONTINUED)

ii. Average Invested Capital

The objective of the Group's Financial Framework is to show Invested Capital which is indifferent to financing or ownership structures of aircraft assets (leased versus owned). Invested Capital includes the net assets of the business other than cash, debt, other financial assets/(liabilities), tax balances and right of use assets (leased aircraft, property and other assets measured under AASB 16).

To account for the capital invested in leased aircraft, Invested Capital includes an amount representing the capitalised value of leased aircraft assets as if they were owned. Invested Capital includes the full capital held in leased aircraft, which is a non-statutory adjustment, as in accordance with Australian Accounting Standards (AASB 16 *Leases*) right of use assets are only measured with reference to the lease term.

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

INVESTED CAPITAL	2020 $M	2019 (restated) $M
Receivables (current and non-current)	646	1,178
Inventories	306	364
Other assets (current and non-current)	562	680
Investments accounted for under the equity method	59	217
Property, plant and equipment	11,726	12,776
Intangible assets	1,050	1,225
Assets classified as held for sale	58	1
Payables (current and non-current)	(2,450)	(2,366)
Provisions (current and non-current)	(2,190)	(1,442)
Revenue received in advance (current and non-current)	(5,040)	(5,880)
Capitalised aircraft leased assets[1]	1,301	1,424
Invested Capital as at 30 June	**6,028**	**8,177**
Average Invested Capital for the year ended 30 June	**8,055**	**8,631**

1. For calculating ROIC, capitalised leased aircraft are included in the Group's Invested Capital at the AUD market value (referencing AVAC) 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 aircraft leased assets. Where leased aircraft were classified as finance leases under the previous accounting standard (AASB 117), the capitalised amount and notional depreciation for ROIC is consistent with the recognised accounting values.

iii. ROIC %

	2020 %	2019 (restated) %
ROIC %[1]	**5.8**	**19.2**

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

iv. ROIC (Statutory EBIT) %

	2020 %	2019 %
ROIC (Statutory EBIT) %[1]	**(29.4)**	**17.7**

1. ROIC (Statutory EBIT) % is calculated by replacing Underlying EBIT with Statutory EBIT, maintaining a consistent methodology to ROIC % as outlined in Section C (i) to (iii).

v. Underlying Earnings Per Share

	2020 cents	2019 (restated) cents
Underlying Earnings Per Share[1]	**5.9**	**57.3**

1. Underlying Earnings Per Share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of (27.5%) (2019: 29.5%) divided by the weighted average number of shares outstanding during the year, excluding unallocated treasury shares.

3 EARNINGS PER SHARE

	2020 cents	2019 (restated) cents
Basic Earnings Per Share[1]	**(129.6)**	**51.5**
Diluted Earnings Per Share[2]	**(129.6)**	**51.3**

1. Weighted average number of shares used in basic Earnings Per Share calculation of 1,516 million (2019: 1,631 million) excludes unallocated treasury shares.
2. Weighted average number of shares used in basic and diluted Earnings Per Share calculation is the same for financial year 2019/20. Weighted average number of shares used in diluted Earnings Per Share calculation of 1,516 million (2019: 1,639 million) excludes unallocated treasury shares and prior year also includes the effect of share Rights expected to vest (using treasury stock method).

Notes to the Financial Statements continued

For the year ended 30 June 2020

3 EARNINGS PER SHARE (CONTINUED)

	$M	$M
Statutory (loss)/profit attributable to members of Qantas	**(1,964)**	**840**
NUMBER OF SHARES	**Number M**	**Number M**
Issued shares as at 1 July	1,571	1,684
Shares bought back and cancelled	(80)	(113)
Capital raising	373	-
Issued shares as at 30 June	**1,864**	**1,571**
Weighted average number of shares for the year	**1,518**	**1,634**

4 REVENUE AND OTHER INCOME

(A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREA

	2020 $M	2019 $M
Net passenger and freight revenue		
Australia	9,262	11,897
Overseas	3,966	4,770
Total net passenger and freight revenue	**13,228**	**16,667**
Other revenue and income	1,029	1,299
Total revenue and other income	**14,257**	**17,966**

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 and income is not allocated to a geographic region as it is impractical to do so.

(B) OTHER REVENUE AND INCOME

	2020 $M	2019 (restated) $M
Frequent Flyer marketing revenue and other Qantas Loyalty businesses	467	481
Qantas Store and other redemption revenue[1,2]	96	99
Third Party services revenue	263	350
Other income	203	369
Total other revenue and income	**1,029**	**1,299**

1. Frequent Flyer redemption revenue excludes redemptions on Qantas Group flights which are reported as Net Passenger Revenue in the Consolidated Income Statement.
2. Where the Group acts as an agent for redemptions, an adjustment is made within consolidation eliminations to present these redemptions on a net basis.

5 DEPRECIATION AND AMORTISATION

	Note	2020 $M	2019 (restated) $M
Property, plant and equipment	15	1,446	1,481
Right of use assets	16	402	351
Intangible assets	17	197	164
Total depreciation and amortisation		**2,045**	**1,996**

6 NET GAIN ON DISPOSAL OF ASSETS

	2020 $M	2019 (restated) $M
Net gain on disposal of property, plant and equipment	(7)	(33)
Net gain on disposal of Airport Terminal Assets	-	(141)
Net gain on partial disposal of associate	-	(4)
Net gain on disposal of a controlled entity	-	(47)
Total net gain on disposal of assets	**(7)**	**(225)**

Notes to the Financial Statements continued

For the year ended 30 June 2020

7 OTHER EXPENDITURE

	2020 $M	2019 (restated) $M
Commissions and other selling costs	506	733
Computer and communication	489	488
Capacity hire (excluding lease components)	268	312
Property occupancy and utility expenses	176	218
Marketing and advertising	160	199
Discretionary bonus to non-executive employees	30	27
Discount rate changes impact on provisions	7	92
Other	314	525
Total other expenditure	**1,950**	**2,594**

8 NET FINANCE COSTS

	Note	2020 $M	2019 (restated) $M
FINANCE INCOME			
Interest income on financial assets measured at amortised cost		29	42
Unwind of discount on receivables		4	5
Total finance income		**33**	**47**
FINANCE COSTS			
Interest expense on financial liabilities measured at amortised cost		(223)	(233)
Interest expense on leases	16(B)	(96)	(101)
Interest paid and capitalised on qualifying assets[1]		48	42
Total finance costs on financial liabilities		**(271)**	**(292)**
Unwind of discount on provisions and other liabilities			
Employee benefits		(15)	(20)
Other liabilities and provisions		(18)	(17)
Total unwind of discount on other liabilities and provisions		**(33)**	**(37)**
Total finance costs		**(304)**	**(329)**
Net finance costs		**(271)**	**(282)**

1. The borrowing costs are capitalised using the average interest rate for the year applicable to the Qantas Group's debt facilities throughout the year, being 4.9 per cent (2019: 5.5 per cent).

9 INCOME TAX BENEFIT/(EXPENSE)

(A) INCOME TAX RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

	2020 $M	2019 (restated) $M
Current income tax expense		
Current income tax – Australia	-	(253)
Current income tax – foreign	(4)	(5)
Total current income tax expense	**(4)**	**(258)**
Deferred income tax benefit/(expense)		
Origination and reversal of temporary differences	675	(75)
Benefit/(utilisation) of tax losses	86	(3)
Current year deferred income tax benefit/(expense)	**761**	**(78)**
Adjustments for the prior year	(13)	(16)
Total deferred income tax benefit/(expense)	**748**	**(94)**
Total income tax benefit/(expense) in the Consolidated Income Statement	**744**	**(352)**

Notes to the Financial Statements continued

For the year ended 30 June 2020

9 INCOME TAX BENEFIT/(EXPENSE) (CONTINUED)

(B) RECONCILIATION BETWEEN INCOME TAX AND STATUTORY (LOSS)/PROFIT BEFORE INCOME TAX

	2020 $M	2019 (restated) $M
Statutory (loss)/profit before income tax benefit/(expense)	**(2,708)**	**1,192**
Income tax benefit/(expense) using the domestic corporate tax rate of 30 per cent	812	(358)
Adjusted for:		
Differences in (loss)/income from investments accounted for under the equity method	(20)	3
Non-deductible losses for foreign branches	(5)	(9)
Non-deductible losses for controlled entities	(19)	(8)
Write-down of investments and non-deductible CGU impairments	(29)	-
Non-assessable gain on property, plant and equipment	-	27
Other net non-assessable items	6	9
Under provision from prior periods	(1)	(16)
Income tax benefit/(expense)	**744**	**(352)**

(C) INCOME TAX RECOGNISED DIRECTLY IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2020 $M	2019 (restated) $M
Income tax on:		
Cash flow hedges	76	111
Defined benefit actuarial losses	17	52
Fair value gains on investments	(2)	(2)
Income tax benefit recognised directly in the Consolidated Statement of Comprehensive Income	**91**	**161**

(D) RECONCILIATION OF INCOME TAX BENEFIT/(EXPENSE) TO INCOME TAX RECEIVABLE/(PAYABLE)

	2020 $M	2019 (restated) $M
Income tax benefit/(expense)	**744**	**(352)**
Adjusted for temporary differences		
Receivables	29	(4)
Inventories	(2)	(5)
Investments accounted for under the equity method	(23)	12
Property, plant and equipment and intangible assets	(352)	119
Right of use assets	(4)	(8)
Payables	14	26
Revenue received in advance	(80)	(17)
Interest-bearing liabilities	(15)	68
Lease liabilities	(16)	4
Other financial assets/(liabilities)	20	(72)
Provisions	(219)	(34)
Other items	(27)	(14)
Temporary differences	**(675)**	**75**
Adjustments for the prior year	13	16
Tax on taxable income	**82**	**(261)**
Tax losses utilised (Australian)	-	3
Tax losses recognised (Australian)[1]	(86)	-
Tax instalments paid[2]	141	145
Income tax receivable/(payable)[3]	**137**	**(113)**

1. A deferred tax asset of $86 million has been recognised for income tax losses and is expected to be recovered in future periods.
2. Australian income tax payments in the Consolidated Cash Flow Statement total $255 million, comprising $141 million Australian income tax instalments referable to 2019/20 and $114 million referable to 2018/19. In addition, the Group paid $4 million in foreign income taxes.
3. The financial year 2019/20 net income tax receivable of $137 million is made up of $141 million receivable for Australian income tax and $4 million payable for overseas income tax.

Income tax paid and payable was less than 30 per cent of the Qantas Group's Statutory (Loss)/Profit Before Tax due to temporary differences of $(675) million (2019: $75 million) that result in differences between taxable income and Statutory (Loss)/Profit Before Tax. These differences will reverse in future periods.

Notes to the Financial Statements continued

For the year ended 30 June 2020

10 DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

	Amount per Ordinary Share cents	Franked Amount per Ordinary Share cents	Dividend Declared $M	Payment Date
2019 final dividend	13.0	13.0	204	September 2019

(A) DIVIDENDS DECLARED AND PAID

During the year ended 30 June 2020, the Group paid a fully franked dividend of 13 cents per ordinary share, totalling $204 million on 23 September 2019.

(B) OTHER SHAREHOLDER DISTRIBUTIONS

During the year ended 30 June 2020, the Group completed an off-market share buy-back of $443 million, which was announced in August 2019. The Group purchased 79.7 million ordinary shares on issue at a discounted share price of $5.56 (market price $6.47 at 14 per cent buy-back discount).

In February 2020, the Group announced a fully franked dividend of 13.5 cents per ordinary share and an off-market share buy-back of up to $150 million. To preserve liquidity in response to the impact of COVID-19, the off-market share buy-back was subsequently cancelled in March 2020 and the interim dividend was subsequently revoked in June 2020.

(C) FRANKING ACCOUNT

	2020 $M	2019 $M
Total franking account balance at 30 per cent	-	113

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.

Franking debits equal to the expected Australian income tax refund of $141 million that will be received during financial year 2020/21. As such, expected future income tax payments and/or receipt of future franked dividends will need to exceed $141 million to generate a positive franking credit balance that could be distributed to shareholders. The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

11 RECEIVABLES

	2020 $M			2019 (restated) $M		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	335	-	335	889	-	889
Less provision for impairment losses	(17)	-	(17)	(4)	-	(4)
Total trade receivables	**318**	**-**	**318**	**885**	**-**	**885**
Sundry receivables	202	101	303	216	77	293
Finance lease receivable[1]	2	23	25	-	-	-
Total other receivables	**204**	**124**	**328**	**216**	**77**	**293**
Total receivables	**522**	**124**	**646**	**1,101**	**77**	**1,178**

1. The Group has subleased property and classified the sublease as a finance lease. The subleased portion of the right of use asset was derecognised and the Group recognised a finance lease receivable (net investment in the finance lease). The interest income recognised on the net investment in the finance lease was $0.5 million (2019: nil).

	2020 $M	2019 (restated) $M
The ageing of trade receivables, net of provision for expected credit losses, at 30 June was[1]:		
Not past due	191	777
Past due 1–30 days	86	56
Past due 31–120 days	4	36
Past due 121 days or more	37	16
Total trade receivables	**318**	**885**

1. The Group assesses at each reporting date whether the carrying value of financial assets is impaired. Where necessary, a provision for expected credit losses (ECL) is recognised, depending on whether there has been a significant increase in credit risk, including risk of default occurring since initial recognition. Refer to Note 37(G) for the Group's accounting policy.

Notes to the Financial Statements continued

For the year ended 30 June 2020

12 INVENTORIES

	2020 $M	2019 $M
Engineering expendables[1]	256	312
Consumables stores	50	49
Work in progress	-	3
Total inventories	**306**	**364**

1. During the year, an impairment of $66 million in Engineering expendables was recognised in relation to the Group's A380 inventories. Refer to Note 25 for more information.

13 ASSETS CLASSIFIED AS HELD FOR SALE

Assets held for sale relates to aircraft and engines of $58 million (2019: $1 million).

The fair value measurement for property, plant and equipment classified as held for sale has been categorised under the fair value hierarchy as Level 2. Refer to Note 37(C) for a definition of the fair value hierarchy.

2020 $M	Opening Net Book Value	Transferred from Property, Plant and Equipment	Disposals	Closing Net Book Value
Aircraft and engines	1	71	(14)	58
Total assets classified as held for sale	**1**	**71**	**(14)**	**58**

2019 $M	Opening Net Book Value	Disposals	Closing Net Book Value
Aircraft and engines	1	-	1
Catering business disposal group	53	(53)	-
Total assets classified as held for sale	**54**	**(53)**	**1**

14 INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Ownership interest in investments accounted for under the equity method

	June 2020 %	June 2019 %
Fiji Resorts Limited	21	21
Hallmark Aviation Services L.P.	49	49
HT & T Travel Philippines, Inc.	28	28
Holiday Tours and Travel (Thailand) Ltd.	37	37
Holiday Tours and Travel Vietnam Co. Ltd.	37	37
Holiday Tours and Travel (GSA) Ltd.	37	37
Helloworld Travel Limited	15	15
Jetstar Japan Co. Ltd.[1]	33	33
Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
PT Holidays Tours & Travel	37	37

1. Based on voting rights.

$M	Note	2020 $M	2019 (restated) $M
Balance as at 1 July		**217**	**166**
Additions/(disposals)		2	(7)
Dividends received		(15)	(11)
Share of net (loss)/profit		(53)	23
Share of reserves and other movements		3	7
(Impairment)/reversal of impairment[1]	25(C)	(95)	39
Balance as at 30 June		**59**	**217**

1. The Group recognised an impairment of $70 million in relation to its investment in Helloworld Ltd (ASX: HLO) including the Group's share of impairment loss on Goodwill and other non-current assets recognised by Helloworld for the year ended 30 June 2020. The recoverable amount of the Group's investment in Helloworld was determined with reference to the volume weighted average price (VWAP) in the last quarter of the 2019/20 financial year. The Group also recognised an impairment of $25 million in relation to its investment in Jetstar Pacific due to the announced exit of the business reducing the carrying value of Jetstar Pacific to nil.

Notes to the Financial Statements continued

For the year ended 30 June 2020

15 PROPERTY, PLANT AND EQUIPMENT

	2020 $M			2019 (restated) $M		
$M	At Cost	Accumulated Depreciation and Impairment	Net Book Value	At Cost	Accumulated Depreciation and Impairment	Net Book Value
Freehold land	49	-	49	49	-	49
Buildings	288	(215)	73	289	(212)	77
Leasehold improvements	1,082	(873)	209	1,052	(840)	212
Plant and equipment	1,437	(1,043)	394	1,493	(1,075)	418
Aircraft and engines	21,728	(11,943)	9,785	22,989	(12,242)	10,747
Aircraft spare parts	886	(432)	454	872	(382)	490
Aircraft deposits	762	-	762	783	-	783
Total property, plant and equipment	**26,232**	**(14,506)**	**11,726**	**27,527**	**(14,751)**	**12,776**

2020 $M	Opening Net Book Value	Cash Additions[1]	Aircraft Lease Refinancing	Disposals	Transfers[2]	Transferred (to)/from Assets Classified as Held for Sale	Depreciation	Impair-ment	Other[3]	Closing Net Book Value
Freehold land	49	-	-	-	-	-	-	-	-	49
Buildings	77	-	-	-	-	-	(4)	-	-	73
Leasehold improvements	212	74	-	-	(3)	-	(34)	(41)	1	209
Plant and equipment	418	55	-	(8)	2	-	(65)	-	(8)	394
Aircraft and engines	10,747	982	-	(14)	230	(72)	(1,300)	(921)	133	9,785
Aircraft spare parts	490	76	-	(1)	(4)	1	(43)	(40)	(25)	454
Aircraft deposits	783	254	-	-	(241)	-	-	-	(34)	762
Total property, plant and equipment	**12,776**	**1,441**	**-**	**(23)**	**(16)**	**(71)**	**(1,446)**	**(1,002)**	**67**	**11,726**

2019 (restated) $M	Opening Net Book Value	Cash Additions[1]	Aircraft Lease Refinancing	Disposals	Transfers[2]	Transferred (to)/from Assets Classified as Held for Sale	Depreciation	Impair-ment	Other[3]	Closing Net Book Value
Freehold land	49	-	-	-	-	-	-	-	-	49
Buildings	79	-	-	-	-	-	(4)	-	2	77
Leasehold improvements	392	37	-	(91)	(10)	-	(38)	-	(78)	212
Plant and equipment	408	107	-	(45)	8	-	(58)	-	(2)	418
Aircraft and engines	10,624	1,114	88	(4)	244	-	(1,338)	-	19	10,747
Aircraft spare parts	474	86	-	(1)	-	-	(43)	-	(26)	490
Aircraft deposits	665	380	-	-	(246)	-	-	-	(16)	783
Total property, plant and equipment	**12,691**	**1,724**	**88**	**(141)**	**(4)**	**-**	**(1,481)**	**-**	**(101)**	**12,776**

1. Additions includes capitalised interest of $42 million (2019: $37 million).
2. Transfers includes transfers between categories of property, plant and equipment and transfers from/(to) other balance sheet accounts.
3. Other includes non-cash movements, movements in accrued payments for property, plant and equipment (2020: $113 million, 2019: $15 million) and disposals where the proceeds have not yet been received (2020: nil), 2019: ($78 million).

(A) AIRCRAFT BY GEOGRAPHIC AREA

Aircraft supporting the Group's global operations are primarily located in Australia, with the exception of those aircraft which are currently in storage overseas.

(B) SECURED ASSETS

Certain aircraft and engines act as security against related financing facilities. Under the terms of certain financing facilities entered into by the Qantas Group, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters. The total carrying amount of assets under pledge is $6,326 million (2019: $5,277 million).

Notes to the Financial Statements continued

For the year ended 30 June 2020

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(C) CAPITAL EXPENDITURE COMMITMENTS

The Group's capital expenditure commitments as at 30 June 2020 are $9,028 million (2019: $9,550 million). The Group has certain rights within its aircraft purchase contracts which can defer the capital expenditure commitments.

The Group's capital expenditure commitments are predominantly denominated in US dollars. Commitments reported above are translated to the Group's Australian dollar presentational currency at the 30 June 2020 closing exchange rate of $0.69 (30 June 2019: $0.69).

16 LEASES

(A) RIGHT OF USE ASSETS

	2020 $M			2019 $M		
$M	At Cost	Accumulated Depreciation and Impairment	Net Book Value	At Cost	Accumulated Depreciation and Impairment	Net Book Value
Aircraft	2,604	(1,994)	610	2,465	(1,781)	684
Property	1,527	(845)	682	1,377	(737)	640
Other	334	(186)	148	205	(110)	95
Total right of use assets	**4,465**	**(3,025)**	**1,440**	**4,047**	**(2,628)**	**1,419**

2020 $M	Opening Net Book Value	Additions/ modifications/ remeasurements	Transfers[1]	Depreciation	Other[2]	Closing Net Book Value
Aircraft	684	147	-	(214)	(7)	610
Property	640	177	(25)	(127)	17	682
Other	95	129	-	(61)	(15)	148
Total right of use assets	**1,419**	**453**	**(25)**	**(402)**	**(5)**	**1,440**

1. Transfers includes transfers from/(to) lease receivables where the Group is a sub-lessor.
2. Other movements include foreign exchange movements, changes in the measurement of make good assets and the impairment of other right of use assets, mainly supporting the Group's A380 fleet of $14 million.

2019 $M	Opening Net Book Value	Additions/ modifications/ remeasurements	Transfers	Depreciation	Other[1]	Closing Net Book Value
Aircraft	785	88	-	(215)	26	684
Property	582	172	-	(114)	-	640
Other	81	35	-	(22)	1	95
Total right of use assets	**1,448**	**295**	**-**	**(351)**	**27**	**1,419**

1. Other movements include foreign exchange movements and changes in the measurement of make good assets.

(B) LEASE LIABILITIES

	2020 $M			2019 $M		
	Current	Non-current	Total	Current	Non-current	Total
Aircraft	282	491	773	260	570	830
Property	163	740	903	156	669	825
Other	79	87	166	43	54	97
Total lease liabilities	**524**	**1,318**	**1,842**	**459**	**1,293**	**1,752**

2020 $M	Opening Balance	Additions/ modifications/ remeasurements	Lease Repayments[1]	Interest	Foreign Exchange	Other[2]	Closing Balance
Aircraft	830	147	(242)	36	2	-	773
Property	825	177	(142)	55	2	(14)	903
Other	97	129	(65)	5	-	-	166
Total lease liabilities	**1,752**	**453**	**(449)**	**96**	**4**	**(14)**	**1,842**

1. Lease repayments of $449 million includes $367 million principal repayments and $82 million interest repayments. The lease repayments exclude deferred lease repayments of $60 million which represents $14 million of interest accrued and $46 million of principal.
2. Other movements include rental waivers of $13 million and gains on early termination of leases.

Notes to the Financial Statements continued

For the year ended 30 June 2020

16 LEASES (CONTINUED)

(B) LEASE LIABILITIES (CONTINUED)

2019 $M	Opening Balance	Additions/ modifications/ remeasurements	Lease Repayments[1]	Interest	Foreign Exchange	Other[2]	Closing Balance
Aircraft	917	88	(275)	46	54	-	830
Property	766	172	(166)	52	9	(8)	825
Other	83	35	(28)	3	4	-	97
Total lease liabilities	**1,766**	**295**	**(469)**	**101**	**67**	**(8)**	**1,752**

1. Lease repayments of $469 million includes $368 million principal repayments and $101 million interest repayments.
2. Other movements relate to gains on early termination of leases.

(C) RECOGNISED WITHIN OTHER EXPENSES IN THE CONSOLIDATED INCOME STATEMENT

	2020 $M	2019 (restated) $M
Lease expense for short-term leases	5	19
Variable lease expenses not included in lease liabilities	-	12
Rental waivers	13	-

17 INTANGIBLE ASSETS

	2020 $M			2019 $M		
	At Cost	Accumulated Amortisation and Impairment	Net Book Value	At Cost	Accumulated Amortisation and Impairment	Net Book Value
Goodwill	162	-	162	209	-	209
Airport landing slots	35	-	35	35	-	35
Software	1,966	(1,281)	685	1,907	(1,081)	826
Brand names and trademarks	1	-	1	28	-	28
Customer contracts/relationships	4	(4)	-	4	(3)	1
Contract intangible assets	167	-	167	126	-	126
Total intangible assets	**2,335**	**(1,285)**	**1,050**	**2,309**	**(1,084)**	**1,225**

2020 $M	Opening Net Book Value	Cash Additions[1]	Transfers[2]	Amortisation	Impairment	Other[3]	Closing Net Book Value
Goodwill	209	-	-	-	(47)	-	162
Airport landing slots	35	-	-	-	-	-	35
Software	826	150	1	(197)	(97)	2	685
Brand names and trademarks	28	-	-	-	(26)	(1)	1
Customer contracts/relationships	1	-	-	-	-	(1)	-
Contract intangible assets	126	41	-	-	-	-	167
Total intangible assets	**1,225**	**191**	**1**	**(197)**	**(170)**	**-**	**1,050**

2019 $M	Opening Net Book Value	Cash Additions[1]	Transfers[2]	Amortisation	Impairment	Other[3]	Closing Net Book Value
Goodwill	207	-	-	-	-	2	209
Airport landing slots	35	-	-	-	-	-	35
Software	757	240	(7)	(164)	-	-	826
Brand names and trademarks	26	-	-	-	-	2	28
Customer contracts/relationships	1	-	-	-	-	-	1
Contract intangible assets	87	39	-	-	-	-	126
Total intangible assets	**1,113**	**279**	**(7)**	**(164)**	**-**	**4**	**1,225**

1. Additions includes capitalised interest of $6 million (2019: $5 million).
2. Transfers includes transfers between categories of intangible assets and transfers from/(to) other balance sheet accounts.
3. Other includes foreign exchange movements and movements in accrued payments for intangible assets.

Notes to the Financial Statements continued

For the year ended 30 June 2020

18 DEFERRED TAX ASSETS/(LIABILITIES)

	2020 $M	2019 (restated) $M
Deferred tax assets/(liabilities)	**167**	**(694)**

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

2020 $M	Opening Balance (restated)	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Recognised in Retained Earnings	Closing Balance
Receivables	(29)	(29)	-	-	(58)
Inventories	(15)	2	-	-	(13)
Investments accounted for under the equity method	(26)	23	-	-	(3)
Property, plant and equipment and intangible assets	(1,668)	352	-	-	(1,316)
Right of use assets	(426)	4	-	-	(422)
Payables	48	(14)	-	-	34
Revenue received in advance	785	80	-	-	865
Interest-bearing liabilities	(142)	15	-	-	(127)
Lease liabilities	526	16	-	-	542
Other financial assets/(liabilities)	(97)	(20)	76	-	(41)
Provisions	403	219	-	-	622
Other items	(53)	27	15	9	(2)
Tax value of recognised tax losses	-	86	-	-	86
Total deferred tax (liabilities)/assets	**(694)**	**761**	**91**	**9**	**167**

2019 (restated) $M	Opening Balance (restated)	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Recognised in Retained Earnings	Closing Balance
Receivables	(33)	4	-	-	(29)
Inventories	(20)	5	-	-	(15)
Investments accounted for under the equity method	(14)	(12)	-	-	(26)
Property, plant and equipment and intangible assets	(1,549)	(119)	-	-	(1,668)
Right of use assets	(434)	8	-	-	(426)
Payables	74	(26)	-	-	48
Revenue received in advance	768	17	-	-	785
Interest-bearing liabilities	(74)	(68)	-	-	(142)
Lease liabilities	530	(4)	-	-	526
Other financial assets/(liabilities)	(280)	72	111	-	(97)
Provisions	369	34	-	-	403
Other items	(119)	14	50	2	(53)
Tax value of recognised tax losses	3	(3)	-	-	-
Total deferred tax assets/(liabilities)	**(779)**	**(78)**	**161**	**2**	**(694)**

(B) QANTAS GROUP CARRIED FORWARD TAX LOSSES

	2020 $M	2019 $M
Tax losses available to be utilised in current year	-	(10)
Total tax losses brought forward	**-**	**(10)**
Tax losses utilised against current taxable income	-	10
Tax losses recognised[1]	(86)	-
Tax losses carried forward to be utilised in future years	**(86)**	**-**

1. A deferred tax asset of $86 million has been recognised for income tax losses and is expected to be recovered in future periods.

Notes to the Financial Statements continued

For the year ended 30 June 2020

18 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

(C) UNRECOGNISED DEFERRED TAX ASSETS

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

	2020 $M	2019 $M
Tax losses – New Zealand	21	21
Tax losses – Singapore	33	18
Tax losses – Hong Kong	13	12
Total unrecognised deferred tax assets	**67**	**51**

19 OTHER ASSETS

		2020 $M			2019 (restated) $M		
	Notes	Current	Non-current	Total	Current	Non-current	Total
Prepayments		121	222[1]	343	156	221	377
Net defined benefit asset	30(B)	-	28	28	-	107	107
Other assets		72	119	191	75	121	196
Total other assets		**193**	**369**	**562**	**231**	**449**	**680**

1. Other assets include incremental costs of obtaining a contract. Refer to note 37(D)(v) for the Group's accounting policy.

20 REVENUE RECEIVED IN ADVANCE

	2020 $M			2019 (restated) $M		
	Current	Non-current	Total	Current	Non-current	Total
Unavailed passenger revenue	2,031	-	2,031	3,167	-	3,167
Unredeemed Frequent Flyer revenue	617	2,200	2,817	1,060	1,402	2,462
Other revenue received in advance	136	56	192	187	64	251
Total revenue received in advance	**2,784**	**2,256**	**5,040**	**4,414**	**1,466**	**5,880**

Unavailed passenger revenue relates to sales to passengers in advance of the date of passenger travel. The balance includes tickets relating to travel with a travel date subsequent to year end and tickets which have been transferred to a travel credit as a result of flight cancellations from border closures and other restrictions due to the impact of COVID-19. Tickets generally expire either, within 12 months after the planned travel date, if they are not used within that time period or on the date of planned travel, depending on the terms and conditions. At the time of travel, revenue is also recognised in respect of tickets that are not expected to be used. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket, experience, historical and expected future trends.

Travel credits are available to be used for future flights and in certain circumstances are eligible for refund. Where customers have made refund claims by 30 June 2020 these are no longer classified as unavailed passenger revenue and are reported as payables in the Consolidated Balance Sheet. Further refund claims are expected, given that the Group's forecast flight schedule remains severely restricted. Notwithstanding that travel credits may not be expected to be utilised in the next 12 months, unavailed passenger revenue is classified as current on the basis that the Group does not have an unconditional right to defer usage of the ticket for at least 12 months.

Unredeemed Frequent Flyer revenue relates to performance obligations associated with Qantas Points which have been issued, but not redeemed. Qantas Points are issued by the Group as part of the Qantas Frequent Flyer program or are sold to third parties such as credit cards providers, who issue them as part of their loyalty programs. Unredeemed Frequent Flyer revenue is classified as either current or non-current based on the Group's expectation of redemption patterns by members within the next 12 months under the Recovery Plan. The non-current amount of Unredeemed Frequent Flyer revenue will be materially recognised as revenue over seven years. Significant changes in Qantas Points expected to expire unredeemed are recognised within Other Revenue and Income using estimates based on the terms and conditions of the Frequent Flyer program, experience, historical and expected future trends.

Other revenue received in advance primarily relates to prepaid Qantas Club revenue, revenue collected on behalf of other airlines, unavailed cargo revenue and incentives or grants the Group has received but are recognised over time. Other revenue is classified as current where it is expected to be recognised or transferred to another carrier within the next 12 months. For further details on the Group's revenue recognition policy, see note 37(D).

As at 30 June 2019, the Group had $4,414 million of current revenue received in advance which represented the Group's best estimate of the amount to be recognised as revenue in financial year 2019/20. Determining the amount of revenue actually recognised during the year in relation to balances deferred at 30 June 2019 is inherently difficult in particular due to the impact of COVID-19 travel restrictions and cancellations. In addition, customers have the ability to change travel dates or request refunds in relation to certain fare types and Qantas Points are treated as fungible in nature. Total Revenue for the Group for financial year 2019/20 has decreased by 21 per cent from 2018/19 primarily due to the impact of COVID-19.

Notes to the Financial Statements continued

For the year ended 30 June 2020

21 NET ON BALANCE SHEET DEBT

(A) CASH AND CASH EQUIVALENTS

	2020 $M	2019 $M
Cash balances	249	318
Cash at call	733	309
Short-term money market securities and term deposits	2,538	1,530
Total cash and cash equivalents	**3,520**	**2,157**

Cash and cash equivalents comprise cash at bank and cash 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 $76 million (2019: $234 million) held by the Qantas Group are pledged as collateral under the terms of certain operational financing facilities when underlying unsecured limits are exceeded. The collateral cannot be sold or repledged in the absence of default by the Qantas Group.

(B) INTEREST-BEARING LIABILITIES

	2020 $M			2019 (restated) $M		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans – secured	362	1,742	2,104	259	867	1,126
Bank loans – unsecured	-	320	320	-	318	318
Other loans – secured	110	2,615	2,725	104	2,217	2,321
Other loans – unsecured	396	1,148	1,544	247	1,125	1,372
Total interest-bearing liabilities	**868**	**5,825**	**6,693**	**610**	**4,527**	**5,137**

Certain current and non-current interest-bearing liabilities relate to specific financing of aircraft and engines and are secured by the aircraft to which they relate (refer to Note 15).

(C) UNDRAWN FACILITIES

At 30 June 2020, the Group has an undrawn Revolving Credit Facility of $1,000 million (2019: $1,000 million).

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

2020 $M	Opening Balance	Debt Repayment	Debt Drawdown	Foreign exchange, Mark to Market & Non-cash Movements	Shareholder Distributions	Treasury Shares	Equity Raising	Other Net Cash Movement	Closing Balance
Interest-bearing liabilities	5,137	(625)	2,155	26	-	-	-	-	6,693
Cash	(2,157)	625	(2,155)	2	647	5	(1,342)	855	(3,520)
Net on balance sheet debt	**2,980**	**-**	**-**	**28**	**647**	**5**	**(1,342)**	**855**	**3,173**

2019 (restated) $M	Opening Balance	Debt Repayment	Debt Drawdown	Foreign exchange, Mark to Market & Non-cash Movements	Aircraft Lease Refinancing	Shareholder Distributions	Treasury Shares	Other Net Cash Movement	Closing Balance
Interest-bearing liabilities	4,655	(733)	1,137	78	-	-	-	-	5,137
Cash	(1,694)	733	(1,137)	(12)	88	1,000	98	(1,233)	(2,157)
Net on balance sheet debt	**2,961**	**-**	**-**	**66**	**88**	**1,000**	**98**	**(1,233)**	**2,980**

Notes to the Financial Statements continued

For the year ended 30 June 2020

22 PROVISIONS

	2020 $M			2019 (restated) $M		
	Current	Non-current	Total	Current	Non-current	Total
Annual leave	351	-	351	348	-	348
Long service leave	469	61	530	410	49	459
Redundancies and other employee benefits[1]	569	-	569	140	-	140
Total employee benefits	**1,389**	**61**	**1,450**	**898**	**49**	**947**
Onerous contracts	65	4	69	-	2	2
Make good on leased assets	23	469	492	16	324	340
Insurance, legal and other	62	117	179	53	100	153
Total other provisions	**150**	**590**	**740**	**69**	**426**	**495**
Total provisions	**1,539**	**651**	**2,190**	**967**	**475**	**1,442**

1. Redundancies and other employee benefits include $519 million relating to Recovery Plan restructuring costs announced in June 2020.

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

2020 $M	Opening Balance (restated)	Provisions Made	Provisions Utilised	Unwind of Discount	Other	Closing Balance
Onerous contracts	2	69[1]	(1)	-	(1)	69
Make good on leased assets	340	164	-	(5)	(7)	492
Insurance, legal and other	153	60	(37)	(1)	4	179
Total other provisions	**495**	**293**	**(38)**	**(6)**	**(4)**	**740**

1. During the year, an onerous provision of $69 million was recognised in relation to the Group's A380 contractual commitments as part of the impairment assessment. Refer to Note 25 for more information.

23 CAPITAL

(A) ISSUED CAPITAL

	2020 $M	2019 $M
Opening balance: 1,570,505,939 (2019: 1,683,567,880) ordinary shares, fully paid	1,871	2,508
Shares bought back during the period: 79,712,857 (2019: 113,061,941) ordinary shares	(95)	(637)
Capital raising: 372,698,270 (2019: nil) ordinary shares	1,328	-
Closing balance: 1,863,491,352 (2019: 1,570,505,939) ordinary shares	**3,104**	**1,871**

On 26 June 2020, the Group completed a fully underwritten Institutional Placement of 372.7 million new shares to institutional investors at a price of $3.65 per placement share. The shares were issued on 1 July 2020.

Subsequent to year end, the Group completed a Share Purchase Plan resulting in the issuance of 22.5 million shares at $3.18 per share totalling $71.7 million. This will be recognised in Issued Capital in the 2020/21 financial year.

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 2020, 9,299,475 (2019: 24,609,551) 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. 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 determined 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.

Notes to the Financial Statements continued

For the year ended 30 June 2020

23 CAPITAL (CONTINUED)

(C) CAPITAL MANAGEMENT (CONTINUED)

	Metric	2020	2019 (restated)
Net Debt[1]	$4.5B to $5.6B[2]	$4.7B	$4.7B
Net Debt/EBITDA[3]	<2.5 times	2.2 times	1.6 times
Return on Invested Capital (%)	ROIC > WACC	5.8 per cent	19.2 per cent
Net capital expenditure[4]		$1.57B	$1.56B
Shareholder distributions		$0.6B	$1.0B

1. Net debt is a non-statutory measure which includes on balance sheet debt and capitalised aircraft lease liabilities under the Group's Financial Framework. Capitalised aircraft lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis. The residual value of the capitalised aircraft lease liability denominated in a foreign currency is translated at the long-term exchange rate.
2. Target net debt range of $4.5 billion to $5.6 billion is based on Invested Capital of $6 billion (2019: target debt range of $5.2 billion to $6.5 billion). The Group is towards the bottom of the target net debt range.
3. Net 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 $1.57 billion (2019: $1.56 billion). During the year ended 30 June 2020, there were no new aircraft leases entered into and no returns of leased aircraft.

24 GOVERNMENT GRANTS AND ASSISTANCE

To mitigate the impacts of COVID-19, Governments have provided businesses, and specifically the aviation sector, with various support packages in the form of rebates and other financial assistance. The Group has recognised government grants and assistance where there is reasonable assurance that the Group will comply with all the associated conditions and that the grants/assistance will be received.

Packages	Description
Minimum Viable Network and Government Repatriation Flights *Recognised within Net Passenger Revenue*	This package is underwritten by the Australian Government. The Group operated a series of domestic, regional and international flights on behalf of the Australian Government to maintain critical links that had been made commercially unviable by COVID-related travel restrictions. The international network included flights to London, Los Angeles, Auckland and Hong Kong. Within Australia it includes a baseline network of domestic passenger flights servicing the most critical metropolitan and regional routes while providing freight belly space capacity. In addition, the Australian Government commissioned Qantas to conduct various charter repatriation flights and rescue flights. The Minimum Viable Network and government repatriation flights were operated on a fee-for-service basis, with fare revenue offsetting the cost to the taxpayer. Income of $192 million was recognised in the Consolidated Income Statement. The costs to operate these flights were recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel, depreciation and amortisation and other expenses.
International Freight Assistance Mechanism *Recognised within Net Freight Revenue*	This mechanism is intended to restore critical global supply chains which have been heavily impacted by COVID-19 containment measures around the world and ensures exporters maintain connectivity to strategic markets. On 3 July 2020, the government announced an extension of the program to the end of 2020. Income of $20 million was recognised in the Consolidated Income Statement. The costs to operate these flights were recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel, depreciation and amortisation and other expenses.
JobKeeper Payment *Recognised within manpower and staff-related expenses*	This payment is intended to help keep more Australians in jobs and support businesses affected by the significant economic impact of COVID-19. The existing JobKeeper Payment will remain in place until 27 September 2020. On 21 July 2020, the government announced the extension of the JobKeeper payment to 28 March 2021 at modified rates and eligibility. The JobKeeper payment is recorded net of manpower related expenses. As one of the most heavily impacted companies, the Qantas Group collected $267 million in JobKeeper payments, the majority of which was paid directly to employees on stand down and the rest used to subsidise wages of those still working.
Singapore Job Support Scheme *Recognised within manpower and staff-related expenses*	The Job Support Scheme provides wage support to employers, helping enterprises retain their local employees (Singapore citizens and permanent residents) during this period of economic uncertainty. Payments under the scheme offset and protected local employees' wages of $5 million.
Australian Airline Financial Relief Package[1] *Recognised within Aircraft Operating Variable expenses*	Includes the refunding and ongoing waiving of a range of government charges on the industry including aviation fuel excise, Airservices Australia charges on domestic airline operations and domestic and regional aviation security charges. Applicable charges applying to flights between 1 February 2020 and 31 December 2020 are eligible for consideration in accordance with the eligibility criteria and related information set out in the grant opportunity guidelines. Under this package, the Group received direct benefits of $36 million in the financial year.
New Zealand Aviation Relief Package *Recognised within Aircraft Operating Variable expenses*	Includes financial support to airlines to pay passenger-based government charges and to cover Airways related fees from 1 March 2020 to 31 August 2020 in response to the COVID-19 crisis. Benefits of $5 million were recognised in the Consolidated Income Statement, offsetting related costs.

1. The Australian Airline Financial Relief Package also provided support to other suppliers of the Group (including government-owned corporations). As a result of this support, the providers have provided waivers to the Group of $52 million up to 30 June 2020.

Notes to the Financial Statements continued

For the year ended 30 June 2020

25 IMPAIRMENT/(REVERSAL OF IMPAIRMENT) OF ASSETS AND RELATED COSTS

(A) IMPAIRMENT TESTING OF CASH GENERATING UNITS

Given the significant impact of COVID-19, Management has assessed that there are indicators of impairment of the Group's CGUs and has undertaken the following:

- Reassessed the identification of the Group's CGUs
- Completed an impairment test of the Group's CGUs
- Tested specific individual assets for impairment where they are not expected to contribute to the cash flows of the CGUs under the Recovery Plan.

i. Reassessment of Identification of CGUs

The identification of an asset's CGU is a critical judgement in performing an impairment test. CGUs are the lowest identifiable group of assets that generate largely independent cash inflows and are determined based on how performance is monitored and how decisions to acquire and dispose of the Group's assets and operations are made.

Given the significant impacts of COVID-19, Management reviewed the identification of CGUs with regards to airlines within the Jetstar Group. The closure of international borders and different considerations for re-opening, together with differences in the recovery profile for each individual airline has impacted the Group's assessment of the smallest identifiable group of assets that generate largely independent cash inflows. As a result, the Group has assessed Jetstar Japan, Jetstar Asia, Jetstar Pacific and Jetstar Australia/New Zealand as separate CGUs in the 2019/20 financial year.

The identified CGUs by Operating Segment for the 2019/20 financial year and for the 2018/19 financial year are outlined in the table below.

Operating Segment	CGUs Identified Financial year 2019/20	CGUs Identified Financial year 2018/19
Qantas Domestic	Qantas Domestic CGU	Qantas Domestic CGU
Qantas International	Qantas International CGU Qantas Freight CGU	Qantas International CGU Qantas Freight CGU
Jetstar Group	Jetstar Asia CGU Jetstar Pacific CGU Jetstar Japan CGU Jetstar Australia/New Zealand CGU	Jetstar Group CGU
Qantas Loyalty	Qantas Loyalty CGU	Qantas Loyalty CGU

ii. Impairment Testing

AASB 136 *Impairment of Assets* requires the assessment at the end of each reporting period as to whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount is determined for an individual asset where possible; otherwise, the recoverable amount of the CGU to which the asset belongs to shall be determined.

Value in use is the present value of the future cash inflows expected to be derived from an asset or CGU.

Fair value less costs of disposal is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the incremental costs directly attributed to disposal.

Where the carrying value of the asset exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount through the recognition of an impairment loss.

Impairment Test of Individual Assets (where not expected to contribute to the cash flows of the CGUs under the Recovery Plan)

Aircraft and related spares, inventory and contractual commitments

With the impact of COVID-19 and the closure of international borders, the Group's A380 fleet is expected to be grounded for the foreseeable future. The A380 fleet, however, does not meet the requirements to be classified as Assets Held for Sale as they are not available for sale. Given the significant uncertainty around the return to service of the fleet, the cash flows of the Qantas International CGU within the Recovery Plan do not include cash flows relating to the A380 assets. The A380 fleet has therefore been tested for impairment outside of the Qantas International CGU.

The recoverable amount of the A380 fleet was determined using a fair value less costs of disposal model. The fair value less costs of disposal was estimated based on valuations provided by two external and independent aircraft valuers (AVAC and AVITAS), translated at 30 June 2020 AUD/USD exchange rates. The Group has made necessary adjustments to these valuations for the level of maintenance life remaining on the aircraft.

The recoverable amount of the A380 fleet, including spares and inventory and the impact of onerous contractual obligations is below their carrying value. The carrying value has been impaired to the recoverable amount.

The Group has also announced the early retirement of the remaining 747 fleet. The 747 fleet has been recognised as Assets Held for Sale as at 30 June 2020 and impaired to their fair value less cost to sell as their sale is highly probable.

The impaired carrying value of the A380 fleet and the 747 fleet are not allocated to the Qantas International CGU and therefore have no further impact on the assessment of impairment for the remaining Qantas International CGU assets outlined below.

Notes to the Financial Statements continued

For the year ended 30 June 2020

25 IMPAIRMENT/(REVERSAL OF IMPAIRMENT) OF ASSETS AND RELATED COSTS (CONTINUED)

(A) IMPAIRMENT TESTING OF CASH GENERATING UNITS (CONTINUED)

ii. Impairment Testing (continued)

Property, Plant & Equipment and Intangible Assets under construction

The Group's response to COVID-19 within the Recovery Plan has included a reduction in forward capital expenditure. This has changed previous assumptions with regards to Property, Plant & Equipment and Intangible Assets under construction. Where the Group is no longer expected to complete Property, Plant & Equipment and Intangible Assets under construction and these assets have no alternative use under the Recovery Plan, these assets are tested for impairment separately. Where the definition of an 'asset' under AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* is no longer met, or the recoverable amount is below the carrying value, an impairment has been recognised.

Impairment Test of CGUs

The impairment test for CGUs includes the allocation of assets to identified CGUs and the determination of the recoverable amount of the CGU based on their value in use. Outlined below are the significant assumptions applied in the determination of recoverable amount.

Significant Assumption	How it was Determined
Calculation of Recoverable Amount	The recoverable amounts of CGUs were determined based on their value in use. The value in use was determined by discounting the future cash flows forecast in the Recovery Plan.
Individual Assets Tested Separately	Assets that have been tested for impairment individually are not allocated to CGUs. As outlined above, the impaired carrying value of the A380 fleet and 747 fleet are not allocated to the Qantas International CGU and therefore have not impacted the assessment of impairment for the remaining Qantas International CGU assets.
Recovery Plan	The Group's Recovery Plan was developed with reference to expected demand scenarios domestically and internationally. The Recovery Plan includes the strategy to rightsize and restructure the business to accelerate recovery and to partially offset revenue lost as a result of the impact of COVID-19. The Recovery Plan targets $15 billion in benefits over three years comprising: - $2.4 billion of restructuring benefits, with some benefits to continue to flow in future years - Initial $2.6 billion rightsizing initiatives to reduce the workforce and supplier costs whilst activity is low - $4.0 billion in direct savings as a result of activity reductions - $6.0 billion of activity-based fuel savings The long-term annual ongoing restructuring benefit to the Group of the Recovery Plan is estimated to be $1 billion from FY23 onwards. The Group estimates total costs of $1 billion to deliver the ongoing restructuring and rightsizing benefits. The restructuring plan includes a range of capital expenditure and fleet decisions to improve cash flow such as: - Qantas' A380 fleet (12 aircraft) will be grounded for the foreseeable future - A321neo and 787-9 fleet deliveries have been deferred to meet the Group's requirements
Period of Cash Flows Forecast	The Group's Recovery Plan is a three-year plan. For the purposes of performing an impairment test under AASB 136, the Group has made adjustments to the Recovery Plan as necessary for committed transformation initiatives at 30 June 2020. The third year of the Recovery Plan has been used to inform the determination of the terminal year. Given the uncertainty of the impact and timing of COVID-19, the Group has adjusted the cash flow forecast under the Recovery Plan for these uncertainties rather than adjusting the discount rate.
Cash Flows	Cash flows were projected based on the Board-approved Recovery Plan. To determine the terminal values for each CGU, a constant growth rate of 2.5 per cent per annum was used by Management where appropriate. This assumption is considered reasonable by Management, as it does not exceed the long-term average growth rate for the industry. Cash outflows include capital and maintenance 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.
Impact of COVID-19 on Substantial Operations	As the impact of COVID-19 continues to evolve, it is extremely challenging to predict the full extent and duration of the impact on the Group's operations. Under the Group's Recovery Plan, the Group has assumed that domestic operations will recover to their pre-COVID-19 levels by the end of 2020/21 financial year. International recovery is anticipated to be slower, with only approximately 50 per cent of pre-COVID-19 capacity expected in the 2021/22 financial year. Changes in the duration and impact of COVID-19 may change these assumptions.
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 (2019: 10 per cent per annum). Given the uncertainty of the impact and timing of COVID-19, the Group has adjusted the cash flows under the Recovery Plan for these uncertainties rather than the discount rate.

Notes to the Financial Statements continued

For the year ended 30 June 2020

25 IMPAIRMENT/(REVERSAL OF IMPAIRMENT) OF ASSETS AND RELATED COSTS (CONTINUED)

(A) IMPAIRMENT TESTING OF CASH GENERATING UNITS (CONTINUED)

ii. Impairment Testing (continued)

Significant Assumption	How it was Determined
Foreign exchange rate used	AUD/USD: 0.69
Sensitivity to Significant Changes in Assumptions	Pre-COVID-19, the Group was reporting ROIC in excess of the Group's Weighted Average Cost of Capital. For example, the 12-month ROIC as at 31 December 2019 was 19.6 per cent, and as at 30 June 2019 was 19.2 per cent, compared to the Group's WACC of 10 per cent. This, combined with an assessment of other factors under AASB 136, evidenced that pre-COVID-19 there were no indicators of impairment of the Group's CGUs. *Sensitivity to changes in cash flows (CGUs other than Jetstar CGUs in Asia)* The terminal year in the impairment test is informed by reference to pre-COVID-19 performance of the CGUs and has the most material impact on the determination of the recoverable amount and of the surplus between the recoverable amount and carrying value of CGUs. The earlier years in the Recovery Plan, while impacting the measurement of the recoverable amount, do not materially impact the surplus identified. As such, reasonable possible changes in the short-term to the timing of domestic and international recovery are unlikely to result in impairment of the CGUs, assuming that the overall recovery expectations of returning to pre-COVID-19 levels remain. The terminal value cash flow is in excess of the break-even cash flow and reasonable possible changes in this assumption do not result in impairment. *Sensitivity to changes in cash flows (Jetstar CGUs in Asia)* As outlined below, the Group recognised impairment of the Goodwill and indefinite lived intangible assets in the Jetstar Asia CGU. This impairment resulted from the recoverable amount being below the carrying value of assets allocated to the CGU. Reasonable possible changes in forecast cash flows would further reduce the estimated recoverable amount below the remaining carrying value of the CGU. Goodwill and indefinite lived intangible assets have been fully impaired, so any further impairment would be assessed for allocation to Property, Plant & Equipment. AASB 136 requires that any allocation of CGU impairment should not reduce the asset below its individual fair value less costs of disposal. Given the remaining Property, Plant & Equipment assets in this CGU, any allocation of impairment under these sensitivity scenarios would not be expected to be material to the Group. The carrying values of the Jetstar Pacific and Jetstar Japan CGUs at 30 June 2020 are nil.

(B) CARRYING VALUE OF GOODWILL AND INDEFINITE LIVED INTANGIBLE ASSETS[1]

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

	2020 $M	2019 $M
Goodwill		
Qantas Domestic	10	10
Qantas Loyalty	12	12
Qantas Freight	49	49
Jetstar Group	n/a	138
Jetstar Australia and New Zealand	91	n/a
Jetstar Asia	-	n/a
Total goodwill	**162**	**209**
Other intangible assets with indefinite useful lives		
Qantas International	35	35
Jetstar Group	n/a	28
Jetstar Australia and New Zealand	1	n/a
Jetstar Asia	-	n/a
Total other intangible assets with indefinite useful lives	**36**	**63**

1. Upon reassessing CGUs, the Goodwill of the Jetstar Group CGU in 2019 of $138 million was allocated to Jetstar Australia and New Zealand ($91 million) and to Jetstar Asia ($47 million). The other intangible assets with indefinite useful lives of the Jetstar Group CGU in 2019 ($28 million) was allocated to Jetstar Australia and New Zealand ($1 million) and Jetstar Asia ($27 million). Refer to Note 25(C) for the subsequent impairment of Jetstar Asia CGU after foreign exchange movements.

Notes to the Financial Statements continued

For the year ended 30 June 2020

25 IMPAIRMENT/(REVERSAL OF IMPAIRMENT) OF ASSETS AND RELATED COSTS (CONTINUED)

(C) RESULTS OF THE GROUP'S IMPAIRMENT TEST

i. Impairment of Individual Assets (where not expected to contribute to the cash flows of the CGUs under the Recovery Plan)

The Group recognised an impairment of $1,254 million (2019: nil) in respect of identified specific assets and liabilities which do not contribute to the cash flows of the Group's CGUs under the Group's Recovery Plan. The remaining carrying value of these assets is not included in the assets and liabilities of the CGU impairment tests. As a result of the impairment recognised in respect of the A380s the remaining carrying value of the aircraft and engines (including related engineering spares and inventory) is $611 million at 30 June 2020.

ii. CGU Impairments

The Group recognised an impairment of $73 million (2019: nil) in respect of the Goodwill and indefinite lived intangible assets recognised in the Jetstar Asia CGU. The Group recognised an impairment of $25 million in relation to its investment in Jetstar Pacific due to the announced exit of the business reducing the carrying value of Jetstar Pacific to nil.

No impairment was recognised within the Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight, Jetstar Australia/ New Zealand and Jetstar Japan CGUs during the year ended 30 June 2020 (2019: nil).

iii. Other Impairments

Investments accounted for under the equity method

The Group recognised an impairment of $70 million in relation to its investment in Helloworld Ltd (ASX: HLO) due to the significant and prolonged impact of COVID-19 on the business. This includes the Group's share of impairment loss on Goodwill and other non-current assets recognised by Helloworld for the year ended 30 June 2020. The recoverable amount was determined with reference to the volume weighted average price (VWAP) in the last quarter of the 2019/20 financial year.

Other

The Group recognised an impairment related to other assets of $34 million.

iv. Summary of Impairments and Liabilities recognised

	2020 $M	2019 $M
Impairment of individual assets and recognition of liabilities which do not contribute to the Group's Recovery Plan		
Impairment of A380s, related spares and inventory	1,018	-
Impairment of 747s on transfer to Assets Held for Sale	23	-
Impairment of property, plant and equipment under construction and recognition of exit costs	47	-
Impairment of software intangible assets under construction	40	-
Impairment of software intangibles	57	-
Total specific asset impairments	**1,185**	**-**
Onerous contractual commitments relating to A380s	69	-
Total onerous contractual commitments	**69**	**-**
Total specific asset impairment and recognition of liabilities which do not contribute to the Group's Recovery Plan	**1,254**	**-**
CGU Impairment		
Jetstar Asia Goodwill	47	-
Jetstar Asia indefinite lived intangible assets	26	-
Investment in Jetstar Pacific accounted for under the equity method	25	
Total CGU Impairment	**98**	**-**
Other Impairment/(reversal) of impairment		
Impairment/(reversal) of impairment in Helloworld accounted for under the equity method	70	(39)
Other	34	-
Total other impairment	**104**	**(39)**
Total impairment/(reversal of impairment) of assets and related costs[1]	**1,456**	**(39)**

1. Total impairment of assets and related costs have been recognised in Property, Plant and Equipment of $1,002 million, Intangible assets of $170 million, Investments accounted for under the equity method of $95 million, Inventories of $66 million, Other Assets of $19 million, Right of Use Assets of $14 million, Receivables of $13 million and Provisions of $77 million.

Notes to the Financial Statements continued

For the year ended 30 June 2020

26 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 $28 million (2019: $49 million). The total cash-settled share-based payment expense for the year was $0.35 million (2019: $3 million). Further details regarding the operation of equity plans for Executives are outlined in the Remuneration Report from pages 30 to 54.

(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 44 to 45.

	2020	2019
Performance Rights Reconciliation	**Number of Rights**	**Number of Rights**
Rights outstanding as at 1 July	12,699,500	15,121,500
Rights granted during the year	4,086,000	3,602,500
Rights forfeited during the year	(1,175,189)	(1,278,263)
Rights exercised during the year	(6,003,175)	(4,746,237)
Rights outstanding as at 30 June	**9,607,136**	**12,699,500**
Rights exercisable as at 30 June	**-**	**-**

The Rights outstanding as at 30 June 2020 included 2,969,500 Rights under the 2018-2020 LTIP. 1,134,203 Rights vested and converted to shares and 1,148,297 Rights forfeited following the testing of performance hurdles as at 30 June 2020 and after applying service conditions and the Board's approval of the 2018-2020 LTIP vesting outcome on 21 August 2020. As noted in the Remuneration Report on page 31, the Board has agreed with the CEO to defer the decision as to whether his Rights will be forfeited or allowed to convert to shares until at least August 2021. Therefore 687,000 Rights under the 2018-2020 LTIP remain unvested.

The Rights outstanding as at 30 June 2019 included 6,030,000 Rights under the 2017-2019 LTIP. 6,003,175 Rights vested and converted to shares and 26,825 Rights forfeited following the testing of performance hurdles as at 30 June 2019 and after applying service conditions and the Board's approval of the 2017-2019 LTIP vesting outcome on 21 August 2019.

i. Fair Value Calculation

The estimated value of Rights granted was determined at grant date using a Monte Carlo model. The weighted average fair value of Rights granted during the year was $3.97 (2019: $3.14).

	2020		2019	
Inputs into the Models	**25 October 2019**	**4 October 2019**	**26 October 2018**	**5 September 2018**
Rights granted	743,000	3,343,000	726,000	2,876,500
Weighted average share value	$6.25	$6.37	$5.23	$6.25
Expected volatility	25.0%	25.0%	25.0%	25.0%
Dividend yield	4.4%	4.3%	4.2%	3.6%
Risk-free interest rate	0.70%	0.60%	2.0%	2.0%

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 42 to 43. There were 369,196 awards of Qantas shares made under the 2018/19 STIP during the year ended 30 June 2020 (2019: 613,888 awards under the 2017/18 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 42 to 43. The CEO retains discretion over any awards made under the MIP. There were 4,278,606 awards of Qantas shares made under the 2018/19 MIP during the year ended 30 June 2020 (2019: 5,992,430 awards under the 2017/18 MIP).

Notes to the Financial Statements continued

For the year ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT

(A) RISKS

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

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

Risk	Nature of Risk	Management of Risk
Liquidity Risk	Difficulty in meeting financial liability obligations.	Remaining within optimal capital structure, targeting a minimum liquidity level, ensuring long-term commitments are managed, maintaining access to a variety of additional funding sources and managing maturity profiles.
Interest Rate Risk	Fluctuations 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 agreements and options.
Foreign Exchange Risk	Fluctuations in the fair value of future cash flows or assets/liabilities denominated in a currency other than AUD because of changes in foreign exchange rates.	Forward foreign exchange contracts, currency options, cross-currency swaps and designation of non-derivative foreign currency liabilities in a cash flow hedge relationship.
Fuel Price Risk	Exposure of future AUD fuel to unfavourable USD-denominated price movements and foreign exchange movements.	**USD price** – options and swaps on jet kerosene, gasoil and crude oil. **Foreign exchange risk** – foreign exchange contracts and currency options.
Credit Risk	Potential loss from a transaction in the event of a default by a counterparty during the term or on settlement of a transaction.	**Trade Debtor counterparties** – Use of International Air Transport Association (IATA) clearing mechanism which undertakes its own credit review of members, and stringent credit policies where the Group provides credit to customers directly. **Other financial asset counterparties** – transact only with counterparties that have acceptable credit ratings and counterparty limits.

i. Liquidity Risk

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

Liquidity risk management:
The Qantas Group manages liquidity risk by targeting a minimum liquidity level, ensuring long-term commitments are managed with respect to forecast available cash inflows, maintaining access to a variety of additional funding sources, including commercial paper and standby facilities, managing maturity profiles and maintaining an unencumbered pool of assets. 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 impact of COVID-19 has seen the Qantas Group take swift action to boost liquidity by unlocking value in the Group's unencumbered asset base and accessing a variety of funding sources, while also maintaining minimal refinancing risk with no major maturities until June 2021.

The Group responded quickly to increase liquidity by raising $1.75 billion in new secured debt funding since 31 December 2019. The Group continues to have no financial covenants while raising new debt at competitive rates with long tenors.

In March 2020, the Group cancelled the off-market share buy-back announced in February 2020, which preserved $150 million in cash. In June 2020, the Group revoked the interim dividend, announced in February 2020 and deferred in March 2020, avoiding cash outflow of $201 million.

On 25 June 2020, the Group announced a fully underwritten Institutional Placement (Placement) to raise approximately $1.36 billion and a non-underwritten retail Share Purchase Plan for eligible existing shareholders.

As at 30 June 2020, including the completion of the underwritten Placement, the Group's available liquidity was $4.5 billion, including $3.5 billion of cash and cash equivalents and $1 billion in standby facilities maturing in financial year 2022/23 and 2023/24. In addition to this, the Group maintains an unencumbered asset base of approximately $2.5 billion, including 46 per cent of the Group's fleet, land, spare engines and other assets.

Notes to the Financial Statements continued

For the year ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) RISKS (CONTINUED)

i. Liquidity Risk (continued)

Subsequent to year end, the retail Share Purchase Plan was completed resulting in the issuance of 22.5 million shares at $3.18 per share (totalling $71.7 million). The Group also completed the debt raising of a 10-year, $0.5 billion in unsecured bonds as part of ongoing management of its debt maturity profile. The proceeds will strengthen short-term liquidity and be used to pay $0.4 billion in bonds due to expire in June 2021. The Group continues to have no financial covenants on any of its debt. These transactions will be recognised within the 2020/21 financial year.

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. The amounts disclosed in the table are undiscounted.

2020 $M	Less Than 1 Year	2 to 3 Years	4 to 5 Years	More Than 5 Years	Total
Financial liabilities					
Payables	2,351	99	-	-	2,450
Lease liabilities[1]	516	773	311	578	2,178
Bank loans – secured[2]	407	648	512	757	2,324
Bank loans – unsecured[2]	4	8	333	-	345
Other loans – secured[2]	165	726	440	1,820	3,151
Other loans – unsecured[2]	487	390	297	669	1,843
Derivatives – inflows	(1)	-	-	-	(1)
Derivatives – outflows	5	2	-	-	7
Net other financial assets/liabilities – inflows	18	10	-	-	28
Total financial liabilities	**3,952**	**2,656**	**1,893**	**3,824**	**12,325**

1. This represents the Group's contractual undiscounted cash flows relating to leases.
2. Recognised financial liability maturity values are shown pre-hedging.

2019 (restated) $M	Less Than 1 Year	2 to 3 Years	4 to 5 Years	More Than 5 Years	Total
Financial liabilities					
Payables	2,366	-	-	-	2,366
Lease liabilities[1]	478	812	342	531	2,163
Bank loans – secured[2]	295	505	351	72	1,223
Bank loans – unsecured[2]	9	18	18	334	379
Other loans – secured[2]	164	470	813	1,341	2,788
Other loans – unsecured[2]	340	818	285	196	1,639
Derivatives – inflows	(6)	(3)	-	-	(9)
Derivatives – outflows	16	7	-	-	23
Net other financial assets/liabilities – inflows	(256)	(47)	-	-	(303)
Total financial liabilities	**3,406**	**2,580**	**1,809**	**2,474**	**10,269**

1. This represents the Group's contractual undiscounted cash flows relating to leases.
2. 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. As at 30 June 2020, interest-bearing liabilities amounted to $6,693 million (2019: $5,137 million). The fixed/floating split is 40 per cent and 60 per cent respectively (2019: 56 per cent and 44 per cent). As noted in Note 23(C), the Group manages its exposure to interest rate risk with reference to the Group's Financial Framework where the fixed/floating ratio is measured against Net Debt. The Group's Net Debt is a non-statutory measure and includes on balance sheet debt, cash and capitalised aircraft lease liabilities. The ratio of fix/floating on Net Debt is 78 per cent and 22 per cent respectively, which assumes cash is treated as floating. As at 30 June 2020, other financial assets and liabilities included derivative financial instruments relating to debt obligations and future interest payments totalling $7 million (liability) (2019: $17 million (liability)). These are recognised at fair value.

Notes to the Financial Statements continued

For the year ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) RISKS (CONTINUED)

ii. Interest Rate Risk (continued)

Sensitivity to interest rate risk:

	Profit Before Tax		Equity (Before Tax)[1]	
$M	**2020**	**2019**	**2020**	**2019**
100bps increase in interest rates[2]				
Variable rate interest-bearing instruments (net of cash)	(8)	(5)	-	-
Derivatives designated in a cash flow hedge relationship	-	-	1	2
100bps decrease in interest rates[2]				
Variable rate interest-bearing instruments (net of cash)	8	5	-	-
Derivatives designated in a cash flow hedge relationship	-	-	-	(2)

1. Equity (Before Tax) does not include sensitivity recognised in Profit/(Loss) Before Tax.
2. Sensitivity analysis assumes hedge designations as at 30 June 2020 remain unchanged.

Under AASB 16, interest rate movements on lease liabilities are treated as modifications against the corresponding right of use asset and lease liability. As such, there is no immediate impact to the Consolidated Income Statement or Other Comprehensive Income and as a result, interest rate movements on lease liabilities are not included as an interest rate sensitivity.

iii. Foreign Exchange Risk

Nature of the risk:

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the Group. The Group operates internationally and is exposed to foreign exchange risk, primarily the US dollar. The source and nature of this risk arises from operations, capital expenditure and revaluation risk. The revaluation risk primarily exists in interest bearing liabilities, lease liabilities and other financial assets and liabilities. The Group hedges foreign exchange risk with the objective of minimising volatility of the Australian currency cost of highly probable forecast purchases and disposals of property, plant and equipment and other revenue and operating expenditures. Foreign exchange losses/(gains) for the year ended 30 June 2020 was ($46) million (2019: $130 million).

Management of foreign exchange risk:

Forward foreign exchange contracts and currency options are used to hedge a portion of 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 2020, other financial assets and liabilities included derivative financial instruments relating to the hedging of future capital expenditure payments totalling $15 million (net asset) (2019: $16 million (net asset)) and relating to the hedging of future operating expenditure payments totalling $15 million (net asset) (2019: nil). These are recognised at fair value.

Non-derivative financial liabilities including interest-bearing liabilities and lease liabilities are designated in a cash flow hedge relationship to hedge forecast foreign currency revenue. These interest-bearing liabilities and lease liabilities have a maturity between one and 7 years. To the extent a foreign exchange gain or loss is incurred, and the cash flow hedge is deemed effective, this is deferred until the revenue is realised. As at 30 June 2020, total unrealised foreign exchange losses on hedges of revenue designated to non-derivative financial liabilities was $3 million (2019: nil).

Sensitivity to foreign exchange risk:

	Profit Before Tax		Equity (Before Tax)[1]	
$M	**2020**	**2019 (restated)**	**2020**	**2019 (restated)**
20% movement in Foreign Exchange Risk[2,3]				
20% (2019: 20%) USD depreciation	(68)	(249)	(373)	(114)
20% (2019: 20%) USD appreciation	99	379	610	156

1. Equity (Before Tax) does not include sensitivity recognised in Profit/(Loss) Before Tax.
2. Sensitivity analysis assumes hedge designations as at 30 June 20 remain unchanged. Sensitivity analysis on foreign currency pairs of 20 per cent represent recent volatile market conditions.
3. Sensitivity analysis includes foreign currency interest-bearing liabilities, lease liabilities and derivatives.

Following the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision, the Group put in place accounting hedge designations to manage the foreign exchange movements of foreign currency revenue by designating foreign currency interest-bearing liabilities and lease liabilities as the hedging instrument in a cash flow hedge relationship. The effective portion of the foreign exchange revaluation of the hedging instrument is recognised in Other Comprehensive Income and is recycled to the Consolidated Income Statement within Net Passenger Revenue when the hedged item is realised. In accordance with AASB 9, these designations apply prospectively from 1 July 2019. For comparative periods before the designation (which have been restated for the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision), the foreign exchange movements were recognised immediately in the Consolidated Income Statement within Other Expenses.

Notes to the Financial Statements continued

For the year ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) RISKS (CONTINUED)

iv. Fuel Price Risk

Nature of the risk:
Exposure of future AUD fuel costs to unfavourable USD-denominated price and foreign exchange movements.

Management of future AUD fuel costs risk:
The Qantas Group uses options and swaps on jet kerosene, gasoil and crude oil to hedge exposure to movements in the USD price of aviation fuel. Qantas considers the crude component to be a separately identifiable and measurable component of aviation fuel. In identifying this component, the Group considers long-term correlation levels between crude hedging products and the underlying jet fuel exposure. The foreign exchange risk in the total fuel cost is separately hedged using foreign exchange contracts and currency options. Hedging is conducted in accordance with Qantas Group policy. Fuel consumption out to two years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board. For the year ended 30 June 2020, other financial assets and liabilities included fuel and foreign exchange derivatives totalling $57 million (net liability) (2019: $286 million (net asset)). These are recognised at fair value.

Sensitivity to foreign exchange and fuel price risk:

	Profit Before Tax		Equity (Before Tax)[1]	
$M	**2020**	**2019**	**2020**	**2019**
20% movement in AUD fuel costs[2]				
20% (2019: 20%) USD depreciation, 20% (2019: 20%) increase per barrel in fuel indices	41	-	30	322
20% (2019: 20%) USD appreciation, 20% (2019: 20%) decrease per barrel in fuel indices	(29)	-	42	93

1. Equity (Before Tax) does not include sensitivity recognised in Profit/(Loss) Before Tax.
2. Sensitivity analysis assumes hedge designations as at 30 June 2020 remain unchanged. Sensitivity analysis on foreign currency pairs and fuel indices of 20 per cent represent recent volatile market conditions. Sensitivity analysis assumes an offset between USD and fuel price indices based on observed market movements.

v. Credit Risk

Nature of the risk:
Credit risk is the potential loss from a transaction in the event of default by the counterparty during the term of the transaction or on settlement of the transaction. The Group has credit exposure in respect of trade receivables and other financial instruments in the ordinary course of business. The maximum exposure to credit risk is represented by the carrying value of financial assets.

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 2020, trade debtors amounted to $318 million (2019: $885 million). The Qantas Group has credit risk associated with travel agents, codeshare partners, industry settlement organisations, and credit provided to direct customers, such as large airline, loyalty and freight corporate customers. A significant proportion of receivables are settled through the International Air Transport Association (IATA) clearing mechanism which undertakes its own credit review of members The Qantas Group minimises this credit risk through the application of stringent credit policies and accreditation of travel agents through industry programs
- **Other financial asset counterparties**: The Qantas Group restricts its dealings to counterparties that have acceptable credit ratings. Should the rating of a counterparty fall below certain levels, internal policy dictates that approval by the Board is required to maintain the level of the counterparty exposure. Alternatively, Management may consider closing out positions with the counterparty or novate open positions to another counterparty with acceptable credit ratings

The Qantas Group minimises the concentration of credit risk by undertaking transactions with a large number of customers and counterparties in various countries in accordance with Board-approved policy. As at 30 June 2020, the credit risk of the Qantas Group to counterparties in relation to other financial assets, cash and cash equivalents, and other financial liabilities amounted to $3,311 million (2019: $2,125 million). Refer to Note 27(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.

Notes to the Financial Statements continued

For the year ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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. 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 investments and derivative financial instruments recognised on the Consolidated Balance Sheet. Refer to Note 37(C) for a definition of the fair value hierarchy.

	June 2020				June 2019 (restated)			
	Carrying Amount Held at				Carrying Amount Held at			
$M	Fair Value Through Profit And Loss	Fair Value Through Other Comprehensive Income[3]	Amortised Cost	Fair Value	Fair Value Through Profit And Loss	Fair Value Through Other Comprehensive Income	Amortised Cost	Fair Value
Cash and cash equivalents	-	-	3,520	3,522	-	-	2,157	2,162
Receivables	-	-	646	646	-	-	1,178	1,178
Other financial assets[1]	251	104	-	355	422	96	-	518
Financial asset	**251**	**104**	**4,166**	**4,523**	**422**	**96**	**3,335**	**3,858**
Payables	-	-	2,450	2,450	-	-	2,366	2,366
Interest-bearing liabilities[2]	-	-	6,693	7,450	-	-	5,137	5,607
Other financial liabilities[1]	285	-	-	285	137	-	-	137
Financial liabilities	**285**	**-**	**9,143**	**10,185**	**137**	**-**	**7,503**	**8,110**

1. Other financial assets and liabilities represents the fair value of equity investments and derivative financial instruments recognised on the Consolidated Balance Sheet. Derivative financial instruments have been measured at fair value using Level 2 inputs in estimating their fair values. Equity instruments have been measured at fair value using Level 1 or Level 2 inputs in estimating their fair value.
2. The fair value of interest-bearing liabilities is calculated as the present value of outstanding contractual cashflows discounted at a risk-free rate.
3. As at 30 June 2020, $96 million of the $104 million of other financial assets relates to the Group's investment in Alliance Airlines Limited (ASX: AQZ) which has been accounted for as an investment held at fair value through other comprehensive income under AASB 9.

During the year, the Group recognised fair value changes in relation to listed and unlisted equity investments, net of tax in Other Comprehensive Income of ($16) million (2019: $4 million). The Group recognised fair value changes, net of tax of $7 million (2019: $3 million) in respect of listed equity investment using Level 1 inputs. The Group recognised fair value changes, net of tax of ($23) million (2019: $1 million) in respect of unlisted equity investments using Level 2 inputs.

(C) DERIVATIVES AND HEDGING INSTRUMENTS

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

Type of Hedge	Description	Derivative
Cash Flow Hedges	A derivative or financial instrument to hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction.	Exchange derivative contracts to hedge future AUD fuel costs and foreign currency operational payments (forwards, swaps or options). Interest rate derivative contracts to hedge future interest payments (forwards, swaps or options). Foreign exchange derivative contracts to hedge future capital expenditure payments (forwards or options).

The Group's derivative assets and liabilities as at 30 June 2020 are detailed below:

	2020			2019		
$M	Current	Non-current[1]	Total	Current	Non-current[1]	Total
Derivative assets						
Designated as cash flow hedges	66	35	101	334	88	422
De-designated derivatives	150	-	150	-	-	-
Total other financial assets	**216**	**35**	**251**	**334**	**88**	**422**
Derivative liabilities						
Designated as cash flow hedges	(95)	(47)	(142)	(89)	(48)	(137)
De-designated derivatives	(143)	-	(143)	-	-	-
Total other financial liabilities	**(238)**	**(47)**	**(285)**	**(89)**	**(48)**	**(137)**
Net other financial assets/(liabilities)	**(22)**	**(12)**	**(34)**	**245**	**40**	**285**

1. Other financial assets in the balance sheet also includes investments in equity instruments of $104 million (2019: $96 million) recognised at fair value through other comprehensive income (refer to note 27(B)).

Notes to the Financial Statements continued

For the year ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) DERIVATIVES AND HEDGING INSTRUMENTS (CONTINUED)

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 legally 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 $185 million lower (2019: $119 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 37(C). For the year ended 30 June 2020, $122 million (2019: $41 million) is expected to be released to the Consolidated Income Statement within one year and $25 million (2019: $(5) million) after one year. Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet. Refer to Note 37(C) for a definition of the fair value hierarchy.

iii. De-designated Hedging

The Group has applied judgement referencing inputs of the Recovery Plan in assessing whether hedged forecast transactions are still expected to occur. Given the significant decrease in flying activity in the last quarter of the 2019/20 financial year, which is expected to continue into the 2020/21 financial year, $571 million of hedge losses were de-designated and recognised immediately in the Consolidated Income Statement. The amount recognised in the Consolidated Income Statement includes foreign exchange movements since de-designation. Prospective changes in fair value of de-designated hedging will be accounted for through the Consolidated Income Statement. Where hedging has been closed out with deferred settlement terms, this is reflected in the current and non-current payables balance. Any further decline in forecast flying activity and fuel consumption will result in deferred hedge gains and losses to be de-designated and released to the Consolidated Income Statement when the forecast transaction is no longer probable.

(D) HEDGE ACCOUNTING

As at 30 June 2020	Nominal Amount of Hedging Instrument and Hedged Item		Hedge Rates	Carrying Amount of the Hedging Instrument[1,2] Assets	Carrying Amount of the Hedging Instrument[1,2] 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	De-designated Cash Flow hedges Reclassified to Profit or Loss[3]
	M		$M	$M	$M	$M	$M	$M	$M	$M	$M
Cash flow hedges											
AUD fuel costs (up to 3 years)	17	Barrels	AUD/Barrel 59–102	68	(131)	(371)	371	(371)	-	128	(603)
Operational expenditure (up to 2 years)	566	USD	AUD/USD 0.65-0.77	15	(1)	57	(57)	57	-	57	(3)
Revenue (up to 7 years)	777	USD	AUD/USD 0.69	-	(1,098)	(14)	14	(14)	-	(10)	(1)
Capital expenditure (up to 2 years)	566	USD	AUD/USD 0.67– 0.74	18	(3)	27	(27)	27	-	-	-
Interest (up to 2 years)	100	AUD	Fixed 4.45%–5.99%	-	(7)	8	(8)	8	-	-	-

1. Derivative cash flow 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 hedging instrument is presented in AUD where the hedged item equals the nominal amount of the hedging instrument.
2. The revenue hedging instrument is a non-derivative financial liability with the carrying amount presented in USD and is located within Interest-bearing Liabilities and Lease Liabilities.
3. $571 million of hedge losses were de-designated and recognised to the Consolidated Income Statement for the year ended 30 June 2020. This includes $607 million released from Hedge Reserve and ($36 million) of foreign exchange movements since de-designation.

Notes to the Financial Statements continued

For the year ended 30 June 2020

28 AUDITOR'S REMUNERATION

	2020 $'000	2019 (restated)[1] $'000
AUDIT AND AUDIT-RELATED SERVICES		
Audit and review of Financial Report	3,625	3,256
Regulatory assurance services	65	49
Total audit and audit-related services	**3,690**	**3,305**
OTHER SERVICES		
Other assurance services	323	348
Taxation services	153	496
Due diligence services	113	-
Other non-audit services[2]	71	1,014
Total other services	**660**	**1,858**
Total auditor's remuneration	**4,350**	**5,163**

1. The categorisation of auditor's remuneration is based on recommendations from Australian Securities and Investments Commission (ASIC). Comparative information has been restated to align with the current year categorisation.
2. In 2019, other non-audit services include fees of $995,000 related to KPMG's acquisition of a service provider to the Group in 2017 with services continuing into 2019. These services were discontinued from 1 July 2019.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

$M	Notes	2020	2019 (restated)
Statutory (loss)/profit for the year		**(1,964)**	**840**
Adjusted for:			
Depreciation and amortisation	5	2,045	1,996
Impairment/(reversal of impairment) of assets and related costs	25(C)	1,456	(39)
Hedging-related activities		419	(89)
Share of net loss/(profit) of investments accounted for under the equity method	14	53	(23)
Share-based payments	26	28	49
Amortisation of deferred financing fees and lease benefits		15	14
Net gain on disposal of assets	6	(7)	(225)
Discount rate changes impact on provisions	7	7	92
Other items		(49)	116
Dividends received from investments accounted for under the equity method	14	15	11
Changes in other items:			
Receivables		531	(177)
Inventories		(24)	(55)
Other assets		112	(136)
Payables		(196)	203
Revenue received in advance		(955)	384
Provisions		608	20
Deferred tax assets/liabilities and tax payable/receivable		(1,011)	183
Net cash from operating activities		**1,083**	**3,164**

Notes to the Financial Statements continued

For the year ended 30 June 2020

30 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 $79 million of normal employer contributions will be paid by the Qantas Group to its defined benefit plans in 2020/21 (2019/20: $82 million).

The QSP has in place an Additional Funding Plan (AFP), agreed in 2019, which addresses the requirements of APRA Prudential Standards. The determination of Qantas' additional employer contributions under the AFP is triggered if the quarterly determination of the Defined Benefit Vested Benefits Index (DB VBI) indicates that the DB VBI has been below 100 per cent for two consecutive quarters, or the value of the DB VBI has fallen from a value in excess of 100 per cent at the previous quarter, to a value that is less than 96 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. Additional benefit payment top-up contributions may also be payable if after two consecutive quarters, the DB Retrenchment Benefits Index is less than 100 per cent, the DB VBI is below 105 per cent, and retrenchments occur that place a greater than VBI level of funding strain on the Plan assets. The last additional contribution required under the AFP was paid by Qantas in December 2016. The QSP's financial position is monitored by the Trustee each quarter.

(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	
	2020	2019	2020	2019	2020	2019
Balance as at 1 July	**2,392**	**2,176**	**(2,499)**	**(2,468)**	**(107)**	**(292)**
Included in the Consolidated Income Statement						
Current service cost	127	119	-	-	127	119
Past service cost	-	1	-	-	-	1
Interest expense/(income)	71	88	(72)	(95)	(1)	(7)
Contributions by plan participants	-	-	(22)	(22)	(22)	(22)
Losses on curtailments[2]	-	3	-	-	-	3
Total amount included in manpower and staff-related expenditure	**198**	**211**	**(94)**	**(117)**	**104**	**94**
Included in the Consolidated Statement of Comprehensive Income						
Return on plan assets, excluding interest income	-	-	50	(52)	50	(52)
Losses from change in demographic assumptions	37	-	-	-	37	-
(Gains)/losses from change in financial assumptions	(43)	216	-	-	(43)	216
Experience losses	14	9	-	-	14	9
Exchange differences on foreign plans	1	4	(2)	(4)	(1)	-
Total amount recognised in other comprehensive income	**9**	**229**	**48**	**(56)**	**57**	**173**
Contributions by employer	-	-	(82)	(82)	(82)	(82)
Benefit payments	(157)	(152)	157	152	-	-
Assets distributed/liabilities extinguished on settlements	-	(72)	-	72	-	-
Balance as at 30 June	**2,442**	**2,392**	**(2,470)**	**(2,499)**	**(28)**	**(107)**

1. The net defined benefit asset is included in non-current other assets (refer to Note 19).
2. The Group has recognised a provision of $5 million for losses on curtailments in 2019/20 due to the recognised redundancy provisions as at 30 June 2020.

Notes to the Financial Statements continued

For the year ended 30 June 2020

30 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:

	2020 %	2019 %
Australian equity[1,2]	13	14
Global equity[1]		
– *United States*	10	11
– *Europe*	3	4
– *Japan*	2	2
– *Other*	3	3
Private equity	3	4
Fixed interest[1]		
– *Government bonds*	13	13
– *Other*	12	7
Credit[1]		
– *Corporate debt*	10	8
– *Other*	6	4
Hedge funds	6	10
Property and infrastructure	5	5
Timberland	2	2
Cash and cash equivalents[1]	12	13
Total	**100**	**100**

1. The majority of these plan assets have a quoted market price in an active market.
2. As at 30 June 2020, QSP assets in shares of Qantas Airways Limited (ASX:QAN) are $3,493,454 (2019: $4,451,637).

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:

	2020 %	2019 %
Discount rate	3	3
Future salary increases[1]	3	3

1. For the 30 June 2020 actuarial calculation, salary increases of 3 per cent in years 1 to 4 and 2 per cent for the remaining duration of the plan were assumed (30 June 2019: salary increases of 3 per cent in years 1 to 5 and 2.5 per cent for the remaining duration of the plan were assumed).

The weighted average duration of the QSP's defined benefit obligation as at 30 June 2020 was 11 years (2019: 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 2020		30 June 2019	
	Change in Assumption	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	1%	Decrease by 10.9%	Increase by 12.9%	Decrease by 10.4%	Increase by 12.3%
Future salary increase	1%	Increase by 10.5%	Decrease by 9.1%	Increase by 9.9%	Decrease by 8.7%

Defined Contribution Fund

A defined contribution expense of $183 million has been recognised for the year ended 30 June 2020 (2019: $196 million).

Notes to the Financial Statements continued

For the year ended 30 June 2020

31 DEED OF CROSS GUARANTEE

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

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

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

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

The Consolidated Condensed Income Statement and Consolidated Condensed Balance Sheet for Qantas and each of its controlled entities that are party to the Deed are set out below. The principles of consolidation are:

- Transactions, balances and unrealised gains and losses on transactions between entities that are party to the Deed are eliminated
- Investments in entities that are not party to the Deed are carried at cost less any accumulated impairment
- Dividends received from entities that are not party to the Deed are recognised as income.

(A) CONSOLIDATED CONDENSED INCOME STATEMENT

	2020 $M	2019 (restated) $M
Revenue and other income	13,882	17,467
Expenditure	(14,743)	(15,988)
Impairment of assets and related costs	(1,575)	(71)
Statutory (loss)/profit before income tax expense and net finance costs	**(2,436)**	**1,408**
Finance income	21	21
Finance costs	(281)	(293)
Net finance costs	**(260)**	**(272)**
Statutory (loss)/profit before income tax expense	**(2,696)**	**1,136**
Income tax benefit/(expense)	745	(351)
Statutory (loss)/profit for the year	**(1,951)**	**785**
Retained earnings as at 1 July	1,060	643
Dividends paid	(204)	(363)
Share buy-back	(348)	-
Shares vested and transferred to employees	(22)	(5)
Retained earnings as at 30 June	**(1,465)**	**1,060**

Notes to the Financial Statements continued

For the year ended 30 June 2020

31 DEED OF CROSS GUARANTEE (CONTINUED)

(B) CONSOLIDATED CONDENSED BALANCE SHEET

	2020 $M	2019 (restated) $M
CURRENT ASSETS		
Cash and cash equivalents	3,472	2,065
Receivables	1,354	2,056
Other financial assets	216	340
Inventories	306	364
Assets classified as held for sale	58	1
Income tax receivables	137	-
Other	179	214
Total current assets	**5,722**	**5,040**
NON-CURRENT ASSETS		
Receivables	515	662
Other financial assets	139	179
Investments in subsidiaries	7	163
Investments accounted for under the equity method	59	104
Property, plant and equipment	11,664	12,706
Right of use assets	1,389	1,350
Intangible assets	1,029	1,129
Deferred tax assets	166	-
Other	446	446
Total non-current assets	**15,414**	**16,739**
Total assets	**21,136**	**21,779**
CURRENT LIABILITIES		
Payables	3,059	3,216
Revenue received in advance	2,764	4,216
Interest-bearing liabilities	989	801
Lease liabilities	518	451
Other financial liabilities	238	87
Provisions	1,522	942
Income tax liabilities	-	113
Total current liabilities	**9,090**	**9,826**
NON-CURRENT LIABILITIES		
Payables	99	-
Revenue received in advance	2,256	1,466
Interest-bearing liabilities	6,283	5,106
Lease liabilities	1,317	1,291
Other financial liabilities	47	48
Provisions	627	456
Deferred tax liabilities	-	698
Total non-current liabilities	**10,629**	**9,065**
Total liabilities	**19,719**	**18,891**
Net assets	**1,417**	**2,888**
EQUITY		
Issued capital	3,104	1,871
Treasury shares	(51)	(152)
Reserves	(171)	109
Retained earnings	(1,465)	1,060
Equity attributable to members of Qantas	**1,417**	**2,888**
Non-controlling interests	-	-
Total equity	**1,417**	**2,888**

Notes to the Financial Statements continued

For the year ended 30 June 2020

32 RELATED PARTIES

(A) REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

	2020 $'000	2019 $'000
Short-term employee benefits	7,333	13,111
Post-employment benefits[1]	611	604
Other long-term benefits[2]	27	(454)
Share-based payments	6,308	6,535
	14,279	**19,796**

1. Post-employment benefits include superannuation and post-employment travel benefit.
2. Other long-term benefits include movements 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 KMP are included in the Directors' Report from pages 30 to 54.

(B) OTHER RELATED PARTY TRANSACTIONS – ASSOCIATES

Transactions with associates are conducted on normal terms and conditions.

Transactions between the Qantas Group and associates include:

- The Qantas Group provides airline seats on domestic and international routes to Helloworld Ltd for sale through its travel agency network
- The Qantas Group sells Qantas Points to Helloworld Ltd and purchases vouchers from Helloworld Ltd for the Qantas Store
- The Qantas Group has established business service agreements with Jetstar-branded airlines in Japan and Vietnam for the provision of business services to enable a consistent customer experience for the Jetstar brand. The business service agreement with the entity in Vietnam has been terminated subsequent to 30 June 2020 and the Jetstar brand removed from that entity. As part of the business service agreement, amongst other services, Qantas allows their credit card transactions to be acquired through the Qantas Group's contractual arrangements. The credit card support with the entity in Vietnam has been terminated subsequent to 30 June 2020
- The Qantas Group as part of shareholder arrangements co-guarantees the finance lease obligations for two A320 aircraft on behalf of Jetstar Japan to the external lessors in exchange for guarantee fees to the Qantas Group. Subsequent to year end, the Qantas Group with other shareholders of Jetstar Japan provided limited guarantees to support unsecured debt raising by Jetstar Japan to increase liquidity in response to COVID-19. This was completed in August 2020.

33 PARENT ENTITY DISCLOSURES – QANTAS AIRWAYS LIMITED

(A) CONDENSED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

	2020 $M	2019 (restated)[1] $M
Revenue and other income[2]	9,229	12,132
Expenditure	(10,523)	(11,174)
Impairment of assets and related costs[3]	(1,455)	(285)
Statutory (loss)/profit before income tax expense and net finance costs	**(2,749)**	**673**
Net finance costs	(221)	(242)
Statutory (loss)/profit before income tax expense	**(2,970)**	**431**
Income tax benefit/(expense)	833	(97)
Statutory (loss)/profit for the year	**(2,137)**	**334**

1. 2019 has been restated for the impact of the adoption of AASB16 and the IFRIC Fair Value hedging agenda decision. In addition, Qantas Airways Limited also restated for the impact of impairment of intercompany receivables of $270 million.
2. Revenue and other income included nil million (2019: $335 million) of dividend income from wholly-owned subsidiaries of the Qantas Group.
3. Impairment of assets and related costs includes the impairment of investments in subsidiaries and intercompany loans of $220 million (2019: $283 million).

(B) CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	2020 $M	2019 (restated) $M
Statutory (loss)/profit for the year	**(2,137)**	**334**
Effective portion of changes in fair value of cash flow hedges, net of tax	(205)	51
Transfer of hedging gains from hedge reserve to the Condensed Income Statement, net of tax	(123)	(249)
De-designation of fuel and foreign exchange hedges to the Condensed Income Statement, net of tax	425	-
Recognition of effective cash flow hedges on capitalised assets, net of tax	(42)	(13)
Net changes in hedge reserve for time value of options, net of tax	(232)	(47)
Fair value gains on investments, net of tax	(16)	4
Defined benefit actuarial losses, net of tax	(38)	(121)
Total other comprehensive loss for the year	**(231)**	**(375)**
Total comprehensive (loss)/income for the year	**(2,368)**	**(41)**

Notes to the Financial Statements continued

For the year ended 30 June 2020

33 PARENT ENTITY DISCLOSURES – QANTAS AIRWAYS LIMITED (CONTINUED)

(C) CONDENSED BALANCE SHEET AS AT 30 JUNE 2020

	2020 $M	2019 (restated) $M
CURRENT ASSETS		
Cash and cash equivalents	3,569	2,079
Receivables	264	814
Intercompany receivables	5,626	5,666
Inventories	189	246
Other	559	527
Total current assets	**10,207**	**9,332**
NON-CURRENT ASSETS		
Receivables	123	76
Intercompany receivables	597	585
Investments in subsidiaries	420	530
Property, plant and equipment	10,238	11,198
Right of use assets	1,254	1,284
Intangible assets	765	837
Other	678	629
Total non-current assets	**14,075**	**15,139**
Total assets	**24,282**	**24,471**
CURRENT LIABILITIES		
Payables	1,790	1,817
Intercompany payables	5,914	5,317
Revenue received in advance	2,258	3,508
Interest-bearing liabilities	988	799
Lease liabilities	449	419
Other	1,534	957
Total current liabilities	**12,933**	**12,817**
NON-CURRENT LIABILITIES		
Payables	99	-
Revenue received in advance	2,186	1,453
Interest-bearing liabilities	6,284	5,106
Lease liabilities	1,245	1,261
Other	332	976
Total non-current liabilities	**10,146**	**8,796**
Total liabilities	**23,079**	**21,613**
Net assets	**1,203**	**2,858**
EQUITY		
Issued capital	3,104	1,871
Treasury shares	(51)	(152)
Other reserves	(169)	109
Profit reserves	1,774	2,326
Retained losses	(3,455)	(1,296)
Total equity	**1,203**	**2,858**

(D) DIVIDENDS DECLARED AND PAID

In February 2020, the Directors announced a fully franked interim dividend of 13.5 cents per ordinary share, totalling $201 million. To preserve liquidity in response to the impact of COVID-19, this was subsequently revoked in June 2020.

For the year ended 30 June 2020, $204 million in dividends (2019: $363 million) were paid to shareholders. Dividends are paid from the profit reserves of Qantas Airways Limited, as the parent of the Group.

Notes to the Financial Statements continued

For the year ended 30 June 2020

33 PARENT ENTITY DISCLOSURES – QANTAS AIRWAYS LIMITED (CONTINUED)

(E) CAPITAL EXPENDITURE COMMITMENTS

The capital expenditure commitments held by the parent entity are the same as those held by the Group as disclosed in Note 15(C).

(F) CONTINGENT LIABILITIES

The contingent liabilities held by the parent entity are the same as those held by the Group as disclosed in Note 34.

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

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Note 31.

The parent entity related parties in respect to the provision of guarantees are primarily the same as those held by the Group, which are disclosed in Note 32.

(H) INTEREST-BEARING LIABILITIES

The parent entity has total interest-bearing liabilities of $7,272 million (2019: $5,906 million), of which $1,253 million (2019: $1,666 million) represent secured loans payable to controlled entities. Of the $6,019 million (2019: $4,240 million) payable to other parties, $4,154 million (2019: $2,550 million) represents secured bank loans and other secured loans, with the remaining balance representing unsecured loans.

34 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

The Qantas Group co-guarantees the finance lease obligations for two A320 aircraft on behalf of Jetstar Japan to the external lessors in exchange for guarantee fees to the Qantas Group. Subsequent to year end, the Qantas Group in conjunction with other shareholders of Jetstar Japan provided limited guarantees to support unsecured debt raising by Jetstar Japan to increase liquidity in response to COVID-19.

As part of the business service agreements, the Qantas Group has extended support for the Jetstar-branded airlines in Japan and Vietnam by allowing its credit card transactions to be acquired through the Qantas Group's contractual arrangements. The business service agreement and credit support with the entity in Vietnam has been terminated subsequent to 30 June 2020.

Qantas has also 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 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) 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.

35 POST-BALANCE DATE EVENTS

On 10 August 2020, the retail Share Purchase Plan was completed, resulting in the issuance of 22.5 million shares at $3.18 per share (totalling $71.7 million). This transaction will be recognised within the 2020/21 financial year.

On 25 August 2020, as part of its COVID-19 Recovery Plan, the Group has informed its employees of initiatives affecting its ground handling operations at airports across Australia. This is a non-adjusting post-balance date event and has no impact on the financial statements for the year ended 30 June 2020.

Subsequent to year end, the Group completed the debt raising of a 10-year, $0.5 billion unsecured bond issue as part of its ongoing management of its debt maturity profile. The proceeds will strengthen short-term liquidity and be used to pay $0.4 billion in bonds due to expire in June 2021.

Subsequent to year end, various Australian state governments reimposed restrictions on interstate travel or imposed expanded localised lockdowns. The New South Wales Government introduced restrictions on visitors from Victoria. The Queensland Government reimposed restrictions on visitors from New South Wales and the Australian Capital Territory in addition to existing restrictions on visitors from Victoria. The Victorian Government imposed stage four lockdowns on Greater Melbourne, together with stage three lockdowns on regional Victoria. These government restrictions have impacted demand for domestic travel and the Group has responded by adjusting capacity.

The Group's Recovery Plan is a three-year plan, and while these post-balance date events have impacted the timing of demand recovery, they are expected to have a short-term impact and not materially change the overall assumptions underpinning the Group's three-year plan.

Notes to the Financial Statements continued

For the year ended 30 June 2020

36 MATERIAL BUSINESS RISKS

The aviation industry is subject to numerous inherent foreseeable risks that can impact operations if left untreated. In rare circumstances 'black swan' risk events can materialise, resulting in unexpected consequences such as those that the aviation industry is experiencing due to COVID-19. The COVID-19 pandemic has impacted Qantas' operations significantly, including its strategic and financial objectives.

Material business risks arising from COVID-19, notably liquidity risks, are being critically managed to ensure the ongoing sustainability of the Group. To minimise this consequence, Management has established a Three-Year Recovery Plan to rightsize and transform the Group in response to COVID-19 impacts to guidance the Group's return to growth. As the impact of COVID-19 evolves, the Group continues to plan for a wide range of scenarios and risks.

Other inherent risks that can impact the Group's operations include 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, or international conflicts.

General economic conditions: As air travel is closely linked with economic growth, the Qantas Group's operating and financial performance is influenced by a variety of general economic and business conditions in Australia and overseas. A sustained decline in consumer and business demand as part of a broader deterioration of economic conditions is likely to have a material adverse effect on the financial condition and business of the Qantas Group.

COVID-19 has created considerable uncertainty and volatility surrounding these macroeconomic factors, and any further deterioration may have a material adverse impact on the business, financial condition and prospects of the Qantas Group.

Human resources and industrial action risk: The Qantas Group operates in a highly regulated employment market and a portion of the Qantas Group's employees are represented by unions and are party to collective bargaining arrangements. Any significant enterprise bargaining dispute between the Qantas Group and its employees, including in relation to the Recovery Plan, could lead employees to take industrial action, including work stoppages. This could disrupt the Qantas Group's day-to-day operations as well as lead to reputational damage.

The COVID-19 crisis has necessitated the standing down of a significant portion of employees. While the need to stand down employees will decrease over time, any significant successful legal challenge to the Qantas Group's ability to stand down employees could likely have a material adverse effect on the Qantas Group's financial performance and condition.

The Qantas Group also has certain Key Management Personnel whose institutional knowledge, expertise, relationships and experience are considered important to the continued success of the business. The loss of key personnel could adversely impact the Qantas Group's business and future performance.

Further, given employee costs represent a significant component of the Qantas Group's operating expenses, increases in labour costs (whether as a result of enterprise agreement negotiations, union action or otherwise) would likely have a material adverse effect on the Qantas Group's financial performance and condition.

Customer risk: The ongoing success of the Qantas Group depends to a large degree on customer satisfaction and loyalty, particularly in light of the significant competition for passengers that characterises the aviation industry.

The significant financial and operational challenges posed by COVID-19, the impact of the pandemic on the travel industry and the response of the Qantas Group to these challenges could also impact customer satisfaction and loyalty. In particular, a diminution of customer satisfaction due to the cancellation and refund policies of the Qantas Group in the context of COVID-19 may impact the Qantas Group's reputation and its ability to attract customers in the future.

In addition, the Qantas Group is vulnerable to longer-term changes in consumer preferences in relation to its service offerings, the markets in which it operates, and consumer sentiment towards leisure travel. Any failure by the Qantas Group to predict or respond to such changes in a timely and cost-effective manner may adversely impact the Qantas Group's future operating and financial performance.

Competitive intensity: Ordinarily, the international and domestic aviation markets in which the Qantas Group operates are highly competitive, and growth in market capacity ahead of underlying demand impacts profitability on an industry-wide basis. Its competitors include many major foreign airlines (including government-owned or controlled airlines), some with more financial resources or lower cost structures than Qantas. This competition may increase with the expansion of existing airlines, the consolidation of existing airlines and/or the creation of alliances between airlines, or new airlines entering the market.

Australia's aviation policies favour the creation of a more competitive environment, including more liberal rights of entry into Australian domestic and international markets. These policies have attracted offshore competitors (predominantly state-sponsored airlines) to the Australian international aviation market, which has further increased competition for passengers on international routes.

Additionally, the Qantas Group ordinarily faces high levels of price competition in the markets in which it operates, which places significant pressure on the Qantas Group to price match by offering heavily discounted fares. Aggressive pricing by competitors seeking to gain market share can materially adversely affect the Qantas Group's revenues and yield performance. The financial impact of any discounting of fares as a result of competitive pressures is exacerbated by the high fixed costs and low profit margins that characterise the aviation industry. The combined effect of these factors may have a material adverse effect on the revenue and financial condition of the Qantas Group.

Notes to the Financial Statements continued

For the year ended 30 June 2020

36 MATERIAL BUSINESS RISKS (CONTINUED)

Reputational and brand risk: The Qantas brand carries significant commercial value and the continued success of the Qantas Group relies on the maintenance of a positive reputation and brand recognition among customers, suppliers, strategic partners and governments. Any negative publicity (for example, due to a safety incident, labour dispute, regulatory investigation or public customer complaint) may damage Qantas' reputation and have a negative impact on its business operations and financial performance.

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 continued focus on forecasting and the operational agility of our aviation operations are supporting the Group to manage the residual uncertainty. Accordingly, the size of the Group's fuel and foreign exchange risk will vary in line with operational changes. The Qantas Group manages fuel and foreign exchange risks through a comprehensive hedging program. Qantas will continue to hedge its fuel and foreign exchange risk in line with this program. In early April, the Qantas Group closed out its over-hedged position through to September 2020, which significantly lowered the exposure to further hedging losses in the short-term. The Qantas Group has some fuel hedging arrangements beyond September 2020 in the form of outright options with a base layer of collars. The collars remain subject to market price movements. There are no margin call obligations on the Qantas Group's hedging position.

Cyber security and data governance: The global cyber and privacy landscape is constantly evolving and at the same time, data governance has become an important function for many organisations including the Qantas Group. Qantas remains focused on embedding cyber security, privacy and data governance into business processes, taking a security and privacy by design approach and creating a cybersafe and privacy orientated culture that builds on an established safety culture. The Group is also enhancing its Data Governance Framework to ensure ethical and commercial data risks are managed in addition to data protection and privacy. Qantas has a defined Risk and Control Framework, aligned with industry standards, which is designed to protect the confidentiality, integrity, availability and privacy of data and to maintain compliance with regulatory requirements. The Qantas Group's cyber security and data privacy related controls operate to reduce the likelihood and severity of cyber security and data privacy related incidents and related impacts. The Group's cyber and data privacy risks are continuously monitored by the Group Cyber and Privacy Committee and are subject to independent assurance including for material third party suppliers.

Key business partners and alliances: The Qantas Group has relationships with a number of key business partners. In order to continue to maximise mutual benefit from both a financial and customer proposition perspective, governance structures are in place to track and report performance against common strategic objectives. The Qantas Group continues to proactively build relationships with existing and new industry partners through ongoing dialogue with relevant authorities and stakeholder groups.

Risk of increase in airport services related-costs or change in availability of airport facilities: The Qantas Group is exposed to the risk of increases in airport services-related costs (including air traffic control, airport, transit, take-off and landing fees and security charges). The availability and cost of airport facilities are fundamental to the ability of the Qantas Group to operate.

These costs represent a significant portion of the Qantas Group's operating costs and have a financial impact on its operations. Most Australian airports are privately owned and owners have flexibility to increase charges to airlines. There can be no assurance that major airport operators will not continue to increase their fees or that the Qantas Group will not incur new costs in Australia or elsewhere (for example, additional fees assessed against environmental criteria such as emissions levels or noise pollution). Further, it is likely that security and health measures around the world will continue to be increased in response to the COVID-19 experience and the perceived threat of terrorism, which may lead to increases in airport clearance and security charges. To the extent that the Qantas Group is unable to pass on any fee increases to its customers, these developments could have a material adverse effect on the Qantas Group's operational results and financial position.

In addition, health concerns during the COVID-19 crisis and in the period following it are likely to impact the availability of airport slots and facilities in ways that are difficult to predict. This, too, could have a material adverse effect on the Qantas Group's operations and Recovery Plan.

Climate change: The Qantas Group is subject to short-term and long-term climate-related physical and transition risks. These risks are an inherent part of the operations of an airline and are managed by undertaking scenario analysis, strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate policies) impact the proximity of climate-related risks. The Qantas Group has also set ambitious but achievable targets to reduce our emissions by capping emissions at 2020 levels and achieving net-zero emissions by 2050, while also investing in the development of sustainable aviation fuels. The Qantas Group is responding to increased demand for transparency on identification and management of climate-related risks by aligning our corporate disclosures with the Taskforce on Climate-Related Financial Disclosures (TCFD) including further developing and disclosing findings from the scenario analysis first undertaken during the year ending 30 June 2020. These disclosures are available at https://www.qantas.com/au/en/qantas-group/acting-responsibly/our-planet.html.

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

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) 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. Significant influence is evidenced through, but not limited to, voting power of the Group, representation on the board of directors and participation in policy-making processes. Interests in associates are accounted for under the equity accounting method and initially recognised at cost, including transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases. Dividends received or receivable reduce the carrying amount of the equity accounted investment.

When the Group's share of total comprehensive 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 an associate's operations or has made payments on behalf of an associate. When an associate is disposed of in its entirety or partially such that significant influence is lost, the cumulative amount in the Foreign Currency Translation Reserve related to that associate is reclassified to the Consolidated Income Statement as part of the gain or loss on disposal. When the Group disposes of only part of an associate while retaining significant influence, the relevant proportion of the cumulative amount in the Foreign Currently Translation Reserve related to that associate is reclassified to the Consolidated Income Statement.

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described in Note 37(G).

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.

(B) 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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the Consolidated Income Statement.

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.

ii. Foreign Operations

The assets and liabilities and the income and expenditure of foreign operations that have a functional currency other than AUD are translated into AUD as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates
- all resulting exchange differences are recognised in other 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 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) 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 related to the acquisition of the financial asset. 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 using the effective interest rate method.

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 a particular risk associated with the cash flows of recognised assets and liabilities or of highly probable forecast transactions (cash flow hedges). At the inception of the transactions, the Qantas Group documents the economic 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 within Hedge 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 Hedge Reserve 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. 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.

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 de-designated prospectively. As a result, the amount accumulated in the Hedge Reserve is reclassified to the Consolidated Income Statement immediately.

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.

If the forecast transaction being hedged 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, the cumulative cost of the hedging instrument recognised in Other Comprehensive Income is immediately reclassified to the Consolidated Income Statement.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL INSTRUMENTS (CONTINUED)

iv. Fair Value Calculations

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet 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 the expected credit loss model under AASB 9 *Financial Instruments*; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required 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 other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(D) REVENUE RECOGNITION

i. Net Passenger and Net Freight Revenue

Net passenger revenue primarily arises within the Qantas Domestic, Qantas International and Jetstar Group segments. Net freight revenue primarily arises within the Qantas International segment except where bellyspace is utilised in Qantas Domestic and the Jetstar Group.

Passenger, freight revenue, capacity hire and air charter revenue are recognised when the travel or service is provided. Revenue recognised on travel is net of sales discounts, passenger and freight interline/IATA commission and Goods and Services Tax. Net freight revenue includes amounts the Group receives as operating lease income in relation to freighters leased to customers.

At the time of expected travel, revenue is also recognised in respect of tickets that are not expected to be used. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket, experience, historical and expected future trends. The Group generally does not recognise revenue in respect of unredeemed travel credits due to the extended redemption conditions and in certain circumstances, the ability for the passenger to request a refund.

Passenger travel and freight services are generally paid for in advance of travel and are deferred on the balance sheet as revenue received in advance. Travel credits are classified as revenue received in advance where they are available for future flights or in certain circumstances for refund, if requested. Where customers have made refund claims these are classified as payables, where the balance of refunds is material in aggregate.

Where the passenger is also a Qantas Frequent Flyer member and earns Qantas Points on travel, the allocation of revenue is on a proportional basis using relative stand-alone selling prices and the consideration allocated to Qantas Points is deferred as unrecognised redemption revenue.

Consideration received in relation to certain ancillary services relating to passenger travel such as credit card fees and change fees are not considered to be distinct from the passenger flight. Revenue relating to these ancillary services is deferred until uplift to align with the related passenger travel. These amounts are included within net passenger revenue.

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

ii. Frequent Flyer Marketing Revenue

Marketing revenue associated with the issuance of Qantas Points is recognised within the Qantas Loyalty segment as the service is performed over time (typically this approximates the timing of the issuance of Qantas Points). Marketing revenue is measured as the difference between the stand-alone selling price of a Qantas Point and the consideration received, using the residual approach. The stand-alone selling price of a Qantas Point is determined using estimation techniques based on the value of redemption options for which Qantas Points could be redeemed and considers the proportion of Qantas Points not expected to be redeemed. The consideration for Qantas Points is typically received within normal credit terms following issuance of points.

Marketing revenue on inter-segment Qantas Point issuances is eliminated on consolidation.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) REVENUE RECOGNITION (CONTINUED)

iii. Frequent Flyer Redemption Revenue

The consideration for issuance of Qantas Points is typically received in advance of redemption and is deferred as unrecognised redemption revenue. Redemption revenue is recognised within the Qantas Loyalty segment when Qantas Points are redeemed.

Redemption revenue is measured based on the weighted average value of the points redeemed. Redemption revenue arising from Qantas Group flight redemptions is recognised when the passenger is uplifted and within net passenger revenue on consolidation.

Redemption revenue in relation to products provided by suppliers outside the Group, such as Qantas Store redemptions and other carrier redemptions is recognised in the income statement net of related costs, where the Group is an agent. For the purposes of segment reporting, the Qantas Loyalty segment reports these redemptions on a gross basis. Adjustments are made within consolidation eliminations to present these redemptions on a net basis at a Group level within Other revenue. Obligations for returns or refunds in relation to redemptions from the Qantas Store are recognised where material.

Significant changes in Qantas Points expected to expire unredeemed are recognised within other income. The Group uses estimates based on terms and conditions of the Frequent Flyer program, experience, historical and expected future trends to determine any amount recognised.

iv. Other Carrier Commissions and Commissions from Third Parties

The Group considers whether it is a principal or agent in relation to services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for services to be provided by a third party, such as another carrier or a third party. Other carrier commission revenue is included within Other revenue and is generally recognised on uplift by the other carrier. Consideration for other carrier commissions is received within normal credit terms through IATA. Commissions from third parties are typically recognised when the underlying good or service has been transferred to the end-customer.

v. Incremental Costs of Obtaining a Contract

The incremental cost of obtaining a contract is capitalised and amortised over the expected period of benefits to the Group and the pattern those benefits are expected to arise The Group recognises the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that would have been recognised is one year or less.

(E) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group expects to comply with the conditions. Note 24 provides further information on how the Group accounts for government grants.

(F) TAXES

i. Tax Compliance

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

Tax Treaties:
Due to the operation of income tax treaties and specific rules dealing with airlines, the Qantas Group appropriately reports the majority of its income in Australia, with only a small component being reported in foreign jurisdictions (for the purpose of determining liability to company tax).

Current Income Tax:
Current income tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at balance date where the Group and its subsidiaries operate and generate taxable income 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 the reporting date. Qantas provides for income tax in both Australia and overseas jurisdictions where a liability exists.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(F) TAXES (CONTINUED)

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.

(G) IMPAIRMENT

i. Non-Financial Assets

The carrying amounts of non-financial assets such as equity accounted investments, property, plant and equipment, goodwill and intangible assets and other assets are reviewed at each balance sheet date to determine whether there is any indication of impairment.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. For the purpose of assessing impairment, goodwill and indefinite lived intangible assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets which primarily generate cash flows as a group, such as aircraft, are typically assessed on a cash generating unit (CGU) basis, inclusive of related infrastructure and intangible assets and compared to net cash inflows for the CGU. Where assets are no longer expected to contribute to the cash flows of a CGU, they are tested for impairment separately. Identification of an asset's CGU requires significant 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, Jetstar Asia CGU, Jetstar Pacific CGU, Jetstar Japan CGU and the Jetstar Australia/New Zealand 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.

An impairment loss is recognised for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. The maximum amount of any impairment reversal is the lower of:

- the amount necessary to bring the carrying amount of the asset to its recoverable amount (if it is determinable); and
- the amount necessary to restore the assets of the CGU to their pre-impairment carrying amounts less subsequent depreciation or amortisation that would have been recognised.

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. Where necessary, the Group recognises provisions for expected credit loss (ECL) at amortised cost, based on 12-month or lifetime losses depending on whether there has been a significant increase in credit risk, including risk of default occurring, since initial recognition. For significant customers, the Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgment. For other customers, ECL is assessed based on credit risk characteristics and the days past due. It is then measured based on actual historical credit loss experienced over the past years, along with other factors to reflect differences between the economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of macro-economic conditions over the expected lives of the receivables. The Group considers a financial asset to be in default when the counterparty is unlikely to pay is credit obligations in full.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward-looking information. A financial asset is written off when there is no reasonable expectation of recovery, such as the debtor failing to engage in a repayment plan with the Group.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) 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.

Costs to dismantle and remove assets
The cost of acquired assets includes the initial estimate of 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.

Gains or losses on cash flow hedges of the purchase of assets
The cost also may include transfers from the hedge reserve of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment in accordance with Note 37(C).

Capitalisation of interest
Interest attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset. All other borrowing costs are recognised in the Income statement in the year in which they are incurred.

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 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 shorter of the remaining useful life of the asset or the estimated useful life of the improvement.

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

	Years	Residual Value (%)
Buildings and leasehold improvements	0 – 40	0
Plant and equipment	2.5 – 20	0
Passenger aircraft and engines	2.5 – 25	0 – 10
Freighter aircraft and engines	2.5 – 20	0 – 10
Aircraft spare parts	15 – 20	0 – 10

Useful lives and residual values are reviewed annually and adjusted where appropriate, 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 is attributed to its service potential, reflecting the maintenance condition of its engines and airframe. This cost is depreciated over the shorter of the period to the next major inspection event, the remaining life of the asset or the remaining lease term.

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

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

v. Manufacturers' Credits

The Qantas Group receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are recorded as a reduction to the cost of the related aircraft and engines, when the credits are utilised by the Group.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) LEASES

The Group predominantly leases passenger aircraft and engines, freighter aircraft, domestic and international properties, and equipment. Lease contracts are typically entered into for fixed periods but may have extension options.

i. Initial Recognition

Leases (other than those described below) are recognised as a lease liability with a corresponding right of use asset at the date at which the leased asset is available for use by the Group.

Scope
AASB 16 applies to contracts which convey the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the use of the identified asset and to obtain substantially all the economic benefits from the use of the asset throughout the period of use.

Short-term leases (lease term of 12 months or less from the commencement date and that do not contain a purchase option) and leases of low-value assets are not recognised as lease liabilities. Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the Consolidated Income Statement as incurred.

For contracts that include lease components and non-lease components, these are separated based on their relative stand-alone selling prices. The lease component is recognised as a lease under AASB 16 and the non-lease component is recognised as an expense in the Consolidated Income Statement as incurred. This includes, for example, certain Capacity Hire arrangements where a third party provides aircraft (lease component) to the Group together with other services such as crew and maintenance (non-lease components).

Lease liability
At the lease commencement date, lease liabilities are initially measured at the present value of lease payments over the lease term.

Lease payments include fixed payments (less any lease incentives receivable), variable payments that are based on an index or a rate (initially measured using the index or rate as at the commencement date) and, where relevant, the exercise price of a purchase option (where it is reasonably certain that option will be exercised).

The lease term includes the non-cancellable period for which the Group has contracted to lease the asset, together with any option terms to extend the lease if reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. When determining the lease term for cancellable leases or renewable leases the Group considers both the broader economics of the contract (and not only contractual termination payments) and whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. Such leases include, for example, leases which have expired and are legally cancellable by both the lessor and lessee and/or leases which contain holdover arrangements which allow the lessee to continue to occupy the property beyond the lease end date until the arrangement is cancelled by either the lessee or the lessor.

Lease payments are discounted using the Group's incremental borrowing rate where the implicit interest rate in the lease is not readily determined. The Group's incremental borrowing rate is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value or the right to use an asset in an economic environment with similar terms and conditions.

Right of use asset
At the lease commencement date, right of use assets are measured at an amount equal to the initial measurement of the lease liability (adjusted for any lease payments made at or before the commencement date), and an initial estimate of the present value of restoration or return costs that arise at lease commencement (with the corresponding amount recognised as a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*), less any lease incentives received.

ii. Subsequent Measurement

Lease liability
Lease payments are allocated between principal and interest payments. The interest expense is recognised in the Consolidated Income Statement over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liabilities denominated in currencies other than the Group's functional currency are translated to Australian dollars at each reporting date, however the right of use asset is recognised at the foreign exchange rate at initial recognition.

From 1 July 2019, in accordance with the Group's Treasury Risk Management Policy, certain foreign currency lease liabilities (for example, aircraft leases denominated in US dollars) have been designated as a hedging instrument of future corresponding foreign currency revenues (for example, US dollar revenues) in a cash flow hedge relationship. The effective portion of the foreign exchange revaluation of the lease liability is recognised in 'Other Comprehensive Income' and is recycled to the Consolidated Income Statement within 'Net Passenger Revenue' when the hedged item is realised.

In accordance with AASB 9, the hedge relationship was designated prospectively from 1 July 2019. For the comparative periods before this designation (year ended 30 June 2019) the foreign exchange movements on lease liabilities recognised upon adoption of AASB 16 are recognised in the Consolidated Income Statement within 'Other Expenses'.

The lease liability is remeasured where there is a change in future lease payments arising from a change in index or rate, if there is a change in the Group's estimate of amounts expected to be payable under a residual value guarantee or if there is a change in the lease term, including the Group's assessment of whether it will exercise a purchase, extension or termination option (reassessed where there is a significant event or change in circumstances that is within the Group's control and affects the ability to exercise, or not to exercise, an option). Where the lease liability is remeasured in this way, a corresponding adjustment is recognised to the right of use asset or is recorded in the Consolidated Income Statement if the carrying amount of the right of use asset has been reduced to zero.

Right of use asset
Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The right of use asset is adjusted for certain changes in the lease liability.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) LEASES (CONTINUED)

iii. Amendment to AASB 16

In May 2020, the IASB issued amendments to AASB 16 to provide an optional relief to lessees from applying AASB 16's guidance on lease modification accounting for rent concessions if they are a direct consequence of COVID-19 and meet certain conditions specified in the amendment. The practical expedient allows the lessee to recognise a forgiveness or waiver of lease payments as a variable lease payment in the income statement and a corresponding derecognition of the part of the lease liability that has been extinguished by the forgiveness or waiver of lease payments. The practical expedient also provides guidance on accounting for rent deferrals whereby a change in lease payment that reduces the payment in one period and proportionally increases the payment in another does not extinguish the lessee's lease liability nor changes the consideration for the lease. The lessee would continue to recognise lease payment deferrals within the lease liability.

The Group has determined that it meets the conditions to apply the practical expedient and has applied the practical expedient in accounting for rent concessions. The impact of the application of this practical expedient is disclosed in Note 16.

iv. Lease revenue

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

Where the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right to use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term within 'Net Freight Revenue' and 'Other Revenue and Income'.

(J) INTANGIBLE ASSETS

i. Recognition and Measurement

Goodwill	Goodwill has an indefinite useful life and 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 have an indefinite useful life. Airport landing slots are not amortised and are stated at cost less any accumulated impairment losses.
Brand names and trademarks	Brand names and trademarks have an indefinite useful life and are carried 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.
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.

The Group considers that there are no individual intangible assets that are material for additional disclosure within the financial statements.

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.

The principal amortisation periods and estimated residual value percentages applied where material are:

	Years	Residual Value %
Software	2 – 10 years	0%

(K) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. The cost is determined by the weighted average cost method. Inventories include mainly engineering expendables, consumable stores and work-in-progress.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) PAYABLES

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method, if the effect of discounting is material.

(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. Provisions are not recognised for future operating losses.

If the effect is material, a provision is determined by discounting the best estimate of 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.

Obligations are presented as current liabilities in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

Wages, salaries and annual leave	Liabilities for wages, salaries and annual leave vesting to employees are recognised in respect of employees' services up to the end of the reporting period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as workers' compensation insurance, superannuation and payroll tax. The annual leave provision is discounted using corporate bond rates which most closely match the expected settlement dates of the provision.
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 expected employee usage. The provision is discounted using corporate bond rates which most closely match the expected settlement dates of the provision. The unwinding of the discount is treated as a finance expense in the Consolidated Income Statement. Remeasurements as a result of experience adjustments and changes in assumptions are recognised in the Consolidated Income Statement.
Redundancies and other employee benefits	Redundancy provisions are recognised as an expense 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. These benefits are expected to be settled wholly within 12 months of the end of the reporting period. Other employee benefits such as discretionary bonus amounts due to non-executive employees are recognised as a provision where the Group has a legal or constructive obligation to make the payment to non-executive employees and the amount can be reliably measured.
Onerous contracts	An onerous contract is a contract in which the unavoidable cost of meeting the obligations under the contract exceeds the economic benefit expected to be received. A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.
Make good on leased assets	**Aircraft:** An initial estimate of the present value of restoration or return costs that arise at lease commencement are recognised as a provision with a corresponding amount recognised as part of the initial recognition of the right of use asset and depreciated over the lease term. Changes in this provision are recognised as an adjustment to the right of use asset. Provisions for return costs that occur over the lease term through usage or the passage of time are recognised as an expense when they occur. **Property and environment:** An initial estimate of the present value of restoration costs that arise at lease commencement are recognised as a provision with a corresponding amount recognised as part of the initial recognition of the right of use asset and depreciated over the lease term. Changes in this provision are recognised as an adjustment to the right of use asset. Where the usage of property or land gives rise to an obligation for rehabilitation, the Group recognises a provision for the costs associated with restoration.
Insurance, legal and other	**Insurance:** The Qantas Group self-insures for risks associated with workers' compensation in certain jurisdictions. Qantas has made a provision for all notified assessed workers' compensation liabilities, together with an estimate of liabilities incurred but not reported, based on an independent actuarial assessment. The provision is discounted using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the liabilities and which have maturity dates approximating the terms of Qantas' obligations. Workers' compensation for all remaining employees is commercially insured. **Legal and other provisions:** These are recognised where they are incurred as a result of a past event, there is a legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) OTHER EMPLOYEE BENEFITS

Employee share plans

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market performance conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of equity-based entitlements settled in cash is recognised as an employee expense with a corresponding increase in liability over the period during which employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value. Any changes in the fair value of the liability are recognised as an employee expense in the Consolidated Income Statement.

Defined contribution superannuation plans

The Qantas Group contributes to employee defined contribution superannuation plans. Contributions to these plans are recognised as an expense in the Consolidated Income Statement as incurred.

Defined benefit superannuation plans

The Qantas Group's net obligation with respect to defined benefit superannuation plans is calculated separately for each plan. The Qantas Superannuation Plan has been split based on the divisions which relate to accumulation members and defined benefit members. Only defined benefit members are included in the Qantas Group's net obligation calculations. The calculation estimates the amount of future benefit that employees have earned in return for their service in the current and prior periods, which is discounted to determine its present value, and the fair value of any plan assets is deducted.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling are recognised immediately in other comprehensive income. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the Consolidated Income Statement.

The discount rate used is the corporate bond rate which has a maturity date that approximates the expected terms of Qantas' obligations. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the Consolidated Income Statement as past service costs. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(O) NET FINANCE COSTS

Net finance costs comprise interest payable on borrowings calculated using the effective interest method, unwinding of the discount rate on lease liabilities, 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.

(P) 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 tax.

ii. Repurchase of Share Capital

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

iii. Treasury Shares

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

iv. Employee Compensation Reserve

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

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) CAPITAL AND RESERVES (CONTINUED)

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. Gains or losses relating to ineffective portions are recognised immediately in the Consolidated Income Statement.

The amounts within Hedge Reserve 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. 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.

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 de-designated prospectively. As a result, the amount accumulated in the Hedge Reserve is reclassified to the Consolidated Income Statement immediately.

vi. Foreign Currency Translation Reserve

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

vii. Other Reserves

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

viii. Dividends

A provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period. Where the Group has revoked a declared dividend, it is no longer recognised as a provision.

(Q) COMPARATIVES

The comparative balances have been restated for the adoption of AASB 16 *Leases* and the IFRIC agenda decision in relation to the treatment of fair value hedges of foreign currency risk and non-financial assets (IFRS Fair Value hedging agenda decision). Refer to Note 38 for details of the restatement.

Where applicable, comparative balances have been reclassified to align with current period presentation. A reclassification to decrease Payables (Current Liability) and increase Revenue Received in Advance (Current Liability) by $99 million has been made in the comparative Consolidated Balance Sheet for the year ended 30 June 2019 to align with current period presentation (June 2018: $81 million).

(R) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, being the Chief Executive Officer, Group Management Committee and the Board of Directors.

Underlying EBIT is the primary reporting measure used by the CODM, for the purpose of assessing the performance of the operating segments, with the exception of the Corporate segment which is assessed using Underlying PBT. Underlying EBIT of the Qantas Group's operating segments is prepared and presented on the basis that it reflects the revenue earned and the expenses incurred by each operating segment. The significant accounting policies applied in implementing this basis of preparation are set out below. These accounting policies have been consistently applied to all periods presented in the Consolidated Financial Statements.

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

Notes to the Financial Statements continued

For the year ended 30 June 2020

37 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(R) SEGMENT REPORTING (CONTINUED)

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

38 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

ADOPTION OF AASB 16 *LEASES*

AASB 16 *Leases* replaces AASB 117 *Leases,* AASB Interpretation 4 *Determining whether an Arrangement contains a Lease,* AASB Interpretation 115 *Operating Leases–Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The Group adopted AASB 16 from 1 July 2019. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on balance sheet model, similar to the accounting for finance leases under AASB 117.

Summary of impact of AASB 16

Under AASB 16, at the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e. lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. right of use asset).

- Lease liabilities are initially measured at the present value of lease payments over the lease term
- Right of use assets are measured at an amount equal to the lease liability (adjusted for any lease payments made at or before the commencement date), an initial estimate of restoration or return costs that arise at lease commencement (with the corresponding amount recognised as a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*), less any lease incentives received.

Lessees separately recognise the interest expense on the lease liability and depreciation expense on the right of use asset. Interest expense is highest at the beginning of the lease term, decreasing towards the end of the lease term as the lease liability is amortised.

Previously under AASB 117, the Group's leases were classified as either finance or operating leases. Operating leases (primarily aircraft and property) were not recognised on the Consolidated Balance Sheet. Payments made under operating leases (net of any incentives received from the lessor) were recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease.

The adoption of AASB 16 did not require any changes to the recognition or measurement of leases previously recognised as finance leases under AASB 117. Leases previously classified as finance lease assets and finance lease liabilities have been transferred to right of use assets and lease liabilities respectively on adoption of AASB 16.

Under AASB 16, within the Consolidated Cash Flow Statement, lease payments are split between interest paid (recognised in Operating Cash Flows) and repayments of lease liabilities (recognised in Financing Cash Flows). Previously under AASB 117, all lease payments for operating leases were recognised as an outflow within Operating Cash Flows. Lease payments for finance leases were previously split between interest payments and finance lease principal repayments which is unchanged under AASB 16.

Under AASB 16, the initial estimate of the present value of the expected aircraft restoration or return costs that arise at lease commencement is included within the right of use asset at the inception of the lease with an associated provision. This has resulted in the earlier recognition of lease return provisions, which is reflected in the AASB 16 remeasurements. Provisions for expected aircraft restoration or return costs that do not arise at lease commencement continue to be recognised over the lease term. The Group identifies lease return obligations and estimates the cost of meeting these obligations at the end of the lease term using observable data and forward-looking judgements. Previously under AASB 117, a provision to meet expected aircraft restoration or return costs was recognised over the lease term.

Notes to the Financial Statements continued

For the year ended 30 June 2020

38 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONTINUED)

Transition

The Group adopted AASB 16 using the full retrospective method from 1 July 2019. Under this approach, the Group's lease liabilities, right of use assets and other related balances are measured as if AASB 16 had applied from the lease commencement date of each relevant lease in place at 1 July 2018. This has resulted in the restatement of the Consolidated Balance Sheet as at 30 June 2018 and 30 June 2019, the Consolidated Income Statement and the Consolidated Cash Flow Statement for the year ended 30 June 2019.

The Group elected to use the exemptions proposed by the standard on short-term leases and lease contracts for which the underlying asset is of low value.

The Group's restated Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Cash Flow Statement and Earnings Per Share which reflect the adoption of AASB 16 are presented in Note 38(A) to 38(D).

The Group's revised accounting policies for leases under AASB 16 are provided in Note 37(I).

Capital Management

The Group's Financial Framework is outlined in Note 23(C) and is unchanged by the adoption of AASB 16. The Framework includes maintaining an optimal capital structure that minimises the cost of capital, by holding an appropriate level of net debt. The appropriate level of net debt reflects the Qantas Group's size, measured by Invested Capital. This is consistent with investment grade credit metrics.

The adoption of AASB 16 increased both total asset and total liabilities recognised on the Consolidated Balance Sheet resulting in a change to the reconciliation between the Consolidated Balance Sheet and net debt under the Group's Financial Framework.

Net debt is a non-statutory measure which includes on balance sheet interest-bearing liabilities (which does not include lease liabilities under AASB 16) and Capitalised Aircraft Lease Liabilities measured under the Group's Financial Framework.

Capitalised Aircraft Lease Liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis. The residual value of the Capitalised Aircraft Lease Liability denominated in a foreign currency is translated at a long-term exchange rate.

This measurement of Capitalised Aircraft Lease Liabilities differs from the lease liability recognised on the Consolidated Balance Sheet under AASB 16 which measures lease liabilities as the present value of lease payments over the lease term. Given lease terms are usually shorter than the useful life of an aircraft, the lease liability recognised at lease commencement under AASB 16 (present value of lease payments over the lease term) is generally lower than the Capitalised Aircraft Lease Liability included in net debt under the Group's Financial Framework (full fair value of the aircraft).

The measurement of net debt under the Group's Financial Framework remains consistent following the adoption of AASB 16 and is reconciled as follows:

- Net debt includes on balance sheet interest-bearing liabilities (which does not include Lease Liabilities) and Capitalised Aircraft Lease Liabilities as outlined above
- Non-aircraft leases continue to be treated as a service cost rather than being separated into interest payments and debt repayments (ROIC EBIT is adjusted to account for the full cash expense for non-aircraft leases)
- Upon adoption of AASB 16, finance leases which were previously classified as interest-bearing liabilities have been reclassified to lease liabilities on the Consolidated Balance Sheet. Accordingly, Capitalised Aircraft Lease Liabilities under the Group's Financial Framework have been increased to include finance leases, with no net impact to the Group's net debt.

The target net debt range of $4.5 billion to $5.6 billion is based on Invested Capital at 30 June 2020 of $6.0 billion.

	Metric $B	June 2020 $B	June 2019 $B
Net debt	**4.5 to 5.6**	**4.7**	**4.7**

IFRIC FAIR VALUE HEDGING AGENDA DECISION

In September 2019, the IFRS Interpretations Committee (IFRIC) published a final agenda decision in relation to the treatment of fair value hedges of foreign currency risk on non-financial assets. IFRIC introduced new guidance and requirements in order to hedge exposure to foreign currency risk in the fair value of non-financial assets.

The Group had historically used certain US dollar denominated interest-bearing liabilities as the hedging instrument in fair value hedges of the foreign currency risk of certain non-financial assets (US dollar foreign currency risk in owned aircraft that are recognised as property, plant and equipment in Australian dollars).

As a result of the agenda decision and new guidance, the Group is required to retrospectively apply the decision as a change in accounting policy by removing the fair value hedge relationship. This has resulted in the restatement of the Consolidated Balance Sheet as at 30 June 2018 and 30 June 2019, the Consolidated Income Statement and the Consolidated Cash Flow Statement for the year ended 30 June 2019.

Revised hedge designations

From 1 July 2019, the Group has applied alternative hedging designations, in line with the Group's risk management framework, which are unaffected by the IFRIC Fair Value hedging agenda decision.

The Group has designated certain US dollar denominated interest-bearing liabilities as a hedging instrument in cash flow hedges of future corresponding foreign currency revenues in a cash flow hedge relationship. The effective portion of the foreign exchange revaluation of the interest-bearing liability is recognised in Other Comprehensive Income and is recycled to the Consolidated Income Statement within Net Passenger Revenue when the hedged item is realised. In accordance with AASB 9, this hedge relationship was designated prospectively from 1 July 2019. For the comparative periods before this designation (year ended 30 June 2019) the foreign exchange movements on foreign currency denominated interest-bearing liabilities are recognised in the Consolidated Income Statement within Other Expenses.

Notes to the Financial Statements continued

For the year ended 30 June 2020

38 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONTINUED)

(A) CONSOLIDATED BALANCE SHEET RESTATEMENT

The impact on the Consolidated Balance Sheet as at 30 June 2018 is:

	30 June 2018 $M	AASB 16 Remeasurements $M	IFRIC Fair Value Hedges $M	30 June 2018 (restated) $M
CURRENT ASSETS				
Cash and cash equivalents	1,694	-	-	1,694
Receivables	840	-	-	840
Other financial assets	474	-	-	474
Inventories	351	-	-	351
Assets classified as held for sale	118	-	-	118
Other	161	(5)	-	156
Total current assets	**3,638**	**(5)**	**-**	**3,633**
NON-CURRENT ASSETS				
Receivables	110	-	-	110
Other financial assets	112	-	-	112
Investments accounted for under the equity method	222	(56)	-	166
Property, plant and equipment	12,851	(52)	(108)	12,691
Right of use assets	-	1,448	-	1,448
Intangible assets	1,113	-	-	1,113
Other	601	-	-	601
Total non-current assets	**15,009**	**1,340**	**(108)**	**16,241**
Total assets	**18,647**	**1,335**	**(108)**	**19,874**
CURRENT LIABILITIES				
Payables	2,139	(3)	-	2,136
Revenue received in advance	4,099	-	-	4,099
Interest-bearing liabilities	404	(12)	-	392
Lease liabilities	-	434	-	434
Other financial liabilities	34	-	-	34
Provisions	853	15	-	868
Income tax liabilities	7	-	-	7
Liabilities classified as held for sale	64	-	-	64
Total current liabilities	**7,600**	**434**	**-**	**8,034**
NON-CURRENT LIABILITIES				
Revenue received in advance	1,446	-	-	1,446
Interest-bearing liabilities	4,344	(81)	-	4,263
Lease liabilities	-	1,332	-	1,332
Other financial liabilities	25	-	-	25
Provisions	367	44	-	411
Deferred tax liabilities	910	(99)	(32)	779
Total non-current liabilities	**7,092**	**1,196**	**(32)**	**8,256**
Total liabilities	**14,692**	**1,630**	**(32)**	**16,290**
Net assets	**3,955**	**(295)**	**(76)**	**3,584**
EQUITY				
Issued capital	2,508	-	-	2,508
Treasury shares	(115)	-	-	(115)
Reserves	479	-	-	479
Retained earnings	1,080	(295)	(76)	709
Equity attributable to the members of Qantas	**3,952**	**(295)**	**(76)**	**3,581**
Non-controlling interests	3	-	-	3
Total equity	**3,955**	**(295)**	**(76)**	**3,584**

Notes to the Financial Statements continued

For the year ended 30 June 2020

38 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONTINUED)

(A) CONSOLIDATED BALANCE SHEET RESTATEMENT (CONTINUED)

The impact on the Consolidated Balance Sheet as at 30 June 2019 is:

	30 June 2019 $M	AASB 16 Remeasurements $M	IFRIC Fair Value Hedges $M	30 June 2019 (restated) $M
CURRENT ASSETS				
Cash and cash equivalents	2,157	-	-	2,157
Receivables	1,101	-	-	1,101
Other financial assets	334	-	-	334
Inventories	364	-	-	364
Assets classified as held for sale	1	-	-	1
Other	236	(5)	-	231
Total current assets	**4,193**	**(5)**	**-**	**4,188**
NON-CURRENT ASSETS				
Receivables	77	-	-	77
Other financial assets	184	-	-	184
Investments accounted for under the equity method	272	(55)	-	217
Property, plant and equipment	12,977	(52)	(149)	12,776
Right of use assets	-	1,419	-	1,419
Intangible assets	1,225	-	-	1,225
Other	449	-	-	449
Total non-current assets	**15,184**	**1,312**	**(149)**	**16,347**
Total assets	**19,377**	**1,307**	**(149)**	**20,535**
CURRENT LIABILITIES				
Payables	2,371	(5)	-	2,366
Revenue received in advance	4,414	-	-	4,414
Interest-bearing liabilities	635	(25)	-	610
Lease liabilities	-	459	-	459
Other financial liabilities	89	-	-	89
Provisions	954	13	-	967
Income tax liabilities	113	-	-	113
Total current liabilities	**8,576**	**442**	**-**	**9,018**
NON-CURRENT LIABILITIES				
Revenue received in advance	1,466	-	-	1,466
Interest-bearing liabilities	4,589	(62)	-	4,527
Lease liabilities	-	1,293	-	1,293
Other financial liabilities	48	-	-	48
Provisions	415	60	-	475
Deferred tax liabilities	847	(109)	(44)	694
Total non-current liabilities	**7,365**	**1,182**	**(44)**	**8,503**
Total liabilities	**15,941**	**1,624**	**(44)**	**17,521**
Net assets	**3,436**	**(317)**	**(105)**	**3,014**
EQUITY				
Issued capital	1,871	-	-	1,871
Treasury shares	(152)	-	-	(152)
Reserves	111	-	-	111
Retained earnings	1,603	(317)	(105)	1,181
Equity attributable to members of Qantas	**3,433**	**(317)**	**(105)**	**3,011**
Non-controlling interests	3	-	-	3
Total equity	**3,436**	**(317)**	**(105)**	**3,014**

Notes to the Financial Statements continued

For the year ended 30 June 2020

38 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONTINUED)

(B) CONSOLIDATED INCOME STATEMENT RESTATEMENT

The impact on the Consolidated Income Statement for the year ended 30 June 2019 is:

	30 June 2019 $M	AASB 16 Reclassifications $M	IFRIC Fair Value Hedges $M	30 June 2019 (restated) $M
REVENUE AND OTHER INCOME				
Net passenger revenue	15,696	-	-	15,696
Net freight revenue	971	-	-	971
Other revenue and income	1,299	-	-	1,299
Revenue and other income	**17,966**	**-**	**-**	**17,966**
EXPENDITURE				
Manpower and staff-related	4,268	-	-	4,268
Aircraft operating variable	4,010	-	-	4,010
Fuel	3,846	-	-	3,846
Depreciation and amortisation	1,665	340	(9)	1,996
Non-cancellable aircraft operating lease rentals	264	(264)	-	-
Share of net profit of investments accounted for under the equity method	(22)	(1)	-	(23)
Impairment/(reversal of impairment) of assets and related costs	(39)	-	-	(39)
Redundancies and related costs	65	-	-	65
Net gain on disposal of assets	(217)	(8)	-	(225)
Other[1]	2,676	(132)	50	2,594
Expenditure	**16,516**	**(65)**	**41**	**16,492**
Statutory profit before income tax expense and net finance costs	**1,450**	**65**	**(41)**	**1,474**
Finance income	47	-	-	47
Finance costs	(232)	(97)	-	(329)
Net finance costs	**(185)**	**(97)**	**-**	**(282)**
Statutory profit before income tax expense	**1,265**	**(32)**	**(41)**	**1,192**
Income tax expense	(374)	10	12	(352)
Statutory profit for the year	**891**	**(22)**	**(29)**	**840**

1. Other includes the impact of non-aircraft rentals, capacity hire, foreign exchange movements, other leases and reclassifications.

Notes to the Financial Statements continued

For the year ended 30 June 2020

38 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONTINUED)

(C) CONSOLIDATED CASH FLOW RESTATEMENT

The impact on the Consolidated Cash Flow Statement for the year ended 30 June 2019 is:

	30 June 2019 $M	AASB 16 Remeasurements $M	IFRIC Value Hedges $M	30 June 2019 (restated) $M
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	19,050	-	-	19,050
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs and discretionary bonus payments to non-executive employees)	(15,876)	451	-	(15,425)
Cash generated from operations	**3,174**	**451**	**-**	**3,625**
Cash payments to employees for redundancies and related costs	(58)	-	-	(58)
Discretionary bonus payments to non-executive employees	(25)	-	-	(25)
Interest received	41	-	-	41
Interest paid (interest-bearing liabilities)	(168)	7	-	(161)
Interest paid (lease liabilities)	-	(101)	-	(101)
Dividends received from investments accounted for under the equity method	11	-	-	11
Australian income taxes paid	(156)	-	-	(156)
Foreign income taxes paid	(12)	-	-	(12)
Net cash from operating activities	**2,807**	**357**	**-**	**3,164**
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for property, plant and equipment and intangible assets	(1,944)	-	-	(1,944)
Interest paid and capitalised on qualifying assets	(42)	-	-	(42)
Payments for investments held at fair value	(60)	-	-	(60)
Proceeds from disposal of property, plant and equipment	333	-	-	333
Proceeds from disposal of a controlled entity	139	-	-	139
Proceeds from disposal of shares in associate	11	-	-	11
Net cash used in investing activities	**(1,563)**	**-**	**-**	**(1,563)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments for share buy-back	(637)	-	-	(637)
Payments for treasury shares	(98)	-	-	(98)
Proceeds from interest-bearing liabilities	1,137	-	-	1,137
Repayments of interest-bearing liabilities	(744)	11	-	(733)
Repayments of lease liabilities	-	(368)	-	(368)
Dividends paid to shareholders	(363)	-	-	(363)
Aircraft lease refinancing	(88)	-	-	(88)
Net cash used in financing activities	**(793)**	**(357)**	**-**	**(1,150)**
Net decrease in cash and cash equivalents held	**451**	**-**	**-**	**451**
Cash and cash equivalents held at the beginning of the period	1,694	-	-	1,694
Effects of exchange rate changes on cash and cash equivalents	12	-	-	12
Cash and cash equivalents at the end of the period	**2,157**	**-**	**-**	**2,157**

(D) EARNINGS PER SHARE RESTATEMENT

The impact on basic and diluted Earnings Per Share is as follows:

	30 June 2019 as previously reported	Remeasurements	30 June 2019 (restated)
Basic Earnings Per Share (cents)	54.6	(3.1)	51.5
Diluted Earnings Per Share (cents)	54.4	(3.1)	51.3

39 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE GROUP

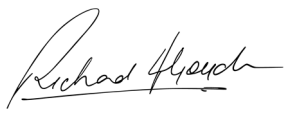
The Group has not identified any standards or interpretations that have been issued, but are not yet effective that would have a material impact on the Group when adopted.

Directors' Declaration

For the year ended 30 June 2020

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 2020 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 2020.
4. The Directors draw attention to Note 1(A) which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a Resolution of the Directors:



Richard Goyder Chairman	Alan Joyce Chief Executive Officer
18 September 2020	18 September 2020

Independent Auditor's Report

For the year ended 30 June 2020

To the Shareholders 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 2020 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 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 2020
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Cash Flow Statement 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:

- Recoverability of non-current assets, in particular aircraft and related assets
- Passenger revenue recognition
- Frequent Flyer revenue recognition
- Derivative financial instrument accounting
- Initial adoption of AASB 16 *Leases*

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 2020

Recoverability of non-current assets, in particular aircraft, and other related assets

Refer to Notes 12, 15, 17 and 25 to the financial report

THE KEY AUDIT MATTER

Assessment of the recoverability of non-current assets, including aircraft, related spare parts and inventory was a key audit matter due to:

- the significant cumulative value and long-lived nature of these assets;
- the inherent uncertainty regarding the duration and severity of COVID-19 related domestic and international travel restrictions and resultant decrease in travel demand;
- the estimates and assumptions used in the cashflow projections which form the basis of the recoverable amounts attributable to the Group's Cash Generating Units ("CGUs") require significant judgement; and
- the recognition of an impairment of $1,018m related to A380 aircraft, spare parts and inventory, not contributing to CGUs, determined by estimating fair value less costs of disposal with reference to external valuations.

We focused on significant forward-looking assumptions and judgements, specifically:

- the Group's Board approved Three-Year Recovery Plan and terminal year growth rate used in the Group's CGU discounted cash flow models; and
- the fair value less costs of disposal (FVLCD) model, the application of external valuations, and adjustments to reflect remaining maintenance life for the 12 A380 aircraft and related assets.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures for assessing the CGU value in use models included:

- meeting with management to understand the impact of COVID-19 on the Group, the mitigation strategies the Group is adopting in response and how these are reflected in the Board approved Recovery Plan.
- comparing the assumptions in the Recovery Plan relating to the easing of international and domestic travel restrictions and return of travel demand to published views of market commentators, and publicly available aviation industry reports relating to the impact COVID-19 pandemic has on global passenger demand.
- analysing the Group's monitoring and management of activities based on internal reporting and the Recovery Plan to assess the allocation of assets to CGUs and the identification of idle assets.
- considering the appropriateness of and assessing the integrity of the value in use model applied by the Group for CGU impairment testing against the requirements of the accounting standards.
- comparing the forecast cash flows and capital expenditure contained in the value in use models to the Board approved Recovery Plan.
- considering the sensitivity of the models by varying key assumptions, such as expected rate of recovery for the Group, terminal growth rates and discount rates, within a reasonably possible range. We considered the interdependencies of key assumptions and what the Group considers to be reasonably possible.
- we challenged the Group's forecast cash flow and growth assumptions. We compared the recovery period and terminal growth rates to authoritative published studies from external sources. We used our knowledge of the Group and our industry experience. We sourced authoritative and credible inputs from our specialists and market advisors.
- working with our valuation specialists, we independently developed a discount rate range considered comparable using market data for comparable entities, adjusted by risk factors specific to the Group.

Working with our global aviation valuation specialists, our procedures for assessing the fair value less costs of disposal (FVLCD) model used for estimating the recoverable value of A380 aircraft, spare parts and inventory included:

- meeting with appraisers from the two independent international aircraft valuation specialists to understand their methodology valuation, key assumptions, outlook for the aircraft type and to discuss the reasonableness of the Group's adjustments to reflect the remaining maintenance life of the aircraft.
- assessing the objectivity of the independent aircraft valuation specialists.
- comparing key inputs in the model to the relevant internal or external sources, including the Group's accounting records, engineering records, invoices for maintenance activity, external price lists, Airbus A380 fact sheets and foreign currency translation rates.
- assessing the integrity of the modelling used, including the accuracy of the underlying calculation and formulae.

We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards, including those made with respect to judgements and estimates.

Independent Auditor's Report continued

For the year ended 30 June 2020

Passenger revenue recognition

Refer to Note 4(A) and 37(D)(i) to the Financial Report

THE KEY AUDIT MATTER

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

- its financial significance to the Group;
- the high volume of relatively low value passenger tickets;
- judgement within the estimate for the proportion of unused tickets which are expected to expire (breakage).; and
- audit effort arising from a variety of ticket conditions and points of sale.

Travel restrictions as a result of the COVID-19 pandemic have resulted in a significant decline in global and domestic travel demand, which resulted in a significant number of cancelled flights during the reporting period. These flight cancellations have caused a significant reduction in passenger revenue and forward bookings and also necessitated the payment of certain customer refunds. Historical trend information which has been used in the past to estimate breakage, has been supplemented by forward-looking estimation with regard to the current conditions to determine breakage at 30 June 2020.

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

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

- for key revenue streams, we assessed the Group's identification of performance obligations and revenue recognised by comparing to the relevant features of the underlying contracts.
- with the assistance of our IT specialists, we analysed the end to end flow of ticket information through multiple passenger revenue IT systems and interfaces to evaluate the recognition of revenue against accounting standards.
- with the assistance of our IT specialists, we tested the key controls restricting access to authorised users and preventing unauthorised changes to the IT systems. We tested key controls within the system relating to ticket validation and the recognition of revenue at flight date.
- testing key controls related to management review and approval of manual changes to revenue accounting records where tickets have been identified as exceptions to automated validation.
- checking a sample of passenger revenue transactions to underlying records including evidence of payment and flight records to assess the accuracy of the revenue recognised.
- checking a sample of passenger revenue received in advance to underlying records to assess the completeness of revenue recognised.
- assessing the Group's ability to reliably estimate ticket breakage by comparing previous estimates to actual outcomes. We met with senior management to understand the Group's responses regarding ticket holders impacted by cancelled flights from the COVID-19 pandemic. Through these discussions, reviews of the Group's external announcements and documented internal policies, we understood the effects of cancelled flights on breakage estimates.
- checking the calculation and IT system reports in the Group's expectation of the proportion of tickets which will expire unused. We evaluated the Group's breakage assumptions against historical trends, adjusting for the forecast impact of COVID-19 on customer behaviour, and assessed for indicators of bias, using our industry knowledge.

Independent Auditor's Report continued

For the year ended 30 June 2020

Frequent Flyer revenue recognition

Refer to Note 4(B) to the Financial Report

THE KEY AUDIT MATTER

Recognition of Frequent Flyer revenue is a key audit matter due to the high level of audit effort and judgement required by us in assessing the Group's assumptions underpinning the amount deferred as Unredeemed Frequent Flyer revenue. We focused on the Group's assumptions used in their estimation of the:

- stand-alone selling price of the Qantas Points: this is based on the observable price of available rewards weighted in proportion to the expected redemptions, based on historical experience, and impacted by future unpredictable customer behaviour; and
- expected proportion of Qantas Points to be redeemed by members in the future (breakage): the Group uses actuarial experts to estimate the expected proportion of Qantas Points to be redeemed by members in the future, also based on future unpredictable customer behaviour

In the financial year, the Group was impacted by the global travel restrictions implemented in response to the COVID-19 pandemic which resulted in a significant reduction in the volume of Qantas Points earned and redeemed for flights, and resulted in revisions to the program. The increased uncertainty relating to the future volume of Qantas Points earned and redeemed for flights and other changes to the Frequent Flyer program required additional audit effort in the current year.

Given the complex judgements, we involved our actuarial specialists to supplement our senior team members in addressing this key audit matter.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

- we assessed the Group's methodology used to estimate the stand-alone selling price of the Qantas Points against the requirements of AASB 15 *Revenue* and the Group's accounting policy.
- we tested the integrity of the calculation used to estimate the stand-alone selling price of Qantas Points, including the accuracy of the underlying calculation formulas.
- we assessed the key inputs of the various redemption channels used to estimate the stand-alone selling price of expected future redemptions. We did this by comparing a sample to observable market values, such as comparable market air fares. We compared the weighting used in the calculation to historic redemption patterns, taking into consideration the estimated future volume of Qantas Points redeemed for flights and our understanding of other changes in the Frequent Flyer program.
- involving our actuarial specialists, we assessed the appropriateness of the Group's breakage calculation by developing an independent model using our understanding of the Frequent Flyer program, accounting standard requirements and comparing it to the Group's calculation.
- involving our actuarial specialists, we assessed key breakage assumptions against historical experience, recent trends and the estimated future volume of Qantas Points earned and redeemed for flights based on the Board approved Recovery Plan and our understanding of other changes in the Frequent Flyer program.
- we compared the forecast easing of international and domestic travel restrictions and return of travel demand in the Recovery Plan to published views of market commentators seeking authoritative and credible sources.
- we checked the accuracy of points activity data used in the calculation of breakage to source Qantas Point's system and reports.

Independent Auditor's Report continued

For the year ended 30 June 2020

Derivative financial instrument accounting

Refer to Note 27 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 complexity inherent in the Group's estimation of the fair value of derivative financial instruments. The Group uses market standard valuation techniques to determine the fair value of options, swaps and cross-currency swaps 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 specific exposures over time;
- the volume of transactions and counterparties;
- the hedging of a high proportion of forecast future cash flows; and
- the significance of the Group's financial risk management program on the financial results.

In the financial year the Group was impacted by COVID-19 which resulted in a significant decline in forecast flying activity and fuel consumption. This resulted in the de-designation of hedge relationships and release of deferred gains and losses to the income statement where the hedged items were no longer considered probable. This required additional audit effort due to estimation uncertainty in consumption forecasts and identifying the appropriate derivatives for de-designation within restructured positions.

In assessing this key audit matter, we involved our valuation specialists to supplement our senior team members, who understand methods, inputs and assumptions relevant to the Group's derivative portfolio.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

- testing the Group's key internal controls. These included the Group's controls associated with:
  - assessment and approval of the details of trades to counterparty confirmations;
  - assessment of hedge accounting designation; and
  - assessment of the volume of hedged exposures compared to total exposures.
- we compared financial instrument fair values in the Group's accounting records to the records in the treasury risk management system.
- with the assistance of our valuation specialists, we independently estimated the fair values of the Group's financial instruments as at 30 June 2020 using recognised market valuation methodologies and inputs. We adjusted these fair values for the range of acceptable market valuation techniques in estimating fair values of instruments not traded in active markets. We compared the Group's valuations recorded in the general ledger to these fair value ranges.
- we tested a sample of cash flow hedge accounting designations against the requirements of the accounting standard. This included a sample of the restructured positions involving multiple derivatives.
- we compared the Group's forecast fuel consumption against the Board approved Recovery Plan and ensured consistency with other key forward looking assumptions
- we tested the Group's derecognition of hedge relationships where the hedged item is no longer considered probable.
- we evaluated the appropriateness of the classification and presentation of derivative financial instruments and related financial risk management disclosures against accounting standard requirements.

Independent Auditor's Report continued

For the year ended 30 June 2020

Initial adoption of AASB 16 *Leases*

Refer to Note 38 to the Financial Report

THE KEY AUDIT MATTER

The initial adoption of AASB 16 *Leases* ("AASB 16") is a key audit matter due to the inherent complexity of adopting this standard for the first time using the fully retrospective transition approach, and specific lease features driving different accounting outcomes, increasing the need for interpretation, judgement and audit effort.

We focused on:

- the Group's new accounting processes and controls applied retrospectively to the lease portfolio as at 1 July 2018;
- the Group's identification of a complete population of leases, including embedded leases identified within service agreements;
- incremental borrowing rates used incorporating specific credit risk and lease term; and
- lease terms including the assessment of renewal, purchase or termination options.

Applying AASB 16 fully retrospectively to the Group's aircraft lease agreements is complex. As a result the Group developed an in-house model for its aircraft lease calculations. This resulted in increased audit effort due to the greater risk for potential error and inconsistent application.

In the financial year, the Group was impacted by COVID-19 and in response, negotiated a number of rent abatements and deferrals with lessors. The Group applied the practical expedient issued by the IASB in May 2020 and the assessment of whether individual rent abatements met the criteria of the practical expedient required additional audit effort in the current year.

We involved our senior audit team members in assessing this key audit matter, along with our debt advisory specialists.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our procedures included:

- we considered the appropriateness of the Group's new accounting policies against the requirements of the accounting standard and our understanding of the business and industry practice.
- we obtained an understanding of the Group's new processes used to calculate the lease liability, right of use asset, depreciation and interest expense, and retained earnings adjustment.
- we assessed the completeness of the Group's leases by:
  - inquiring with the Group to understand their process to compile the Group's listing of leases;
  - checking the Group's listing of leases to the items included in the operating lease commitments disclosure in the prior year's financial report;
  - based on our understanding of the business we inspected a sample of key agreements including service contracts for the existence of embedded leases; and
  - inspecting relevant expense accounts for payments during the year to identify the existence of leases not included in the Group's listing of leases.
- we compared the Group's inputs in the AASB 16 lease calculation model, such as, key dates, fixed and variable rent payments, incentives, renewal, purchase and termination options, and make good obligations, for consistency to the relevant terms of a sample of underlying source documents including signed lease agreements, lessor's invoices, and the Group's bank statements.
- we assessed the Group's determination of lease terms based on the probability of the Group exercising the lease renewal or termination options. We compared key management decisions for consistency to board approved plans, strategies and past practices.
- working together with our debt advisory specialists, we independently developed a series of point estimates for the incremental borrowing rates applied to the leases using the corporate yield curve, adjusted by risk factors specific to the Group, the industry it operates in, and each lease term. We compared it to the incremental borrowing rates applied by the Group.
- we assessed the integrity of the Group's in-house model for its AASB 16 aircraft lease calculations, including the accuracy of the underlying calculation formulas.
- for a sample of leases, we recalculated the amount of lease liability, right of use asset, depreciation and interest expense, and retained earnings relevant to this financial year and compared our recalculated amounts against the amounts recorded by the Group.
- we tested a sample of rent abatements and deferrals to agreed lease modifications and assessed against the requirements of the practical expedient.
- We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard.

Independent Auditor's Report continued

For the year ended 30 June 2020

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
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

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 the 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: www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Independent Auditor's Report continued

For the year ended 30 June 2020

REPORT ON THE REMUNERATION REPORT

Opinion

In our opinion, the Remuneration Report of Qantas Airways Limited for the year ended 30 June 2019, 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 54 of the Directors' report for the year ended 30 June 2020.

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 18 September 2020	Caoimhe Toouli Partner Sydney 18 September 2020

Shareholder Information

For the year ended 30 June 2020

The shareholder information set out below was applicable as at 14 August 2020.

TWENTY LARGEST SHAREHOLDERS

Shareholders	Ordinary Shares Held	% of Issued Shares
HSBC Custody Nominees (Australia) Limited	622,390,343	33.00
J P Morgan Nominees Australia Limited	332,858,461	17.65
Citicorp Nominees Pty Limited	184,852,548	9.80
National Nominees Limited	136,816,512	7.25
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	64,182,327	3.40
HSBC Custody Nominees (Australia) Limited (NT-CTH S C A/C)	26,645,287	1.41
BNP Paribas Noms Pty Ltd (DRP)	19,458,841	1.03
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	12,966,400	0.69
Pacific Custodians Pty Limited (Emp Share Plan Tst)	8,784,026	0.47
Pacific Custodians Pty Limited (QAN Plans Ctrl)	8,164,328	0.43
HSBC Custody Nominees (Australia) Limited – A/C 2	4,267,387	0.23
Morgan Stanley Australia Securities (Nominee) Pty Limited (No 1 A/C)	3,663,552	0.19
HSBC Custody Nominees (Australia) Limited-GSCO ECA	3,650,006	0.19
AMP Life Limited	2,972,996	0.16
UBS Nominees Pty Ltd	2,946,145	0.16
BNP Paribas Nominees Pty Ltd (IB AU Noms Retail Client DRP)	2,774,747	0.15
Alan Joyce Pty Ltd	2,728,924	0.14
HSBC Custody Nominees (Australia) Limited	2,521,383	0.13
ECapital Nominees Pty Limited (Accumulation A/C)	2,047,247	0.11
Mrs Pamela Honora Ditchfield	1,700,000	0.09
Total	**1,446,391,460**	**76.68**

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]	42,808,069	98,759	2.27
1,001–5,000	152,476,954	63,992	8.08
5,001–10,000	68,523,034	9,647	3.63
10,001–100,000	124,243,999	5,911	6.59
100,001 and over	1,497,992,642	206	79.43
Total	**1,886,044,698**	**178,515**	**100.00**

1. 7,358 shareholders hold less than a marketable parcel of shares in Qantas, as at 14 August 2020.

SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Qantas:

Shareholders	Ordinary Shares Held	% of Issued Shares
Pendal Group Limited[1]	82,037,038	5.22

1. Substantial shareholder notice dated 6 November 2019.

Financial Calendar and Additional Information

2020		2021	
20 February	Half year results announcement	25 February	Half year results announcement
30 June	Year end	9 March	Record date for interim dividend*
20 August	Preliminary final results announcement	13 April	Interim dividend payable*
23 October	Annual General Meeting	30 June	Year end
		26 August	Preliminary final results announcement
		14 September	Record date for final dividend*
		19 October	Final dividend payable*
		5 November	Annual General Meeting

*Subject to a dividend declared by the Board.

2020 ANNUAL GENERAL MEETING

The 2020 AGM of Qantas Airways Limited will be held in Sydney at 11am AEDT (Sydney time) on Friday 23 October 2020.

Further details are available in the Investors section on the Qantas website investor.qantas.com/home/

COMPANY PUBLICATIONS

In addition to the Annual Report, the following publications can be accessed from www.qantas.com/au/en/qantas-group/acting-responsibly/our-reporting-approach.html

- Code of Conduct and Ethics
- Corporate Governance Statement
- Inclusion and Diversity Policy
- Workplace Gender Equality Reports.

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 0309

Email registry@qantas.com

SECURITIES 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

Nicole Malone

Benjamin Elliott

An electronic copy of this Annual Report is available at investor.qantas.com/home/

Further information about the Qantas Group can be found on our corporate site at www.qantas.com/qantas-group

By 1971, the first Qantas Boeing 747 had landed and brought with it low airfares that revolutionised international travel by making it more accessible for Australians.

The first direct flight between Australia and Europe became a reality in 2018 when the Qantas 787-9 Dreamliner made the shortest and fastest version of the Kangaroo Route in its 70-year history.

The Qantas Annual Report 2020 is printed on ecoStar+ 100% Recycled Uncoated, which is manufactured from 100% recycled post-consumer waste and is made carbon neutral. In 2019, this Report was printed on the same recycled paper. By the end of 2021, the Qantas Group will be the first airline in the world to reduce its waste to landfill by 75%.

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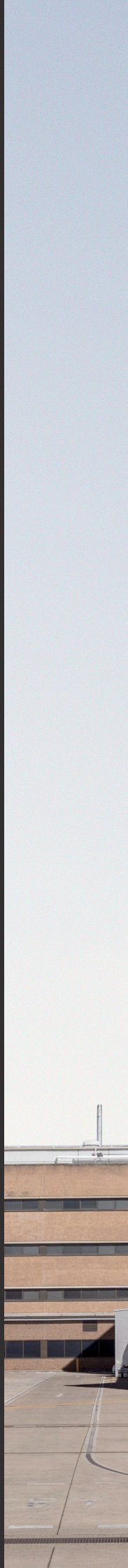

QANTAS

QANTAS AIRWAYS LIMITED
ABN 16 009 661 901