QANTAS

28 August 2015

ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

2015 Annual Report

Please see attached the 2015 Annual Report for Qantas Airways Limited.

Yours faithfully

Andrew Finch
Company Secretary

oneworld

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qantas.com

A STRONG, SUSTAINABLE FUTURE

QANTAS ANNUAL REPORT 2015

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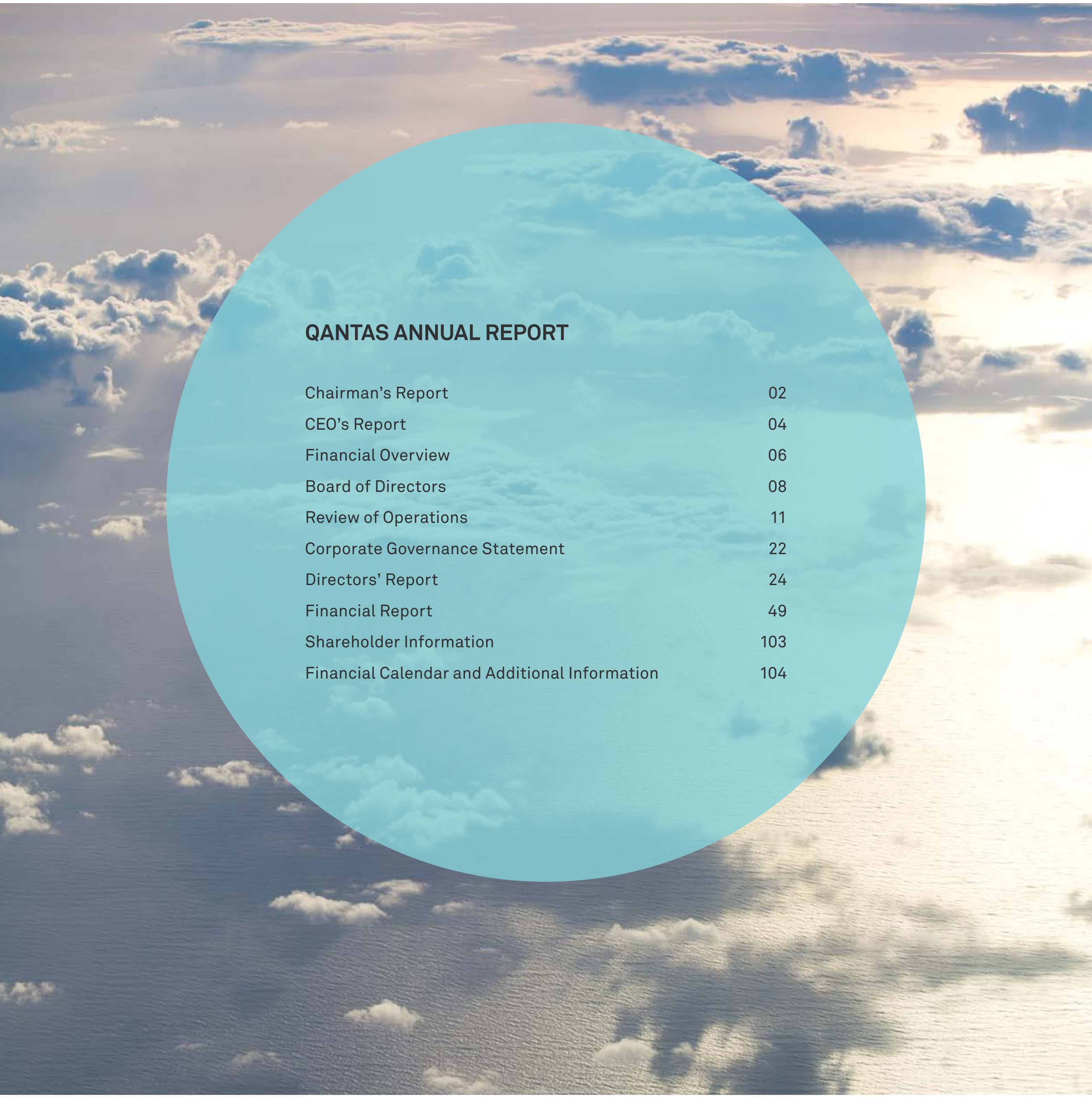


QANTAS ANNUAL REPORT

CHAIRMAN'S REPORT

Qantas performed strongly in 2014/2015 to achieve its best result since before the Global Financial Crisis, enabling the Group to both strengthen its balance sheet and resume shareholder returns. On behalf of the Board, I would like to thank all Qantas Group employees for their hard work and commitment in turning the business' performance around and laying the foundations for future growth.

Strong Performance

Alan Joyce and his leadership team deserve great credit for the progress the Group made with its $2 billion Qantas Transformation program in 2014/2015. The program realised $894 million in benefits, ahead of targets.

There were tailwinds in the operating environment – including lower fuel prices and a weaker Australian dollar – which benefitted the Group.

However, it was the implementation of the Group's strategy that had most bearing on the result. The Group reduced costs, grew revenue and continued to improve the experience for Qantas and Jetstar customers. Each of the Group's businesses made a good contribution to the overall performance and returned its cost of capital. Operating cash flow in 2014/2015 was a healthy $2 billion.

Proposed Capital Return

Qantas returned to an optimal capital structure in 2014/2015, having reduced debt, increased liquidity and improved Group-wide return on invested capital to 16 per cent.

As a result, the Board has proposed a $505 million capital return to shareholders and related share consolidation, subject to approval by shareholders at the Annual General Meeting in October 2015.

Shareholders have shown patience and loyalty through a period of necessary transformation for Qantas. The Board has been committed to resuming a form of shareholder returns at the appropriate time and we are pleased that the Group's performance and financial position enable us to do so now.

Board Changes

The renewal of the Qantas Board continued in 2014/2015. We welcomed a new Director in Todd Sampson, one of Australia's foremost brand and marketing experts, while Garry Hounsell retired after a decade on the Board.

I thank Garry for his outstanding service and wise counsel at an important and challenging time in Qantas' history.

> "The Group reduced costs, grew revenue and continued to improve the experience for Qantas and Jetstar customers."
>
> **LEIGH CLIFFORD AO**
> CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Australian & Global Outlook

Market conditions globally and in Australia are complex, with steady growth in some regions and a weaker outlook in others.

Australia's economy continues to transition from the peak of the mining boom, affecting demand in resources-intensive states, while demand is stronger in east coast states and other industry sectors. The Group is managing its assets and capacity in response to this change.

Internationally, the North American and Asia-Pacific markets have strengthened, with growth opportunities for both Qantas and Jetstar. The Group has limited capital invested in Europe but extensive access to European markets through the Emirates partnership. Overall, the Group's diverse brands, revenue streams and customer base are significant competitive advantages to build on in 2015/2016.

Once again, I pay tribute to the Group's employees for their contribution to this result and their dedication to building a strong future for Qantas.

August 2015

CEO'S REPORT

Qantas' underlying profit before tax of $975 million was a turnaround of $1.6 billion compared with 2013/2014 – including the best second-half performance in our history. I'm incredibly proud of our people, who have driven the Qantas Transformation program forward with passion, skill and determination. Without their hard work this outstanding result would not have been possible.

Laying Strong Foundations

Since announcing the Qantas Transformation program in December 2013, we have unlocked $1.1 billion in cumulative transformation benefits. These are permanent improvements in our cost base and ability to generate revenue.

We had to make tough decisions as part of what is the biggest and fastest transition in our history. But because we made and implemented those decisions early, we have strong foundations to build on today.

The diversity and quality of the Qantas Group – with Australia's best airlines and loyalty brands – remains our greatest strategic advantage. What's different today is that we are smarter and faster in the way we make decisions, foster innovation and serve customers.

Putting Customers First

Customers have always been at the heart of the Group's strategy. We've invested in aircraft, lounges, service innovations and training for our people, who have continued to earn record customer satisfaction.

Today we're looking to the next frontier of customer service. Speeding up our adoption of new technology is a priority, but what's truly exciting is the opportunity we have to use the relationships we have with our customers – and the insights they entrust to us – to shape service and create new businesses.

Next Generation Long Haul Fleet

Qantas' rapid progress with transformation – and the financial discipline we've applied – means we can look to the future and a new generation of long-haul aircraft. The announcement that the Boeing 787-9 Dreamliner will join the Qantas International fleet from 2017 is exciting and energising for all of us.

Throughout Qantas' history, new fleet types have symbolised renewal and ambition – from the Boeing 707 and 747 to the Airbus A380. The iconic Qantas Dreamliner will signify a new era of global opportunities, technology and passenger comfort. And like all Qantas aircraft, it will be a proud emblem of Australia wherever it flies.

> "We've invested in aircraft, lounges, service innovations, and training for our people, who have continued to earn record customer satisfaction."
>
> **ALAN JOYCE**
> CHIEF EXECUTIVE OFFICER

A Sustainable Future

The goal of the Qantas Transformation program is to build a strong, sustainable business for the long-term. And today more than ever, sustainability in the broadest sense of the word is central to our strategy, our values and our aspirations for the future. It unites our commitment to safety; to innovation; to service; to social responsibility; and to minimising our environmental footprint. This year's Annual Review reflects and reports on that commitment to embedding sustainability in everything we do.

In November 2015, Qantas marks 95 years of continuous operations. It's a privilege to lead this great Australian company and its wonderful people as we shape Qantas' future in the 21st century.

August 2015

FINANCIAL OVERVIEW[1]

A Strong Result

Qantas reported an underlying profit before tax of $975 million and a statutory profit after tax of $560 million for 2014/2015.

The underlying result was a turnaround of $1.6 billion compared with 2013/2014, including Qantas' best ever second half performance, with all segments of the Qantas Group profitable and returning their cost of capital for the year.

The largest driver of the improved result was progress with the Qantas Transformation program, which unlocked $894 million in transformation benefits during the year and saw Qantas meet its target of paying down more than $1 billion of net debt[3]. As a result, Qantas has reached its optimal capital structure – enabling it to resume shareholder returns.

Group Performance

All segments of the Qantas Group reported strong profits with record results for Jetstar, Qantas Loyalty and Qantas Freight[4] on an underlying earnings before interest and tax (EBIT) basis. Combined Group domestic underlying EBIT – Qantas and Jetstar – was more than $600 million and Qantas International was profitable on a full-year basis for the first time since before the Global Financial Crisis.

Financial Position

The Group's leverage metrics are now within an investment-grade target range, with debt-to-EBITDA of 2.9x, compared with 5.1x in 2013/2014. The Group retains access to diverse sources of funding and strong liquidity, including $2.9 billion in cash, $1 billion in available undrawn facilities and a pool of unencumbered aircraft totalling more than US$3 billion (at market values).

Proposed Capital Return

A proposed capital return of $505 million, equivalent to 23 cents per share, is proposed to be paid to shareholders in early November 2015. The cash payment is subject to shareholder approval at the Qantas Annual General Meeting on 23 October 2015 of both the capital return and a related share consolidation, which is designed to provide shareholders with an earnings per share outcome similar to an equivalent-sized share buy-back.

HIGHLIGHTS

Underlying profit before tax[2]	$975 MILLION
Statutory profit after tax	$560 MILLION
Return on invested capital	16 PER CENT
Operating cash flow	$2 BILLION
Net free cash flow	$1.1 BILLION
Transformation benefits realised	$894 MILLION
Net debt reduction	$1 BILLION
Statutory earnings per share (EPS)	25.4 CENTS

QANTAS DOMESTIC
$480m
Underlying EBIT. Up from $30 million in 2013/2014

QANTAS INTERNATIONAL
$267m
Underlying EBIT. Up from a loss of $497 million in 2013/2014

JETSTAR GROUP
$230m
record Underlying EBIT. Up from a loss of $116 million in 2013/2014

QANTAS LOYALTY
$315m
record Underlying EBIT. Up from $286 million in 2013/2014

QANTAS FREIGHT
$114m
record Underlying EBIT[4]. Up from $24 million in 2013/2014

1 Refer to the Review of Operations section in the Qantas Annual Report 2015 for definition and explanation of non-statutory measures. Unless otherwise stated, amounts are reported on an underlying basis.
2 Underlying Profit Before Tax (PBT) is a non-statutory measure and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies (being the Chief Executive Officer, Group Management Committee and the Board of Directors) for the purpose of assessing the performance of the Group.
3 $1.1 billion since 2012/2013. Net debt including present value of operating lease obligations.
4 Since separate segmentation of Freight result in 2007/2008.

The Financial Framework for a Stronger Qantas Group

At the 2015 Qantas Investor Day, we outlined the financial framework that guides the Group's thinking on shareholder value creation, our optimal capital structure, and capital allocation.

The three pillars of the financial framework are supported by measureable targets, aligned with those of our shareholders. Our overarching objective is maintainable earnings per share growth over the cycle, to deliver total shareholder returns (TSR) in the top quartile of the ASX100 and a peer group of global listed airlines[3].

Maintaining an optimal capital structure, consistent with investment grade-level leverage metrics, will minimise Qantas' cost of capital. Delivering return on invested capital above our weighted average cost of capital will ensure we can continue to reinvest in our business for sustainable returns. And by growing the Group's invested capital over time, and returning surplus capital to shareholders, we will continue to create long-term value for our shareholders.

Financial Framework Aligned with Shareholder Objectives

Enhancing long-term shareholder value

1

MAINTAINING AN OPTIMAL CAPITAL STRUCTURE

Target: minimise WACC

2014/2015: >$1 billion debt reduction, return to optimal capital structure

2

ROIC > WACC THROUGH THE CYCLE

Target: ROIC > 10%[1]

2014/2015: ROIC of 16%

3

DISCIPLINED ALLOCATION OF CAPITAL

Target: grow Invested Capital with disciplined investment, return surplus capital

2014/2015: Proposed $505 million capital return

MAINTAINABLE EPS[2] GROWTH OVER THE CYCLE

TOTAL SHAREHOLER RETURNS IN THE TOP QUARTILE[3]

[1] Target of 10% ROIC allows ROIC to be greater than pre-tax WACC through the cycle.
[2] Earnings Per Share.
[3] Target Total Shareholder Returns with the top quartile of the ASX100 and global listed airline peer group as stated in the 2014/2015 Remuneration Report in reference to the 2015–2017 LTIP.

BOARD OF DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2015

Leigh Clifford AO

BEng, MEngSci
Chairman and
Independent Non-Executive Director

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

He is Chair of the Nominations Committee.

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

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

Age: 67

Alan Joyce

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

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

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

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

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

Age: 49

Maxine Brenner

BA, LLB
Independent Non-Executive Director

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

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

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

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

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

Age: 53

Richard Goodmanson

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

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

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

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

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

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

Age: 68

Jacqueline Hey

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

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

She is a Member of the Audit Committee.

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

Ms Hey is the Honorary Consul for Sweden in Victoria.

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

Age: 49

William Meaney

BScMEng, MSIA
Independent Non-Executive Director

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

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

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

Mr Meaney was formerly the Chief Executive Officer of The Zuellig Group and a Director of moksha8 Pharmaceuticals Inc. He was also the Managing Director and Chief Commercial Officer of Swiss International Airlines and Executive Vice President of South African Airways responsible for sales, alliances and network management.

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

Age: 55

BOARD OF DIRECTORS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

Paul Rayner

BEc, MAdmin, FAICD
Independent Non-Executive Director

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

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

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

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

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

Age: 61

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.

He has been the National CEO of the Leo Burnett Group since 2008 and also sits on the board of Fairfax Media Limited.

Mr Sampson has close to 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: 45

Barbara Ward AM

BEc, MPolEc
Independent Non-Executive Director

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

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

Ms Ward is a Director of Caltex Australia Limited, a number of Brookfield Multiplex Group companies, and the Sydney Children's Hospital Foundation.

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

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

Age: 61

REVIEW OF OPERATIONS

FOR THE YEAR ENDED 30 JUNE 2015

The Qantas Group reported an Underlying Profit Before Tax[1] of $975 million for the 12 months ended 30 June 2015, an improvement of over $1.6 billion from 2013/2014. The Group's Statutory Profit After Tax of $560 million included $186 million of costs which were not included in Underlying PBT[1] primarily driven by redundancies, restructuring and other costs associated with the Qantas Transformation program.

The Underlying PBT result is a strong turnaround from the 2013/2014 financial year, driven by cost and revenue benefits[2] from the Qantas Transformation program and a more favourable operating environment. Qantas continued to deliver on all of its major strategic and operational commitments over the 2014/2015 financial year, resulting in the rapid recovery in earnings and return to a strong balance sheet position.

The Qantas Transformation program was the major driver of the result delivering benefits of $894 million. Other drivers of the result included:

- Improved Revenue per ASK[3]
- Reduced fuel cost, benefiting from lower AUD fuel prices
- The positive impact of reduced depreciation expense resulting from the non-cash write down of Qantas International Fleet in 2013/2014 and the removal of the carbon tax

Qantas takes a disciplined approach to continually reviewing its optimal capital structure and, where there is surplus capital, to assess how to enhance shareholder value with the appropriate mix of growth and shareholder returns. Having returned to our optimal capital structure as at the end of 2014/2015, a $505 million capital return was declared.

The shareholder distribution is in the form of 23 cents per share capital return combined with a share consolidation. Subject to shareholder approval of the capital return of $505 million at Qantas' Annual General Meeting in October 2015, the 23 cents per share payment will be made in November 2015.

Strategic highlights of the 2014/2015 financial year included:

- Qantas Transformation continuing to drive permanent shift in cost base and competitive position
- Disciplined capital allocation facilitated debt reduction and recommencement of shareholder returns
- Investment in product and innovation strengthened the Group's leading market positions
- Focus on engaging our people and improving workplace culture
- Management of external volatility with robust hedging program, capacity and capital expenditure flexibility

All operating segments achieved Return on Invested Capital (ROIC)[4] greater than the Group's Weighted Average Cost of Capital (WACC), contributing to Group ROIC of 16 per cent.

Qantas International Underlying EBIT[1] of $267 million was a $764 million improvement from the prior year, driven by $408 million of Transformation benefits realised in the year. Jetstar Group, Qantas Loyalty[5] and Qantas Freight all achieved record Underlying EBIT, while the combined Qantas Domestic and Qantas International Underlying EBIT result was the highest since financial year 2007/2008.

The $894 million of Qantas Transformation benefits realised during 2014/2015 was ahead of guidance of at least $675 million, with all planned initiatives being delivered on or ahead of schedule. Transformation benefits included $576 million of non-fuel expenditure reduction, $136 million from fuel efficiency[6], and revenue benefits[2] of $182 million from initiatives including increased utilisation[7] of international and domestic aircraft. Qantas transformation continues to drive a sustainable improvement in earnings.

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

2 Any incremental costs associated with revenue benefits are netted in the overall cost benefits attributed to the Qantas Transformation program

3 Passenger Revenue per Available Seat Kilometre

4 Return on Invested Capital (ROIC) is a non-statutory measure and is the financial return measure of the Group. ROIC is calculated as Return on Invested Capital EBIT (ROIC EBIT) divided by Average Invested Capital. ROIC EBIT is derived by adjusting Underlying EBIT to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they were owned aircraft. Invested Capital includes the net assets of the business other than cash, debt, other financial assets and liabilities, tax balances and includes the capitalised value of operating leased aircraft assets. Average Invested Capital is equal to the 12 month average of the monthly Invested Capital

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

6 Fuel efficiency includes reduction in consumption from fuel efficiency and reduction in into-plane costs following transformation initiatives

7 Aircraft utilisation is based on average block hours per aircraft

REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

Qantas has established a financial framework to align our objectives with our shareholders. With the aim of generating maintainable Earnings Per Share growth over the cycle, which in turn should translate into Total Shareholder Returns in the top quartile of the ASX100 and a basket of global airlines[8], the financial framework has three clear priorities and associated long-term targets:

Priorities and long-term targets	Delivery against priorities and long-term targets
Maintain an optimal capital structure, with a target to minimise WACC	Qantas returned to its optimal capital structure after completing net debt[9] reduction of $1.1 billion since the 2012/2013 financial year. With the concurrent increase in earnings, leverage metrics are within the targeted BBB- to BBB range. Total liquidity[10] increased, including $2.9 billion in cash, $1 billion in undrawn revolving credit facilities and a net increase of 20 unencumbered aircraft to total market value over US$3 billion.
Deliver ROIC greater than WACC[11] through the cycle, ensured by a target of ROIC > 10 per cent	Return on Invested Capital of 16 percent. The Group ROIC outcome was consistent with the Group's target to deliver ROIC above 10 per cent through the cycle.
Disciplined allocation of capital, with the aim of growing Invested Capital with disciplined investment	Qantas continued to demonstrate disciplined allocation of capital over 2014/2015, with constrained net capital expenditure[12] of $944 million facilitating $1.1 billion net debt reduction since 2012/2013 and the return of $505 million surplus capital to shareholders. Despite the constrained level of capital expenditure, targeted investment across the Group in product, service and training resulted in customer satisfaction and advocacy, measured by Net Promoter Scores, improving to record levels.

The Group's balanced scorecard through the Qantas Transformation program ensures a net benefit for the customer experience. This was seen in customer and brand highlights for the year including:

- Record[13] customer advocacy (NPS) results at Qantas Domestic and Qantas International
- The opening of new First and Business lounges in Los Angeles
- Commencement of the A330 reconfiguration program, progressively adding 'Business Suites' with lie-flat beds on 28 A330 family aircraft
- B787 aircraft with enhanced customer offering in the Jetstar International fleet with two further aircraft already delivered since 30 June 2015
- Ongoing customer service training programs completed by more than 10,000 staff
- Digital innovation focused on improving speed and ease of travel including auto check-in on mobile for Qantas Domestic and next-gen online retailing and boarding at Jetstar

UNDERLYING PBT

The Qantas Group's full-year 2014/2015 Underlying PBT increased to $975 million, compared to an Underlying Loss Before Tax of $646 million in 2013/2014. The significant improvement in earnings was driven by the delivery of a reduction in operating expenses, fuel efficiency initiatives, and revenue benefits from the $2 billion Qantas Transformation program[14].

Net passenger revenue increased by three per cent, reflecting improved yields[15] and passenger loads in most markets. This stronger performance was supported by network changes and capacity management in a mixed domestic market, as well as a more benign international competitive environment with the lower Australian dollar resulting in a steep reduction in the pace of international competitor capacity growth. The fuel cost reduction of $597 million resulted from lower AUD fuel prices and fuel efficiency measures in the Qantas Transformation program.

Depreciation and amortisation expenses were lower with $195 million of the reduction resulting from the non-cash impairment to the Qantas International fleet taken in the 2013/2014 full year results. The remaining reduction is the net impact from aircraft retirements offset by deliveries. Net finance costs increased by $52 million largely due to reduced capitalised interest and an increase in the average cost of new debt and the significant extension of the Group's debt maturity profile.

8 Compared to global airline peer group as stated in the Notice of Meeting for the 2014 Annual General Meeting, with reference to the 2015-2017 LTIP.
9 Net debt including present value of operating lease liabilities. The present value of operating lease liabilities for aircraft operating leases in accordance with AASB 117: Leases, are not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent applied in Standard and Poor's methodology
10 Includes cash and cash equivalents and $1 billion in undrawn facilities as at 7 July 2015
11 Calculated on a pre-tax basis
12 Net capital expenditure represents investing cash flows
13 Net Promoter Score (record achieved in June 2015)
14 $2 billion of gross benefits excluding inflation
15 Yield – passenger revenue divided by RPKs (both current year and prior year have been calculated using current foreign exchange rates)

Group Underlying Income Statement Summary	June 2015 $M	June 2014 $M	Change $M	Change %
Net passenger revenue	13,667	13,242	425	3
Net freight revenue	936	955	(19)	(2)
Other revenue	1,213	1,155	58	5
Revenue	**15,816**	**15,352**	**464**	**3**
Operating expenses (excluding fuel)[16]	(9,064)	(9,288)	224	2
Fuel[16]	(3,899)	(4,496)	597	13
Depreciation and amortisation	(1,096)	(1,422)	326	23
Non-cancellable aircraft operating lease rentals	(495)	(520)	25	5
Share of net loss of investments accounted for under the equity method[16]	(29)	(66)	37	56
Expenses	**(14,583)**	**(15,792)**	**1,209**	**8**
Underlying EBIT	**1,233**	**(440)**	**1,673**	**>100**
Net finance costs[16]	(258)	(206)	(52)	(25)
Underlying PBT	**975**	**(646)**	**1,621**	**>100**

Operating Statistics		June 2015	June 2014	Change	Change %
Available Seat Kilometres (ASK)[17]	M	142,287	141,715	572	0.4
Revenue Passenger Kilometres (RPK)[18]	M	112,543	109,659	2,884	2.6
Passengers Carried	'000	49,181	48,776	405	0.8
Revenue Seat Factor [19]	%	79.1	77.4	1.7pts	
Yield[15]	c/RPK	10.40	10.29	0.11	1.1
Comparable unit cost[20]	c/ASK	4.79	5.05	(0.26)	(5.1)

Group capacity (Available Seat Kilometres) increased by 0.4 per cent, and demand (Revenue Passenger Kilometres) increased by 2.6 per cent, resulting in a 1.7 percentage point increase in Revenue Seat Factor.

Yield from ticketed passenger revenue increased 1.1 per cent on a constant currency basis, and the Group's comparable unit cost improved by 5.1 per cent.

16 Underlying operating expenses (excluding fuel) – total Underlying expenses excluding share of net loss of investments accounted for under the equity method, fuel and net finance costs. These Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 9 which relate to other reporting periods and other items identified by Management. Refer to the reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax

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 Comparable unit cost – unit cost is adjusted to aid comparability between reporting periods. Comparable unit cost is calculated as Underlying PBT less passenger revenue and fuel, adjusted for the impact of the Qantas International fleet write-down, changes in discount rates, changes in foreign exchange rates, share of net loss of investments accounted for under the equity method. If adjusted for movements in average sector length per ASK comparable unit cost improvement is 4.2 per cent and if adjusted further for the impact of the carbon tax repeal, the comparable unit cost improvement is 2.6 per cent.

REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

Segment Performance Summary	June 2015 $M	June 2014 $M	Change $M	Change %
Qantas Domestic	480	30	450	>100
Qantas International	267	(497)	764	>100
Qantas Freight	114	24	90	>100
Jetstar Group	230	(116)	346	>100
Qantas Loyalty	315	286	29	10
Corporate	(163)	(163)	–	–
Unallocated/Eliminations	(10)	(4)	(6)	>(100)
Underlying EBIT[1]	**1,233**	**(440)**	**1,673**	**>100**
Net finance costs	(258)	(206)	(52)	(25)
Underlying PBT[1]	**975**	**(646)**	**1,621**	**>100**

Qantas Domestic reported 2014/2015 Underlying EBIT of $480 million, a $450 million improvement from the prior year. The main driver of the improved performance was realisation of $302 million of Transformation benefits.

Qantas International reported a $764 million turnaround from 2013/2014, a major milestone that met the Group's target for the segment to return to profitability in 2014/2015. This major milestone was the result of several years of significant restructuring initiatives, and included $408 million of Transformation benefits realised in 2014/2015. The segment result benefited from a $195 million reduction in depreciation from the non-cash impairment to the Qantas International fleet taken in the 2013/2014 full year results.

Jetstar Group recognised a record Underlying EBIT of $230 million, compared to an Underlying EBIT loss of $116 million in the prior year. This reflected significant improvement across the Jetstar Group, with continued cost transformation and revenue recovery.

Qantas Loyalty Underlying EBIT increased 10 per cent to a record $315 million, driven by a five per cent increase in billings[21] and the growth of new and adjacent business ventures including Qantas Cash, Aquire, Accumulate and Red Planet.

Qantas Freight reported record Underlying EBIT of $114 million, with Transformation benefits of $38 million and yield[22] reductions offset by higher loads.

DISCIPLINED INVESTMENT TO ENHANCE LONG-TERM SHAREHOLDER VALUE

With the Group having returned to its optimal capital structure, and no further net debt reduction required, disciplined investment will grow Invested Capital over time and maximise long-term shareholder value by:

- Building on the Group's competitive advantages
  - Integrated portfolio of premier brands
  - Superior domestic market position
  - Improving customer experience
  - Leveraging customer insights
- Positioning the Group to succeed in future growth markets
  - Loyalty growth initiatives
  - Jetstar in Asia
- Strengthening long-term Group ROIC
  - Next-generation fleet
  - Transformation
- Aligning with our brand values and vision

21 Billings represent point sales to partners
22 Yield is calculated as freight revenue excluding foreign exchange divided by revenue freight tonne kilometres (RFTKs)

QANTAS TRANSFORMATION – DELIVERING AGAINST A BALANCED SCORECARD

The accelerated Qantas Transformation program is targeting the delivery of $2 billion of gross benefits by the end of financial year 2016/2017, with all milestones to date having been met or exceeded. Within the $2 billion target, the program is sized and structured to achieve important strategic outcomes.

Strategic outcomes by 2016/2017 include:

– Group ex-fuel expenditure reduced by > 10 per cent[23]
– Qantas Domestic unit cost gap[24] to competitor to close to < five per cent
– Qantas International unit cost comparable to direct competitors
– Jetstar lowest seat cost and yield advantage maintained
– Consistent and improved customer experience
– Embedded culture of transformation for ongoing benefits beyond 2016/2017

The target metrics and achievements to date as at 2014/2015 include:

Achieving Our Targets	Target Metric	Achievements to Date
Accelerated transformation benefits	$2 billion gross benefits	$1.1 billion cost and revenue benefits realised
	Group ex-fuel expenditure reduced by > 10 per cent[25]	Ex-fuel expenditure[26] reduced by six per cent
	5,000 FTE reduction	Reduction of 4,000[27] full time equivalent staff out of targeted 5,000 reduction by 2016/2017
De-leverage balance sheet	Greater than $1 billion debt reduction	$1.1 billion of net debt reduction since financial year 2012/2013
	Debt/EBITDA <4 times	Debt / adjusted EBITDA[28] of 2.9 times, meeting leverage target of Debt / adjusted EBITDA < 4 times two years ahead of schedule
Cash flow	Sustainable positive free cash flow	$1.1 billion net free cash flow in FY15
Fleet simplification	11 fleet types to seven	Group fleet types (excluding regional operations) reduced from 11 to nine with the exit of B734 and B767. In addition, four out of six non-reconfigured B747 aircraft retired[29]
Customer and brand	Customer satisfaction (six month rolling average)	Customer satisfaction at record levels and improving
	Most on-time domestic carrier: Qantas Domestic	Most on-time domestic departures and arrivals in 2014/2015[30]

With $1.1 billion of benefits having been realised to date, the Group expects to realise Qantas Transformation benefits of $450 million in 2015/2016.

The Group-wide policy of implementing an 18-month wages freeze, whilst not part of the $2 billion Qantas Transformation Program, is helping to offset inflation and build a more competitive and sustainable wages position. Eighteen agreements have been closed with the wages freeze, with all of the major unions representing employee groups having signed up to the policy in at least one agreement.

In July 2015, Qantas announced that employees covered by the wages freeze policy will receive a one-off bonus payment worth five per cent of base annual salary.

23 Target assumes steady foreign exchange rates, capacity and sector length
24 Unit cost is calculated as Underlying EBIT less passenger revenue per ASK. Qantas Domestic unit cost includes QantasLink. Competitor refers to Virgin Australia including mainline domestic and regional operations. Virgin's assumed domestic unit cost is based on Qantas' internal estimates and published competitor data
25 Compared to first-half ended 31 December 2013, annualised and assuming steady foreign exchange rates, capacity and sector length
26 Includes Underlying operating expenses (including fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable operating lease rentals
27 Exited FTEs as at 30 June 2015
28 Metric calculated based on Moody's methodology
29 From December 2013 to August 2015
30 Qantas mainline compared with Virgin mainline. Source: BITRE

REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

RAPIDLY IMPROVED CASH GENERATION

Cash Flow Summary	June 2015 $M	June 2014 $M	Change $M	Change %
Operating cash flows	2,048	1,069	979	92
Investing cash flows	(944)	(1,069)	125	12
Net free cash flow[31]	**1,104**	**–**	**1,104**	**>100**
Financing cash flows	(1,218)	173	(1,391)	>(100)
Cash at beginning of period	**3,001**	**2,829**	**172**	**6**
Effect of foreign exchange on cash	21	(1)	22	>100
Cash at period end	**2,908**	**3,001**	**(93)**	**(3)**

Debt Analysis		June 2015 $M	June 2014 $M	Change $M	Change %
Net on balance sheet debt[32]		2,558	3,455	(897)	(26)
Net debt including present value of operating lease liabilities[9]		3,742	4,751	(1,009)	(21)
Net debt including capitalised operating lease liabilities[33]		6,306	7,343	(1,037)	(14)
FFO/net debt[34]	%	46%	17%		
Debt/adjusted EBITDA[28]	times	2.9	5.1		

Operating cash flows of $2 billion almost doubled from the prior year, reflecting benefits realised through Qantas Transformation, yield improvements across the Group in a more stable operating environment, and lower AUD fuel prices in the second half of the financial year in particular.

Net cash capital expenditure[12] of $944 million included investment in replacement fleet such as the Boeing 787 for Jetstar International and customer experience initiatives including airport lounges and the commencement of Airbus A330 cabin reconfigurations. Qantas generated $1.1 billion of net free cash flow in the period – a rapid improvement from the neutral net free cash flow outcome in 2013/2014 – facilitating the completion of the Group's targeted net debt reduction of at least $1 billion.

The Group's liquidity position strengthened, with $2.9 billion in cash, a $410 million increase[35] in available undrawn facilities to $1 billion, and the pool of unencumbered aircraft growing to a total of more than US$3 billion (at market value). Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to any change in market conditions.

As a result of improved earnings through the achievement of milestones under the Qantas Transformation program, the Group is now within the target optimal capital structure range. At 30 June 2015, the Group's leverage metrics were within or better than investment grade (BBB/Baa range) with FFO/net debt of 46 per cent (2013/2014: 17 per cent) and Debt/adjusted EBITDA of 2.9 times (2013/2014: 5.1 times).

31 Net free cash flow – operating cash flows less investing cash flows. Net free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders
32 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents and aircraft security deposits
33 Net debt including operating lease liability under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Capitalised operating lease liability is measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis akin to a finance lease
34 Funds From Operations (FFO) to net debt based on Standard and Poor's methodology
35 From 30 June 2014 to 7 July 2015

FLEET

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

At 30 June 2015, the Qantas Group fleet[36] totalled 299 aircraft. During 2014/2015, the Group purchased 11 aircraft and leased one aircraft:

- Qantas – five B737–800s, one Bombardier Q400 and one Fokker100
- Jetstar (including Jetstar Asia) – four B787–8s and one A320–200

The Group removed 21 aircraft from service in 2014/2015 including three lease returns. These included 13 B767–300s, one B747–400, three A320–200s, one Q300 and three EMB120s.

The Qantas Group's scheduled passenger fleet average age is now 7.7 years[37], below the targeted 8–10 year range. The benefits of fleet investment include improved customer satisfaction, environmental outcomes, operational efficiencies and cost reductions.

QANTAS DOMESTIC

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income	$M	5,828	5,848	(20)	(0.3)
Revenue Seat Factor	%	74.2	73.3	0.9 pts	
Underlying EBIT	$M	480	30	450	>100

Qantas Domestic reported a robust Underlying EBIT of $480 million, an improvement of $450 million on the prior year. The result was driven by $302 million of Transformation benefits. Revenue per ASK[38] increased 4.5 per cent, offsetting a decline in third party revenue following the sale of Qantas Defence Services in February 2014. The revenue per ASK was driven by yield and load improvements in a stabilised domestic market. Comparable unit cost[39] for the full year decreased by four per cent with three per cent lower capacity compared to 2013/2014.

Network changes and dynamic capacity management supported yield gains in a mixed demand environment. New services and frequencies were added on East Coast leisure markets, while Qantas Domestic continued to right-size its intra-Western Australia and Queensland footprint in response to ongoing demand weakness from the resources sector. Better matching of capacity to demand on thin domestic routes, such as Hobart and Canberra, has also delivered improved revenue per ASK and restored profitability on these markets.

With mainline fleet simplification complete, Qantas Domestic now operates one common narrowbody aircraft type (B738) and one widebody type (A330–200). Focus continues on network optimisation and increased utilisation to generate a stronger return from Invested Capital. The introduction of reduced turn times for the B738 fleet resulted in improved utilisation in the second half of 2014/2015.

Qantas Domestic increased on-time performance over the year to 88.3 per cent with the best on-time performance[40] result in over ten years. With ongoing investment in the customer experience and service training for our people, customer advocacy measured by Net Promoter Score increased to a record[41] in 2014/2015.

36 Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific
37 Based on Group's scheduled passenger fleet, excluding Freighter aircraft and Network Aviation
38 Calculated as passenger revenue per ASK
39 Comparable unit cost is calculated as Underlying EBIT less passenger revenue and fuel adjusted for changes in discount rates, foreign exchange rates and movements in average sector lengths per ASK. If adjusted for the impact of the carbon tax repeal, comparable unit cost improved one per cent.
40 On-time performance for Qantas mainline. Source: BITRE
41 Net promoter score, based on internal Qantas reporting (record achieved in June 2015)

REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

QANTAS INTERNATIONAL

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income[42]	$M	5,467	5,297	170	3
Revenue Seat Factor	%	81.5	79.6	1.9 pts	
Underlying EBIT	$M	267	(497)	764	>100

Qantas International saw a major improvement in recent periods with a $764 million turnaround in Underlying EBIT to $267 million in 2014/2015. The impressive result was led by the delivery of $408 million of cost and revenue benefits from the Qantas Transformation program. Revenue increased three per cent on flat capacity, with a 1.9 percentage point improvement in Revenue Seat Factor, reflecting stronger passenger loads on most routes. Revenue per ASK[43] increased by six per cent. The segment result included a $195 million reduction in depreciation expense from the non-cash fleet impairment to the Qantas International fleet taken in the 2013/2014 financial results.

Reflecting benefits from Qantas Transformation, comparable unit cost[44] improved by four per cent in the year while aircraft utilisation also improved by four per cent. Since 2011/2012, when the three-year turnaround plan for Qantas International began, aircraft utilisation has increased by 15 per cent. One utilisation initiative in 2014/2015 involved the re-time of the Melbourne-London service and the introduction of improved turnaround times for the A380, which combined, allowed one A380 hull to be released and deployed on the Sydney-Dallas route. 2014/2015 also saw an increase in weekly services to Los Angeles and Santiago, the introduction of seasonal flying to Vancouver, and the announcement that Perth-Singapore services would resume in early 2015/2016.

Qantas International has clear strategic priorities: reshaping our cost base through Transformation; owning the high-yield customer in Australia; overcoming network gaps; and providing connections to the world. An enhanced partnership with American Airlines[45] will facilitate closer commercial ties and growth between Australia and the US. Expanded alliances and code share relationships with Westjet, Bangkok Airways and China Airlines all help improve network connectivity. Qantas International began the roll out of reconfigured A330 aircraft on medium haul routes to Asia, including new ‘Business Suites’ with lie-flat beds. Average NPS improved to a record[41] level over the 12 months through targeted investment in lounges including Los Angeles Business and First in 2014/2015, in-flight dining upgrades, and ongoing service training for our people.

JETSTAR GROUP

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income	$M	3,464	3,222	242	8
Revenue Seat Factor	%	79.9	77.9	2 pts	
Underlying EBIT	$M	230	(116)	346	>100

Jetstar Group reported record Underlying EBIT of $230 million, a strong turnaround from a $116 million Underlying EBIT loss in the prior year. The record performance reflected significant improvement across the Jetstar Group, with a continued focus on cost transformation and revenue recovery. Controllable unit cost[46] improved by two per cent[47], while total revenue and other income rose eight per cent reflecting higher yields and passenger loads as well as growth in ancillary revenue.

In domestic Australia, Jetstar benefits from closer dual-brand coordination with Qantas Domestic in stabilised market conditions. Jetstar International delivered a record performance helped by the customer appeal and unit cost benefits of introducing the B787 on long haul international routes. Domestic New Zealand was profitable for Jetstar for the first time with ongoing RASK improvement over the year.

All Jetstar Group airlines in Asia reported an improvement in earnings[48], with combined losses halved compared to financial 2013/2014. Jetstar Asia (Singapore) returned to profit, Jetstar Pacific (Vietnam) was profitable in the second half of 2014/2015, and Jetstar Japan reported a significant reduction in losses, with strong revenue per ASK improvement and ongoing controllable unit cost[46] reduction. The 2014/2015 financial accounts include a write-off of the Jetstar Hong Kong business of $21 million, following the disappointing outcome of the Hong Kong Air Transport Licensing Authority’s rejection of Jetstar Hong Kong’s licence application. The write-off was recognised outside of Underlying PBT.

42 Revenue includes six per cent passenger revenue per ASK growth and movements in other income including the impact of changes in block codeshare agreements
43 Revenue per ASK calculated as passenger revenue per ASK inclusive of Transformation benefits and foreign exchange movements
44 Comparable unit cost is calculated as Underlying EBIT less passenger revenue and fuel adjusted for the impact of the Qantas International fleet write-down, changes in discount rates, changes in foreign exchange rates, changes in block codeshare agreements and movements in average sector length per ASK
45 Subject to regulatory approval
46 Controllable unit cost is calculated as Underlying expenses less fuel adjusted for the impact of Jetstar branded associates, changes in foreign exchange rates and movements in average sector length per ASK
47 If adjusted for the impact of the carbon tax repeal, controllable unit cost improvement is one per cent
48 Based on Underlying EBIT

Jetstar-branded airlines continue to focus on a differentiated low fares product offering and service standard with innovation and investment in new technology and B787 roll out. Greater self-service, including automated bag drops and kiosk check-in, is improving the customer experience while also delivering cost benefits. Investment in next-generation booking engine and online retailing capabilities will drive the next wave of ancillary revenue growth.

Jetstar was awarded the best low-cost carrier in Australia/Pacific and was in the top five low-cost carriers worldwide[49].

QANTAS LOYALTY

		June 2015	June 2014	Change	Change %
Members	M	10.8	10.1	0.7	7
Billings[21]	$M	1,369	1,306	63	5
Underlying EBIT	$M	315	286	29	10

Qantas Loyalty reported record[50] Underlying EBIT of $315 million, up 10 per cent. Billings growth of five per cent reflects strong underlying system growth, tactical campaigns with existing partners and the addition of new partners to both the Qantas Frequent Flyer and Aquire programs. Qantas Frequent Flyer direct earn credit cards have continued to show strength, with five per cent acquisition growth[51] outperforming the industry average. Qantas Frequent Flyer reached the milestone of 10.8 million members – a seven per cent increase.

Qantas Loyalty has continued to innovate and diversify its earnings base during the period, investing in its adjacent businesses[52] and reinforcing the core coalition program. These adjacent businesses have accounted for 30 per cent of the overall Underlying EBIT growth in the year.

Highlights include:

- $1.1 billion currency loaded on Qantas Cash cards, with 410,000 cards activated
- A 57 per cent increase in Qantas epiQure member base driving a 43 per cent growth in wine sales
- Red Planet launch and delivering profits within first year, growing its external client portfolio and delivering top line value to the airline
- Growth of the Aquire loyalty program for small to medium-sized businesses

During 2014/2015 Qantas Loyalty purchased a controlling stake in actuarial and data analytics consulting firm Taylor Fry, an acquisition that adds to the Group's customer insights capability and provides a new adjacent revenue stream.

The Qantas Frequent Flyer program maintained a record annual NPS[53] and continues to hold a premium over competitor programs.

QANTAS FREIGHT

		June 2015	June 2014	Change	Change %
Total Revenue and Other Income	$M	1,067	1,084	(17)	(2)
Load Factor (International)[54]	%	57.0	55.1	1.9 pts	3
Underlying EBIT	$M	114	24	90	>100

Qantas Freight also reported a record[55] result in 2014/2015, with Underlying EBIT rising almost fivefold to $114 million from $24 million in 2013/2014. The significantly improved performance was led by the delivery of $38 million of benefits from the Qantas Transformation program, including the introduction of new technology to improve productivity and customer experience, together with strong performance from the International Freighter network. Stronger cargo load factors helped offset yield[22] reductions in a very competitive domestic freight market.

49 Skytrax World Airline Awards 2015
50 Qantas Loyalty record Underlying EBIT result compared to prior periods normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009
51 Growth 12 months to May 2015 compared to 12 months to May 2014
52 Includes Qantas Cash, Qantas Golf, Qantas epiQure, Red Planet, Accumulate and Taylor Fry
53 Average NPS 12 months to July 2015 compared to average 12 months to July 2014
54 Load Factor (International) – Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK)
55 Since Freight was reported as a separate segment in 2007/2008

REVIEW OF OPERATIONS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT/(LOSS) BEFORE TAX

The Statutory Profit Before Tax of $789 million for the year ended 30 June 2015 is $4,765 million higher than the prior year.

Underlying PBT

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

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

Reconciliation of Underlying PBT to Statutory Profit/(Loss) Before Tax	June 2015 $M	June 2014 $M
Underlying PBT	975	(646)
Ineffectiveness and non-designated derivatives relating to other reporting periods	(39)	72
Other items not included in Underlying PBT		
– Impairment of Qantas International CGU	–	(2,560)
– Redundancies, restructuring and other transformation costs	(80)	(428)
– Fleet restructuring costs[56]	(4)	(394)
– Net impairment of other intangible assets	(7)	(9)
– Net gain on sale of controlled entity and related assets	11	62
– Net impairment of investments	(19)	(50)
– B787–8 introduction costs	–	(14)
– Write-off of Jetstar Hong Kong Business[57]	(21)	–
– Other	(27)	(9)
Total other items not included in Underlying PBT	(147)	(3,402)
Statutory Profit/(Loss) Before Tax	789	(3,976)

Ineffectiveness and non-designated derivatives relating to other reporting periods

In prior reporting periods, Underlying PBT was adjusted for the impacts of AASB 139 which relate to other reporting periods. The AASB 139 adjustments to Statutory Profit/(Loss) Before Tax ensured derivative mark-to-market movements that relate to underlying exposures in other reporting periods were recognised in Underlying PBT in those reporting periods.

In the current reporting period, as a result of the early adoption of AASB 9 (2013), there is now better alignment between Underlying PBT and Statutory Profit/(Loss) Before Tax. However, there will continue to be a difference between Statutory Profit/(Loss) Before Tax and Underlying PBT resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

Other items not included in Underlying PBT

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

Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments and impairments of assets and other transactions outside the ordinary course of business.

Redundancy, restructuring and other transformation costs of $80 million were incurred during the period.

A write-off of the Jetstar Hong Kong business of $21 million was recognised as a result of the Hong Kong's Air Transport Licensing Authority's rejection of Jetstar Hong Kong's licence application.

56 Fleet restructuring costs include impairment of aircraft, together with other aircraft associated property, plant and equipment, inventory and other related costs
57 The write-off of the Jetstar Hong Kong business includes the impairment of the investment, write-off of deferred costs and the Group's share of net losses for the year ended 30 June 2015

MATERIAL BUSINESS RISKS

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

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

- Competitive intensity: Market capacity growth ahead of underlying demand impacts industry profitability.
  - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness in recent years has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners and optimising its network. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas International has embarked on a major restructure of its legacy cost issues through the Qantas Transformation program with the objective of achieving a cost base comparable to direct competitors. The operating environment has moderated in 2014/2015 driven by the fall in the AUD against the USD and moderated capacity growth has brought international market capacity growth in line with demand growth. These changes have improved passenger loads and led to a recovery of yields in the international business.
  - The Australian domestic aviation market continues to attract increased competition. The Qantas Group's market-leading domestic position and dual-brand strategy allow Qantas to effectively mitigate the impact of any market changes. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic is focused on removing the cost base disadvantage to its competitor through Qantas Transformation initiatives, while Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs. During 2014/2015, the operating environment has stabilised with market capacity moderation supporting stronger passenger loads and early yield recovery in the domestic business.
- Fuel and foreign exchange volatility: The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2015/2016 the Group's hedging profile is positioned such that the worst case total fuel cost is $3.94 billion with 73 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2015/2016 is $3.64 billion)[58]
- Industrial relations: The associated risks of transformation including industrial action relating to Qantas' collective agreements with its employees. The risk is being mitigated through continuous employee engagement initiatives and ongoing, constructive dialogue with all union groups and other relevant stakeholders. The Group has successfully closed a number of Enterprise Bargaining Agreements (EBAs) subsequent to the commencement of the Qantas Transformation program. These EBAs have included an 18-month wage freeze. As a result of the improved profitability of the Group, and in recognition of the contribution made by all employees to strengthen the Group's long-term competitive position through the wage freeze and the delivery of all Qantas Transformation targets ahead of schedule, a one-off bonus payment will be made to all employees covered by an 18-month wage freeze.
- Continuity of critical systems: The Group's operations depend on the continuity of a number of information technology and communication services. The Group has an extensive control and Group Risk Management Framework[59] to reduce the likelihood of outages, ensure early detection and to mitigate the impact.
- Credit rating: Qantas' credit rating is Ba1 positive outlook by Moody's and BB+ stable by Standard and Poor's. Compared to an investment grade credit rating, the price of new debt funding may increase and/or the Group's access to some sources of unsecured credit could reduce over time. Qantas targets an optimal capital structure range that is commensurate with investment grade credit metrics. The Group maintains strong liquidity options supported by a flexible fleet plan which allows the Group to reduce capital expenditure and/or reduce debt to achieve credit metrics in-line with a BBB/BBB- rating (investment grade). As a result of improved earnings through the achievement of milestones under the Qantas Transformation program, the Group is now within the target optimal capital structure range. At 30 June 2015, the Group's leverage metrics were within or better than investment grade (BBB/Baa range) with FFO/net debt of 46 per cent (2013/2014: 17 per cent) and Debt/adjusted EBITDA of 2.9 times (2013/2014: 5.1 times).
- Key business partners: The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework.

58 As at 18 August 2015
59 An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on www.qantas.com.au

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

OVERVIEW

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

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

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

Accordingly, Qantas has taken the opportunity to disclose its 2015 Corporate Governance Statement in the Corporate Governance section on the Qantas website (www.qantas.com). As required, Qantas has also lodged the Corporate Governance Statement with the ASX.

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

THE BOARD LAYS SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

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

THE BOARD IS STRUCTURED TO ADD VALUE

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

Details of the current Directors, their qualifications, skills, experience and tenure are set out on pages 8 to 10 of the 2015 Annual Report.

The Board has four Committees:

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

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

Membership of and attendance at 2014/2015 Board and Committee Meetings is detailed on page 24 of the 2015 Annual Report.

THE BOARD PROMOTES ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

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

THE BOARD SAFEGUARDS THE INTEGRITY OF CORPORATE FINANCIAL REPORTING

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

Policies are in place to restrict the type of non-audit services which can be provided by the external auditor and a detailed review of non-audit fees paid to the external auditor is undertaken on a 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, with 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 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, the Qantas Investor Day and, as is common practice among its major listed peers, through periodic meetings with current and potential institutional shareholders.

THE BOARD RESPECTS THE RIGHTS OF SHAREHOLDERS

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

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

The external auditor attends the Annual General Meeting (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 2014/2015, the two Board committees responsible for oversight of risk-related matters, being the Audit Committee and the Safety, Health, Environment and Security Committee, undertook their annual review of the effectiveness of Qantas' implementation of its risk management system and internal control framework.

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

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

THE BOARD REMUNERATES FAIRLY AND RESPONSIBLY

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

Information about remuneration of Executive Management is disclosed to the extent required, together with the process for evaluating performance, in the Remuneration Report from page 28 of the 2015 Annual Report.

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 page 45 of the 2015 Annual Report).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

The Directors of Qantas Airways Limited (Qantas) present their Report together with the Financial Statements of the consolidated entity, being Qantas and its controlled entities (Qantas Group), for the year ended 30 June 2015 and the Independent Audit Report thereon.

DIRECTORS

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

Leigh Clifford AO
Alan Joyce
Maxine Brenner
Richard Goodmanson
Jacqueline Hey
Garry Hounsell (retired 26 February 2015)
William Meaney
Paul Rayner
Todd Sampson (appointed 25 February 2015)
Barbara Ward AM

Details of current Directors, their qualifications, experience and any special responsibilities, including Qantas Committee Memberships, are set out on pages 8 to 10.

PRINCIPAL ACTIVITIES

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

DIVIDENDS

No final dividend will be paid in relation to the year ended 30 June 2015 (2014: nil final dividend). No interim dividend was paid during the year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

Any matter or circumstance that has arisen since the end of the year that may affect the Qantas Group's state of affairs in future financial years has been included in Note 35 of the Financial 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 Group's financial position appear on pages 11 to 21.

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

EVENTS SUBSEQUENT TO BALANCE DATE

Refer to page 87 for events which occurred subsequent to balance date. Other than the matters disclosed on page 87, since the end of the year and to the date of this report no other matter or circumstance has arisen that have significantly affected or may significantly affect the Qantas Group's operations, results of those operations or state of affairs in future years.

DIRECTORS' MEETINGS

The number of Directors' Meetings held (including Meetings of Committees of Directors) during 2014/2015 is as follows:

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

1 All Directors are invited to, and regularly attend, committee meetings in an ex-officio capacity. The above table reflects the attendance of a Director only where he or she is a member of the relevant committee.
2 Sub-Committee meetings convened for specific Board-related business.
3 Number of meetings held during the period that the Director held office.
4 Number of meetings held and requiring attendance.
5 Mr Hounsell retired as a Director on 26 February 2015.
6 Mr Sampson was appointed as a Director and a Member of the Remuneration Committee on 25 February 2015.
7 Ms Ward was appointed as Chair of the Audit Committee and as a Member of the Nominations Committee on 26 February following the retirement of Garry Hounsell.

DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2015 – FOR THE PERIOD 1 JULY 2012 TO 30 JUNE 2015

Leigh Clifford	Qantas Airways Limited	– Current, appointed 9 August 2007
Alan Joyce	Qantas Airways Limited	– Current, appointed 28 July 2008
Maxine Brenner	Qantas Airways Limited	– Current, appointed 29 August 2013
	Origin Energy Limited	– Current, appointed 15 November 2013
	Orica Limited	– Current, appointed 8 April 2013
	Growthpoint Properties Australia Limited	– Current, appointed 19 March 2012
Richard Goodmanson	Qantas Airways Limited	– Current, appointed 19 June 2008
	Rio Tinto Limited	– Current, appointed 1 December 2004
	Rio Tinto plc	– Current, appointed 1 December 2004
Jacqueline Hey	Qantas Airways Limited	– Current, appointed 29 August 2013
	Australian Foundation Investment Company	– Current, appointed 31 July 2013
	Bendigo and Adelaide Bank Limited	– Current, appointed 5 July 2011
William Meaney	Qantas Airways Limited	– Current, appointed 15 February 2012
	Iron Mountain Inc	– Current, appointed 7 January 2013
Paul Rayner	Qantas Airways Limited	– Current, appointed 16 July 2008
	Treasury Wine Estates Limited	– Current, appointed 9 May 2011
	Boral Limited	– Current, appointed 5 September 2008
	Centrica plc	– Ceased, appointed 22 September 2004 and ceased 31 December 2014
Todd Sampson	Qantas Airways Limited	– Current, appointed 25 February 2015
	Fairfax Media Limited	– Current, appointed 29 May 2014
Barbara Ward	Qantas Airways Limited	– Current, appointed 19 June 2008
	Caltex Australia Limited	– Current, appointed 1 April 2015
	Brookfield Capital Management Limited[1]	– Current, appointed 1 January 2010
	Brookfield Funds Management Limited[2]	– Current, appointed 22 October 2003

1 Responsible entity for the Brookfield Prime Property Fund and the Multiplex European Property Fund, both of which are listed Australian registered managed investment schemes. Previously responsible entity for the Brookfield Australian Opportunities Fund, which was wound up on 30 October 2012.
2 Responsible entity for the Multiplex SITES Trust, which is a listed Australian registered managed investment scheme.

QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF QANTAS AS AT 30 JUNE 2015

Andrew John Finch – Company Secretary

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

Sarah Jane Udy – Company Secretary

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

John David Francis Morris – Company Secretary

- Appointed as a Company Secretary on 9 April 2014
- Joined Qantas in 28 March 2010
- 2002 to 2008 – General Counsel and Company Secretary at KAZ Group
- 1997 to 2002 – Solicitor then Senior Associate at Ashurst (previously Blake Dawson Waldron)
- Admitted as a solicitor of the Supreme Court of Victoria in 1992

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

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	2015	2014
Leigh Clifford	291,622	251,622
Alan Joyce	5,379,721	2,906,202
Maxine Brenner	21,900	15,000
Richard Goodmanson	20,000	20,000
Jacqueline Hey	30,000	30,000
William Meaney	–	–
Paul Rayner	201,622	71,622
Todd Sampson	5,000	n/a
Barbara Ward	47,597	47,597

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

Deferred shares held in trust under:		
2012/13 Short Term Incentive Plan	–[1]	284,769

1 The 2012/13 Short Term Incentive Plan shares were released from restriction and transferred to Mr Joyce on 21 August 2015.

	Number of Rights	
	2015	2014
Rights granted under:		
2013–2015 Long Term Incentive Plan	–[1]	2,575,000
2014–2016 Long Term Incentive Plan	2,151,000[2]	2,151,000
2015–2017 Long Term Incentive Plan	3,248,000[3]	
	5,399,000	**4,726,000**

1 85 per cent of the 2013–2015 Long Term Incentive Plan Rights awarded to Mr Joyce in 2012 vested and converted to 2,188,750 shares following the performance hurdle testing conducted as at 30 June 2015.
2 Shareholders approved the award of these Rights on 18 October 2013. Performance hurdles will be tested as at 30 June 2016 to determine whether any Rights vest to Mr Joyce.
3 Shareholders approved the award of these Rights on 24 October 2014. Performance hurdles will be tested as at 30 June 2017 to determine whether any Rights vest to Mr Joyce.

RIGHTS

Performance Rights are awarded to select Qantas Group Executives under the Qantas Deferred Share Plan (DSP) and the Qantas Employee Share Plan (ESP). Refer to pages 36 to 37 for further details.

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

	Number of Rights	
Performance Rights Reconciliation	2015	2014
Rights outstanding as at 1 July	33,579,432	28,174,047
Rights granted	64,317,000	13,790,000
Rights forfeited	(1,914,000)	(4,571,000)
Rights lapsed	(15,614,000)	(3,755,000)
Rights exercised	(58,844)	(58,615)
Rights outstanding as at 30 June	**80,309,588[1]**	**33,579,432**

1 The movement of Rights outstanding as at 30 June 2015 to the date of this Report is explained in the footnotes on page 27.

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 2015:

				Number of Rights					
Name	Testing Period	Grant Date	Value at Grant Date	2015 Net Vested	2015 Unvested	2015 Total	2014 Net Vested	2014 Unvested	2014 Total
2004/05 Performance Rights Plan	30 Jun 07 – 30 Jun 09[1]	13 Jan 05	$2.47	–	–	–	14,860	–	14,860
2005 Performance Rights Plan	30 Jun 08 – 30 Jun 10[1]	22 Nov 05	$2.67	38,517	–	38,517	44,682	–	44,682
2006 Performance Rights Plan	30 Jun 09 – 30 Jun 11[1]	4 Oct 06	$2.95	119,071	–	119,071	156,890	–	156,890
2012–2014 Long Term Incentive Plan	30 Jun 14[2]	23 Aug 11	$0.86	–	–	–	–	5,208,000	5,208,000
2012–2014 Long Term Incentive Plan	30 Jun 14[2]	28 Oct 11	$0.82	–	–	–	–	1,806,000	1,806,000
2013–2015 Long Term Incentive Plan	30 Jun 15[3]	2 Nov 12	$0.88	–	11,272,000	11,272,000	–	13,448,000	13,448,000
2013–2015 Long Term Incentive Plan	30 Jun 15[3]	13 Jun 13	$0.70	–	329,000	329,000	–	329,000	329,000
2014–2016 Long Term Incentive Plan	30 Jun 16	18 Oct 13	$0.83	–	10,463,000	10,463,000	–	12,572,000	12,572,000
2015–2017 Long Term Incentive Plan	30 Jun 17	15 Sep 14	$0.97	–	50,925,000	50,925,000	–	–	–
2015–2017 Long Term Incentive Plan	30 Jun 17	24 Oct 14	$0.972	–	4,582,500	4,582,500	–	–	–
2015–2017 Long Term Incentive Plan	31 Aug 17	3 May 15	$3.05	–	2,580,500	2,580,500	–	–	–
Total				157,588	80,152,000	80,309,588	216,432	33,363,000	33,579,432

1 These Rights convert to Qantas shares on the 10th anniversary of the date of award, however Executives may call for the Rights to be converted sooner at their request.
2 All unvested Rights lapsed following the performance hurdle testing as at 30 June 2014.
3 85 per cent of Rights vested subsequent to 30 June 2015 and before the issuance of this report following the performance hurdle testing conducted as at 30 June 2015.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED)

COVER LETTER TO THE REMUNERATION REPORT

Dear Shareholder,

Qantas is pleased to present its Remuneration Report for 2014/2015, which sets out remuneration information for the Chief Executive Officer (CEO), direct reports to the CEO (Executive Management) and Non-Executive Directors.

In addition to the detailed Remuneration Report, we have provided an introduction to the Report which contains a summary of:
- The Remuneration Framework and how it was applied for the 2014/2015 financial year
- The remuneration outcomes for the CEO

2014/2015 Remuneration Outcomes

2014/2015 was a very successful year. Management and all employees have performed extremely well, continuing to deliver great customer experiences whilst transforming the business. Throughout the year, management:
- Continued to deliver on its commitments around transforming the business with the program delivering $894 million of benefits during 2014/2015 and in doing so returned the business to profitability (delivering an Underlying PBT result of $975 million)
- Continued to invest in both customer product and training our people, and this has been reflected in our record customer advocacy scores
- Maintained discipline over the allocation of capital, facilitating a $1 billion debt reduction which provided a strong platform for sustainable growth

These successes have been recognised in our share price which increased by just over 150 per cent during the year. We were the best performing stock of the S&P/ASX 100 (ASX100) companies during 2014/2015.

The Executive Remuneration Framework is designed to attract, motivate, retain and appropriately reward a capable Executive team. The 2014/2015 achievements have also been recognised in the remuneration outcomes, as follows:
- Annual incentive awards were made

  Bonuses were paid to Executives based on performance against the 2014/15 Short Term Incentive Plan's (STIP) financial and non-financial performance measures for 2014/2015. The Board assessed performance against this 'scorecard' at 140 per cent.
- Long Term Incentive Plan (LTIP) awards vested

  Rights that were awarded to Executives in 2012 were tested against the Plan's three year performance measures. Based on this performance test, 85 per cent of Rights vested and were converted to Qantas shares.

As a result of these remuneration outcomes, the CEO's statutory remuneration for 2014/2015 totalled $6.70 million. The CEO's actual remuneration outcome, which includes $4.56 million of growth in the value of the vested shares to the CEO under the LTIP, totalled $11.88 million.

It is also worth noting that the freeze on Base Pay (which has been in place since 2011 for the CEO and since 2012 for other Executives) continued throughout the year. In addition, from 1 January 2014 until 30 June 2015, the CEO elected to forgo five per cent of his Base Pay and the Chairman and all other Directors elected to forgo five per cent of their fees.

More details of the remuneration outcomes are provided in the Remuneration Report.

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

Paul Rayner
Chairman, Remuneration Committee

INTRODUCTION

OVERVIEW OF THE EXECUTIVE REMUNERATION FRAMEWORK

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

Executive Remuneration for 2014/2015

Qantas is committed to setting remuneration policy to align with the creation of shareholder value. In the four previous years:

- Annual incentive awards were not paid to the CEO in two years (2011/2012 and 2013/2014) and only partial awards were made in the other two years (2010/2011 and 2012/2013)
- LTIP awards have not vested (and in fact had not vested for five straight years)

Remuneration outcomes for 2014/2015 have reflected the very strong financial performance of the Group, which has seen:

- A return to profitability (with management's delivery of the Qantas Transformation program the biggest contributing factor to the turnaround)
- Qantas being the best performing stock of ASX100 companies during 2014/2015

Awards were made under the annual incentive (the 2014/15 STIP), based on achievement against the scorecard of financial and non-financial measures. Management delivered the Qantas Transformation program while also continuing to invest in the customer through this period (both via product enhancements and customer service training). As a result, an excellent profit outcome was delivered while record customer satisfaction scores were achieved in both Qantas International and Qantas Domestic.

Rights vested under the Long Term Incentive Plan (under the 2013–2015 LTIP). A fixed number of Rights were awarded to executives in 2012, and based on Qantas' financial performance over the three year performance period, 85 per cent of these Rights vested following testing at 30 June 2015 and converted to Qantas shares. The value of this fixed number of shares awarded to each executive increases or decreases depending on the share price. Over the three year performance period of the 2013–2015 LTIP, the value of these shares has increased by 194 per cent. In the remuneration outcomes tables, we have disclosed the value of these shares at the start of the performance period and have also disclosed the increase in the value of these shares that has been driven by the share price growth over the performance period.

The Qantas Executive Remuneration Framework and the remuneration outcomes for 2014/2015 are summarised as follows:

Executive Remuneration Component	Delivery	Performance Measures	2014/2015 Remuneration and Performance Outcomes
Base Pay A guaranteed salary level inclusive of superannuation. A more detailed description is provided on page 35.	Cash, superannuation and other salary sacrifice benefits (if elected).	An individual's Base Pay is a fixed/guaranteed element of remuneration.	No increases to the Base Pay of the CEO and KMP. Additionally, the CEO opted to forgo five per cent of his Base Pay (from 1 January 2014 until 30 June 2015).
Annual Incentive Referred to as the Short Term Incentive Plan (STIP). A more detailed description is provided on pages 35 to 36.	Two-thirds cash, one-third shares (with a two year restriction period). Each year 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.	A scorecard of performance measures. Underlying PBT is the primary performance measure (with a 50 per cent weighting). Other performance measures are explicitly aligned to the execution of the Qantas Group strategy, including delivering on the transformation agenda.	2014/15 STIP awards paid with a STIP scorecard outcome of 140 per cent. Underlying PBT measure exceeded. Transformation targets exceeded. Good performance against other financial and non-financial measures.
Long Term Incentive Referred to as the Long Term Incentive Plan (LTIP). The LTIP is described in more detail on pages 36 to 37.	Rights over Qantas shares. If performance conditions over a three year period are achieved, the Rights vest and convert to Qantas shares on a one-for-one basis.	The performance measures for each of the 2013–2015 LTIP, 2014–2016 LTIP and 2015–2017 LTIP are the relative Total Shareholder Return (TSR) performance of Qantas compared to: – companies with ordinary shares included in the ASX100 – an airline peer group (Global Listed Airlines)	Partial vesting – 85 per cent. LTIP awards under the 2013–2015 LTIP were tested as at 30 June 2015 and the performance measures were achieved: – in full against ASX100 peer group – in part against the Global Listed Airlines peer group Therefore, – 85 per cent of Rights converted to shares – 15 per cent of Rights lapsed

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

Changes to the Executive Remuneration Framework for 2014/2015

Changes to Pay Mix for 2014/2015

For 2014/2015 only, the pay mix for the CEO and Executive Management changed, with a decrease in weighting towards annual incentive (STIP) and an increase in weighting towards long term incentive. These changes did not increase the total 'At Target' pay for each Executive for 2014/2015, as each Executive's LTIP opportunity was offset by a reduction in their annual incentive opportunity.

The pay-mix change for 2014/2015 further aligned Executive Management with the immediate priorities of the transformation agenda, including the achievement of $2 billion in transformation benefits over the three years to 30 June 2017. The change was particularly relevant for 2014/2015 as the timeframe for delivery of the $2 billion of transformation benefits is for the same three year period as the performance period for the LTIP awarded in 2014/2015 (2015–2017 LTIP). In the 2014 Remuneration Report, it was disclosed that the change for 2014/2015 was a one-off only and therefore for 2015/2016 each Executive will revert to their original pay mix.

The pay mix for Executive Management is detailed on page 41. For the CEO, this change involves:

'At Target' opportunity	2013/2014	2014/2015	2015/2016
STIP 'At Target' opportunity expressed as a % of Base Pay	120	80	120
LTIP 'At Target' opportunity expressed as a % of Base Pay	80	120	80

REMUNERATION OUTCOMES FOR THE CEO IN 2014/2015

The remuneration outcomes detailed in the table below demonstrate how directly the CEO's pay in 2014/2015 aligns with Qantas' performance and the significant share price growth achieved during the year. That is:

- The CEO has not received an increase in Base Pay and he elected to forgo five per cent of his Base Pay from 1 January 2014 until 30 June 2015
- The CEO has received an award under the 2014/15 STIP comprising a cash bonus of $1,904,000 and awarded $952,000 worth of shares with a two year restriction period
- 85 per cent of the 2013–2015 LTIP Rights awarded to the CEO vested following testing at 30 June 2015 and converted to 2,188,750 shares. At the start of the LTIP performance period (1 July 2012) this number of shares was valued at $2,353,000 (2,188,750 shares at $1.075 share price). Given the 194 per cent increase in share price (to $3.16 on 30 June 2015), the value of these shares has appreciated by $4,563,000

The following table outlines the remuneration outcomes for the CEO for 2014/2015.

CEO Remuneration Outcomes[1]	2015 $'000	2014 $'000	2015 'At Target' Pay $'000	2015 as a Percentage of 'At Target' pay %
Base Pay (cash)	2,000	2,054	2,125	94
STIP – cash bonus	1,904	–	1,133	168
STIP – restricted shares[2]	952	–	567	168
LTIP – vesting[3]	2,353	–	2,550	92
Other	112	(45)	–	n/a
Total – excluding share price growth	**7,321**	**2,009**	**6,375**	**115**
LTIP – share price growth[4]	4,563			
Total – including share price growth	**11,884**			

1 Detail of non-statutory remuneration methodology is explained on pages 36 and 37.
2 The number of restricted shares to be awarded will be determined based on the seven calendar day Volume Weighted Average Share Price as at 27 August 2015.
3 LTIP vesting at 85 per cent valued at the start of the performance period (1 July 2012 when the share price was $1.075).
4 Increase in the value of the vested shares over the performance period (1 July 2012 to 30 June 2015).

Link between CEO Pay and Performance

The CEO's pay is linked to Qantas' performance through the performance measures under both the annual incentive and the long term incentive. At Qantas, annual incentives are only paid in years when, in the Board's view, the business has performed well. Similarly, long term incentives only vest where financial performance has been strong and challenging three year performance measures are met. This is demonstrated in the CEO Remuneration Outcome History graph on page 31.

Base Pay

The CEO's Base Pay has been frozen since 1 July 2011 and he did not receive an increase to Base Pay during 2014/2015. Additionally, the CEO elected to forgo five per cent of his Base Pay from 1 January 2014 until 30 June 2015.

Base Pay (cash) is Base Pay of $2,125,000 less Base Pay forgone of $106,250 and less superannuation contributions of $18,783.

Annual Incentive – 2014/15 STIP Outcome

In determining outcomes under the STIP, the Board assesses performance against financial, safety and other key business measures as part of a balanced scorecard, as outlined on page 38.

The STIP award paid to the CEO for 2014/2015 was determined primarily by management's delivery of the very strong financial results as well as a high level of achievement against the non-financial measures that comprise the STIP scorecard. The Board assessed the CEO and management's contribution to these results in particular:

- Delivery in 2014/2015 of over $894 million cost savings and revenue enhancements driven by the Qantas Transformation program
- Management's prudent approach to fuel hedging and active restructuring of hedged positons, as well as the transformation program delivering operating efficiencies that reduced fuel consumption, enabled a $597 million reduction in year-on-year fuel expense. Additionally, Qantas' approach to fuel hedging allowed a higher participation in falling fuel prices than that achieved by many of our competitors
- Continuing to invest in the customer (through investment in product and training our people), which delivered record customer advocacy, or Net Promoter Scores

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

Total	=	Base Pay	x	'At Target' Opportunity	x	Scorecard Result	x	Individual Performance Factor
2,856,000	=	2,125,000	x	80%	x	140%	x	1.2

The CEO's 2014/15 STIP award was paid two-thirds as a cash bonus of $1,904,000 and one-third as deferred shares worth $952,000 with a two year restriction period.

More detail on the 2014/15 STIP is provided on pages 35 to 36.

Long Term Incentive – 2013–2015 LTIP Outcome

At the 2012 Annual General Meeting (AGM), shareholders approved an award of 2,575,000 Rights to the CEO under the 2013–2015 LTIP. The vesting of these Rights was subject to Qantas TSR performance compared to two peer groups (companies with ordinary shares included in the ASX100 and an airline peer group (Global Listed Airlines).

Over the three year performance period of the 2013–2015 LTIP, the Qantas share price grew from $1.075 to $3.16, delivering a total shareholder return of +194 per cent.

The following graph demonstrates Qantas TSR performance versus the ASX100 and MSCI World Airline Indices over the performance period of the 2013–2015 LTIP.

QANTAS TSR PERFORMANCE v PEER GROUPS (%)

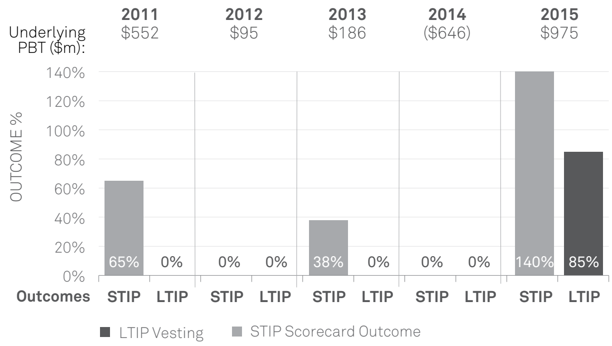
This share price performance meant that Qantas ranked in the 93rd percentile of companies in the ASX100 and ranked in the 60th percentile of the airline peer group. Based on this performance, 85 per cent of Rights vested and the CEO was awarded 2,188,750 shares.

The face value of the vested shares based on the Qantas share price at the start of the performance period was $2,353,000. The value of these shares increased by $4,563,000 over the three year performance period.

CEO Remuneration Outcomes History (2010/2011 to 2014/2015)

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

CEO STIP LTIP Outcomes



STATUTORY REMUNERATION DISCLOSURES FOR THE CEO

The statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and differ significantly from the outcomes for the CEO resulting from performance in 2014/2015 outlined on page 30.

These differences arise due to the accounting treatment of share-based payments (such as the STIP and LTIP). A reconciliation of remuneration outcomes to statutory remuneration disclosures is provided on page 35.

CEO Statutory Remuneration Table	2015 $'000	2014 $'000	2015 'At Target' Pay $'000
Base Pay (cash)	2,000	2,054	2,125
STIP – cash bonus	1,904	–	1,133
STIP – share-based	423	155	567
LTIP	2,261	1,808	2,550
Other	112	(45)	–
Total	**6,700**	**3,972**	**6,375**

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2015

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

Section 300A of the Corporations Act 2001 requires disclosure of remuneration information for Key Management Personnel (KMP), with KMP defined in 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.

The KMP for 2014/2015 includes some members of Executive Management.

During the year, the following changes were made to the KMP:

– Gareth Evans ceased in the role of Chief Financial Officer and was appointed to the role of CEO Qantas International
– Tino La Spina was appointed to the role of Chief Financial Officer
– Andrew David was appointed to the role of CEO Qantas Domestic
– Simon Hickey, former CEO Qantas International, ceased employment with Qantas
– Lyell Strambi, former CEO Qantas Domestic, ceased employment with Qantas

1) EXECUTIVE REMUNERATION OBJECTIVES AND APPROACH

In determining Executive remuneration, the Board aims to do the following:

– Attract, retain and appropriately reward a capable Executive team
– Motivate the Executive team to meet the unique challenges the company faces as a major international airline based in Australia
– Link remuneration to performance

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

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

2) ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee (a Committee of the Board, whose members are detailed on pages 8 to 10) has the role of reviewing and making recommendations to the Board on specific Executive remuneration matters at Qantas and ensuring remuneration decisions are appropriate from the perspectives of business performance, governance, disclosure, reward levels and market conditions.

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

– Motivate the CEO, Executive Management and the broader Executive team to pursue the long-term growth and success of Qantas
– Demonstrate a clear relationship between pay and performance
– Ensure an appropriate balance between 'fixed' and 'at risk' remuneration, reflecting the short and long-term performance objectives of Qantas
– Differentiate between higher and lower performers through the use of a performance management framework

During 2014/2015, the Remuneration Committee re-appointed Ernst & Young (EY) as its remuneration consultant. The Remuneration Committee has established protocols in relation to the appointment and use of remuneration consultants to support compliance with the Corporations Act 2001, which are incorporated into the terms of engagement with EY.

The Remuneration Committee did not request any remuneration consultants to provide a remuneration recommendation during 2014/2015.

3) EXECUTIVE REMUNERATION FRAMEWORK

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

– **Base Pay** – a guaranteed salary level inclusive of superannuation
– **Annual Incentive** – referred to as the Short Term Incentive Plan (STIP)
– **Long Term Incentive** – referred to as the Long Term Incentive Plan (LTIP)

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

4) REMUNERATION OUTCOMES FOR 2014/2015

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

This year's strong financial performance resulted in outcomes above the 'At Target' level under the 2014/15 STIP. The result under the STIP is detailed on pages 35 to 36.

The performance measures for the 2013–2015 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 2015. Based on the vesting scale, Qantas ranked in the 93rd percentile of companies in the ASX100 and ranked in the 60th percentile of the airline peer group. This resulted in 85 per cent of Rights vesting and converting to Qantas shares with the remaining Rights lapsing.

The following table summarises the remuneration decisions and outcomes for the CEO and Executive KMP for the year ended 30 June 2015. The remuneration detailed in this table is aligned to the current performance period and therefore is particularly useful in understanding current year pay and its alignment with current year performance.

Remuneration Outcomes Table – CEO and Executive KMP[1]

			STIP Outcomes[3]		LTIP Outcomes[4]					
$'000s		Base Pay (Cash)[2]	Cash Bonus	Deferred Award	LTIP Vesting[5]	Other Benefits[6]	Termination Benefit[10]	Total	LTIP Share Price Growth[7]	Total Including Share Price Growth
Current Executives										
Alan Joyce Chief Executive Officer	2015	2,000	1,904	952	2,353	112	–	7,321	4,563	11,884
	2014	2,054	–	–	–	(45)	–	2,009	–	–
Tino La Spina[8] Chief Financial Officer from 1 March 2015	2015	279	152	76	19	152	–	678	36	714
	2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Andrew David[8] CEO Qantas Domestic from 1 March 2015	2015	277	152	76	29	72	–	606	57	663
	2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gareth Evans CEO Qantas International from 1 March 2015 Chief Financial Officer to 28 February 2015	2015	981	537	268	692	107	–	2,585	1,341	3,926
	2014	981	–	–	–	69	–	1,050	–	–
Lesley Grant CEO Qantas Loyalty	2015	781	411	205	277	58	–	1,732	537	2,269
	2014	782	–	–	–	16	–	798	–	–
Jayne Hrdlicka CEO Jetstar Group	2015	981	513	257	692	121	–	2,564	1,341	3,905
	2014	982	–	–	–	61	–	1,043	–	–
Total	2015	5,299	3,669	1,834	4,062	622	–	15,486	7,875	23,361
	2014	4,799	–	–	–	101	–	4,900	–	–
Former Executives										
Simon Hickey[9] Former CEO Qantas International to 28 February 2015	2015	860	612	–	663	177	833	3,145	1,253	4,398
	2014	982	–	–	–	(34)	–	948	–	–
Lyell Strambi[9] Former CEO Qantas Domestic to 28 February 2015	2015	654	466	–	615	196	483	2,414	1,162	3,576
	2014	982	–	–	–	95	–	1,077	–	–

1 Detail of non-statutory remuneration methodology is explained on pages 36 and 37.
2 Base Pay (cash) paid to each Executive during the year.
3 The full value of STIP awards made to each Executive during each of the 2014/2015 and 2013/2014 financial years.
4 LTIP awards vested in 2014/2015 at 85 per cent. LTIP awards did not vest in 2013/2014, therefore nil value shown.
5 The face value of shares awarded based on the Qantas share price at the start of the performance period (1 July 2012).
6 Other Benefits are detailed on page 34.
7 The increase in the value of the share award from the start of the performance period (1 July 2012) to the end of the performance period (30 June 2015).
8 2014/2015 remuneration reflects the period of time in a key management role for Mr La Spina (1 March 2015 to 30 June 2015) and Mr David (1 March 2015 to 30 June 2015).
9 Mr Hickey ceased as a KMP on 28 February 2015 and ceased employment with Qantas on 15 May 2015 and Mr Strambi ceased as a KMP and ceased employment with Qantas on 28 February 2015. 2014/2015 remuneration is included up until the termination date of Mr Hickey of 15 May 2015 and for Mr Strambi of 28 February 2015.
10 Under the terms of separation, termination benefits of 10 months' Base Pay and 6 months' Base Pay were paid to Mr Hickey and Mr Strambi, respectively. As good leavers, both Mr Hickey and Mr Strambi were eligible to receive deferred cash payments prorated for the portion of the performance period employed under the 2014/15 STIP and the Rights granted under 2013–2015 LTIP which lapsed on the termination date and were replaced by the deferred cash payments as disclosed in the table above.

Refer to section 6 of the Remuneration Report on pages 35 to 37 for detail of the Executive Remuneration Structure, a description of Base Pay, STIP and LTIP and analysis of the 2014/2015 outcomes for the STIP and LTIP.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

5) STATUTORY REMUNERATION DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2015

The statutory remuneration disclosures for the year ended 30 June 2015 are detailed below and are prepared in accordance with Australian Accounting Standards and differ from the 2014/2015 remuneration outcomes outlined above. These differences arise due to the accounting treatment of share-based payments (such as the STIP and LTIP).

Statutory Table – CEO and Executive KMP

			Incentive Plan – Accounting Accrual				Other Benefits					
				Equity Settled Share-based Payments								
$'000s		Base Pay (Cash)[1,2]	STIP Cash Bonus[1]	Deferred Shares[3]	Rights	Sub-total	Non-cash Benefits[1,4]	Post-employment Benefits[5]	Other Long-term Benefits[6]	Sub-total	Termination Benefits[9]	Total
Current Executives												
Alan Joyce	2015	2,000	1,904	423	2,261	6,588	63	70	(21)	112	–	6,700
Chief Executive Officer	2014	2,054	–	155	1,808	4,017	38	64	(147)	(45)	–	3,972
Tino La Spina[7]	2015	279	152	17	76	524	24	32	96	152	–	676
Chief Financial Officer from 1 March 2015	2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Andrew David[7]	2015	277	152	128	86	643	20	32	20	72	–	715
CEO Qantas Domestic from 1 March 2015	2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gareth Evans	2015	981	537	126	760	2,404	39	44	24	107	–	2,511
CEO Qantas International from 1 March 2015 Chief Financial Officer to 28 February 2015	2014	981	–	76	520	1,577	41	42	(14)	69	–	1,646
Lesley Grant	2015	781	411	96	351	1,639	20	44	(6)	58	–	1,697
CEO Qantas Loyalty	2014	782	–	54	210	1,046	8	41	(33)	16	–	1,062
Jayne Hrdlicka	2015	981	513	119	760	2,373	76	44	1	121	–	2,494
CEO Jetstar Group	2014	982	–	60	439	1,481	8	41	12	61	–	1,542
Total	2015	5,299	3,669	909	4,294	14,171	242	266	114	622	–	14,793
	2014	4,799	–	345	2,977	8,121	95	188	(182)	101	–	8,222
Former Executives												
Simon Hickey[8]	2015	860	612	43	665	2,180	43	42	92	177	833	3,190
Former CEO Qantas International to 28 February 2015	2014	982	–	66	441	1,489	32	41	(107)	(34)	–	1,455
Lyell Strambi[8]	2015	654	466	46	506	1,672	41	55	100	196	483	2,351
Former CEO Qantas Domestic to 28 February 2015	2014	982	–	72	520	1,574	50	41	4	95	–	1,669

1 Short-term employee benefits include Base Pay (cash), STIP cash bonus and non-cash benefits.
2 Base Pay (cash) for Mr Joyce is Base Pay of $2,125,000 (2014: $2,125,000) less Base Pay forgone of $106,250 (2014: $53,125) less superannuation contributions of $18,783 (2014: $17,775).
3 Deferred Shares for Mr La Spina and Mr David includes STIP awards which were made since commencing as KMP and share awards under the Manager Incentive Plan as well as Deferred Share Plan award granted to Mr David prior to commencing as KMP. For other Executives, Deferred Shares include STIP awards.
4 Non-cash Benefits include the value of travel benefits whilst employed and other minor benefits.
5 Post-employment Benefits include superannuation and an accrual for post-employment travel of $51,000 for Mr Joyce and $25,000 for each other Executive (2014: $47,000 for Mr Joyce and $22,000 for each other Executive).
6 Other Long-term Benefits include movement in annual leave and long service leave balances. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days annual leave they accrue during the year.
7 2014/2015 remuneration reflects the period of time in a key management role for Mr La Spina (1 March 2015 to 30 June 2015) and Mr David (1 March 2015 to 30 June 2015).
8 Mr Hickey ceased as a KMP on 28 February 2015 and ceased employment with Qantas on 15 May 2015 and Mr Strambi ceased as a KMP and ceased employment with Qantas on 28 February 2015. 2014/2015 remuneration is included up until the termination date of Mr Hickey of 15 May 2015 and for Mr Strambi of 28 February 2015.
9 Under the terms of separation, termination benefits of 10 months' Base Pay and 6 months' Base Pay were paid to Mr Hickey and Mr Strambi, respectively. As good leavers, both Mr Hickey and Mr Strambi were eligible to receive deferred cash payments prorated for the portion of the performance period employed under the 2014/15 STIP and the Rights granted under 2013–2015 LTIP which lapsed on the termination date and were replaced by the deferred cash payments as disclosed in the table on page 33 (the fair values of the prorated Rights on the original grant date was $542,000 for Mr Hickey and $503,000 for Mr Strambi). The Rights granted under the 2014–2016 LTIP and 2015–2017 LTIP to Mr Hickey and Mr Strambi lapsed on the termination date and in replacement of these lapsed Rights, they are eligible to receive deferred cash payments subject to the Board's discretion and the achievement of the original LTIP performance conditions, with the payment amount pro-rated for the portion of the performance period employed. The fair values of the prorated Rights under the 2014–2016 LTIP and 2015–2017 LTIP on the original grant dates totalled $617,000 for Mr Hickey and $512,000 for Mr Strambi. The fair values of the prorated Rights on the termination date were $2,492,000 for Mr Hickey and $1,669,000 for Mr Strambi.

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

CEO's Remuneration Outcome to Statutory Remuneration Disclosure for 2014/2015

Reconciliation	($'000)	Description
Remuneration outcome for the CEO for 2014/2015	11,884	
Treatment of STIP		
Add: Accounting value for 2012/13 STIP and 2014/15 STIP deferred awards	423	The STIP amount shown in the remuneration outcomes tables is the full value of the STIP awarded for the corresponding year calculated as a product of Base Pay, 'At Target' Opportunity, STIP Scorecard Result and Individual Performance Factor (rather than amortising the accounting values over the relevant performance and service periods as per the accounting standards).
Less: 2014/15 STIP deferred award	(952)	
Treatment of LTIP		
Add: Accounting value for LTIP award tested on relative TSR performance (2013–2015 LTIP)[1]	850	The LTIP amount shown in the remuneration outcomes tables is made up of the value of the LTIP driven by vesting based on the share price at the start of the performance period and value of the LTIP driven by share price growth (rather than amortising the accounting values over the relevant performance and service periods as per the accounting standards).
Add: Accounting value for LTIP award to be tested in a future year (2014–2016 LTIP)[2]	670	
Add: Accounting value for LTIP award to be tested in a future year (2015–2017 LTIP)[3]	741	
Less: 2013–2015 LTIP – vesting[4]	(2,353)	
Less: 2013–2015 LTIP – share price growth[5]	(4,563)	
Statutory remuneration disclosure for the CEO for 2014/2015	6,700	

1 The 2013–2015 LTIP was tested as at 30 June 2015. 85 per cent of Rights vested and the remaining Rights lapsed.
2 The 2014–2016 LTIP is due to be tested as at 30 June 2016. The Qantas share price at the start of the performance period (1 July 2013) was $1.35.
3 The 2015–2017 LTIP is due to be tested as at 30 June 2017. The Qantas share price at the start of the performance period (1 July 2014) was $1.26.
4 The face value of shares awarded based on the Qantas share price at the start of the performance period (1 July 2012).
5 The increase in the value of the share award from the start of the performance period (1 July 2012) to the end of the performance period (30 June 2015).

6) EXECUTIVE REMUNERATION STRUCTURE

Base Pay

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

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

In performing a Base Pay review, the Board makes reference to external market data including comparable roles in other listed Australian companies and international airlines. The primary benchmark is a revenue-based peer group of other listed Australian companies. The Board believes this is the appropriate benchmark, as it is the comparator group whose roles best mirror the size, complexity and challenges in managing Qantas' businesses and is also the peer group with whom Qantas competes for Executive talent.

A general management pay freeze was in place during 2014/2015 and there have been no increases to the Base Pay for Mr Joyce since July 2011 and for Mr Evans, Ms Hrdlicka and Ms Grant since July 2012. In addition, the CEO opted to forgo five per cent of his Base Pay from 1 January 2014 until 30 June 2015.

Mr David and Mr La Spina commenced in their KMP roles on 1 March 2015 and their Base Pay was set at a level lower than their predecessors.

The Base Pay for each Executive KMP is outlined on page 40.

Annual Incentive

The Short Term Incentive Plan (STIP) is the annual 'at risk' incentive plan for members of Qantas Executive Management. Each year these Executives may receive an award that is a combination of cash and restricted shares to the extent that the Plan's performance conditions are achieved.

Performance Conditions

The Board sets a 'scorecard' of performance conditions for the 2014/15 STIP, explicitly aligning the performance measures to the Qantas Group strategy. Underlying PBT is the key budgetary and financial performance measure for the Qantas Group and is therefore the key performance measure in the STIP scorecard.

The Board sets targets for each scorecard measure, and at the end of the financial year the Board assesses performance against each scorecard measure and determines the overall STIP scorecard outcome.

A detailed description of the STIP scorecard is provided on pages 38 to 39.

The Board retains discretion over any awards made under the STIP. For example, the Board may decide to adjust the STIP scorecard outcome where it determines that it does not reflect the performance achieved during the year. Circumstances may occur where scorecard measures have been achieved or exceeded, but in the view of the Board it is inappropriate to make a cash award under the STIP. The Board may determine

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

that either no award will be made (as it did for the CEO in 2011/2012 and 2013/2014), only a partial award be made (as it did in 2010/2011 and 2012/2013), or that any award will be entirely deferred and/or delivered in Qantas shares (as it did in 2010/2011). On the other hand, there may be circumstances where performance is below an agreed target; however, the Board determines that it is appropriate to pay some STIP award. While the Board sees this balanced scorecard approach as an important design element of the STIP, it also recognises that the overall STIP outcome must be considered in the context of the Group's financial performance.

An individual's performance is recognised via an Individual Performance Factor (IPF). IPFs are generally in the range of 0.8 to 1.2, however in case of under-performance the IPF may be zero and in exceptional circumstances the IPF may be as high as 1.5.

Calculation of STIP Awards

STIP awards are calculated as follows:

Value of STIP Award	=	Base Pay	X	'At Target' Opportunity	X	Scorecard Result	X	Individual Performance Factor (IPF)

Payment of Awards

In a year where STIP awards are made, two-thirds of the STIP award would be paid as a cash bonus, with the remaining one-third deferred into Qantas shares with a two year restriction period.

The Board retains discretion as to how STIP awards are delivered.

Maximum Outcome

The STIP scorecard has a hypothetical maximum outcome of 175 per cent of 'At Target', which could only be achieved if the maximum overdrive level of performance is achieved on every STIP performance measure.

The scorecard result is then applied to an individual's 'At Target' opportunity and their IPF. As IPFs are generally between 0.8 and 1.2, a hypothetical maximum has been modelled using an IPF at the top of this range of 1.2. In the past and in extraordinary circumstances, participants have been allocated an IPF of up to 1.5, however this has never been given to date where there has been a maximum scorecard outcome.

Hypothetically, a STIP award to the CEO equal to 168 per cent of Base Pay could result (i.e. the 'At Target' opportunity for 2014/2015 of 80 per cent of Base Pay multiplied by a hypothetical Scorecard Result of 175 per cent and multiplied by an example IPF of 1.2).

The minimum outcome is nil, which would occur if the threshold level of performance is missed on each STIP measure.

Disclosure

Remuneration Outcomes Table

The full value of the STIP awarded for the corresponding year is disclosed in the table on page 33.

Statutory Remuneration Table

Disclosure of STIP awards in the statutory remuneration table on page 34 is based on the requirements of the Corporations Act and applicable Australian Accounting Standards. In the statutory remuneration table, STIP awards are disclosed as either:

- A cash incentive for any cash bonus paid or
- A share-based payment for any component awarded in deferred shares

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

Long Term Incentive Plan

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

Performance Conditions

The performance measures for each of the 2013–2015 LTIP (tested at 30 June 2015), 2014–2016 LTIP (to be tested as at 30 June 2016) and 2015–2017 LTIP (to be tested as at 30 June 2017) are:

- The relative TSR of Qantas compared to companies with ordinary shares included in the ASX100
- The relative TSR of Qantas compared to an airline peer group (Global Listed Airlines)

These Rights will only vest in full if Qantas' TSR performance ranks at or above the 75th percentile compared to both the ASX100 and the Global Listed Airlines peer groups.

Qantas' financial framework targets top quartile TSR performance relative to ASX100 companies and global airline peers and therefore relative TSR performance against these peer groups has been chosen as the performance measures for the LTIP. The peer groups selected provides a comparison of relative shareholder returns relevant to most Qantas investors:

- The ASX100 peer group was chosen for relevance to investors with a primary interest in the equity market for major Australian listed companies, of which Qantas is one
- The Global Listed Airlines peer group was chosen for relevance to investors, including investors based outside Australia, whose focus is on the aviation industry sector and measuring returns from listed companies impacted by comparable external factors

The vesting scale for each measure is:

Companies with ordinary shares included in the ASX100

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

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

Global Listed Airlines peer group

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

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

The Global Listed Airlines peer group has been selected with regard to the level of government involvement, representation of Qantas' key markets and continuing financial performance. For the 2014–2016 LTIP and 2015–2017 LTIP, the Global Listed Airlines peer group contains the following Airlines: Air Asia, Air France/KLM, Air New Zealand, All Nippon Airways, International Airlines Group (British Airways/Iberia), Cathay Pacific, Delta Airlines, Easyjet, Japan Airlines, LATAM Airlines Group, Lufthansa, Ryanair, Singapore Airlines, Southwest Airlines, Tiger Airways and Virgin Australia. The 2013–2015 LTIP excluded Japan Airlines.

Cessation of Employment

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

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

- the portion of the performance period that the Executive served prior to termination
- the actual level of vesting that is ultimately achieved at the end of the performance period

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

Allocation Methodology

The number of Rights granted to Executives under the LTIP is calculated on a 'fair value' basis', as follows:

Number of Rights awarded = Base Pay x 'At Target' Opportunity / Fair Value of each Right

At each year's AGM, Qantas seeks shareholder approval for any award of Rights to the CEO. Qantas seeks approval for the specific number of Rights to be awarded and discloses the allocation methodology and the fair value of the Right.

Change of Control

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

Disclosure

The 'LTIP vesting' amount shown in the remuneration outcomes tables is equal to the number of Rights vested multiplied by the Qantas share price at the start of the performance period.

The 'LTIP share price growth' amount is equal to the number of Rights vested multiplied by the increase in the Qantas share price over the three year performance period (rather than amortising the accounting value over the relevant performance and service period as per the accounting standards).

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. It includes specified direct family members or a nominated travel companion.

In addition to this and consistent with practice in the airline industry, Directors and KMP and their eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual.

Post-employment travel concessions are also available to all permanent Qantas employees who qualify through retirement or redundancy. The CEO and KMP and their eligible beneficiaries are also entitled to a number of free trips for personal purposes after ceasing employment. An estimated present value of these entitlements is accrued over the service period of the individual and is disclosed as a post-employment benefit.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

Superannuation	Superannuation includes statutory and salary sacrifice superannuation contributions and is disclosed as a post-employment benefit.
Other Long-term Benefits	The movement in accrual of annual leave and long service leave is included in other long-term benefits. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days annual leave they accrued during the year.

2014/2015 Balanced Scorecard Outcomes

For 2014/2015, the Board considered the following key measures of financial and operational performance and the associated targets to be critical indicators of performance and drivers of shareholder value. The performance outcomes for these measures are reflected in the CEO and Executive Management's remuneration outcomes. The table below summarises performance vs target against each scorecard category under the 2014/15 STIP.

Scorecard Category / Strategic Objective	Measures	Scorecard Weighting 'At Target' (Range of Outcomes)	Actual Outcome	Comment
Group Profitability	Underlying Profit Before Tax (PBT)	50% (0–100%)		The Underlying PBT result of $975 million for 2014/2015 exceeded the 'overdrive' target set by the Board. Therefore this measure contributed a maximum overdrive outcome of 100 per cent (out of 50 per cent) to the STIP Scorecard.
Qantas Transformation and the Cost Agenda	Deliver transformation benefits Unit Cost Yield (for Qantas International)	20% (0–30%)		The Qantas Transformation to date has delivered over $1,000 million of benefits, exceeding the cumulative target of $800 million announced to the market in May 2014. This also exceeded the revised benefits forecast of $875 million announced in February 2015. Qantas International achieved its Unit Cost target, while Qantas Domestic and Jetstar Group achieved the threshold level of performance, stretch targets were not achieved. Qantas International Yield target was exceeded with Qantas International returning to a sustainable profit position in line with the target established in 2011/2012.
People and Operational Safety	People Safety measures Board's assessment of Operational Safety	10% (0–15%)		Targeted improvements in People Safety metrics were not achieved and therefore there was no contribution under the People Safety measure. Operational Safety performance for the year was good and therefore there was full contribution under the Operational Safety measure.
Customer	Net Promoter Score (NPS) Punctuality Network and frequency advantage	10% (0–15%)		NPS targets for Qantas International, Qantas Domestic and Qantas Frequent Flyer were exceeded. NPS targets were not achieved for some Jetstar brands. Qantas Domestic continued to be the most on-time of the major domestic airlines for 2014/2015, with over 88.3 per cent of flights on-time. Qantas Domestic and Jetstar also maintained their network and frequency advantage in the Australian domestic market.
Strategic Initiatives	Qantas Loyalty: EBIT Growth Qantas Frequent Flyer Membership numbers Qantas Loyalty new business initiatives Investments in Jetstar-branded airlines in Asia Underlying EBIT Strategic milestones	10% (0–15%)		Qantas Loyalty achieved its Earnings Before Interest and Tax (EBIT) growth target for 2014/2015. Qantas Frequent Flyer membership targets were achieved with more than 700,000 new members joining in 2014/2015. Qantas Cash, Aquire and Red Planet growth targets were achieved. Strategic milestones around growth of Jetstar Japan and Jetstar Pacific were achieved, however regulatory approval for Jetstar Hong Kong was not achieved.
2014/15 STIP Scorecard Outcome		100% (0–175%)	140%	

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

Additional Descriptions of STIP Scorecard Measures

Group Profitability	Underlying PBT is the key budgetary and financial performance measure for the Qantas Group and therefore is selected as the primary performance measure under the STIP. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of the Group. The Underlying PBT target is based on the annual financial budget. For reasons of commercial sensitivity, the annual Underlying PBT target is not disclosed. Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 9 Financial Instruments which relate to other reporting periods and items which are identified by management and reported to the chief operating decision-making bodies, as not representing the underlying performance of the business. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period. Items not included in Underlying PBT primarily result from major transformational/restructuring initiatives, transactions involving investments and impairment of assets outside the ordinary course of business.
Qantas Transformation and the Cost Agenda	The Qantas Transformation is targeting $2 billion of benefits by 2016/2017, with original cumulative target of $800 million of these benefits having been targeted to be achieved by 2014/2015. Realisation of benefits under the Qantas Transformation has been selected as a performance measure under the STIP as the transformation initiatives are driving sustainable change in the business and have been fundamental in returning the Qantas Group to profitability. Unit Cost remains an area of focus across the business and, as a result, the STIP scorecard includes Unit Cost targets for each of Qantas International, Qantas Domestic and Jetstar Group. These targets are derived from the annual financial budget. For Qantas International and Qantas Domestic, Unit Cost performance is calculated as net underlying expenditure (excluding fuel) divided by each business' ASKs. Net underlying expenditure is derived from passenger revenue less Underlying EBIT. For Jetstar Group Consolidated, Unit Cost performance is measured as controllable Unit Cost, which is calculated as total expenses (excluding fuel and costs associated with minority investments in Jetstar-branded airlines in Asia) per ASK. To ensure that these measures focus on the underlying operating activities and efficiencies, they exclude the impact of fuel price changes and items not included in Underlying PBT as described above. Yield is a key area of focus for the Qantas International business and was selected as a key measure. Yield is calculated as passenger revenue per ASK.
People and Operational Safety	As safety is always our first priority, the STIP scorecard includes an assessment of both operational and people safety. In addition, the Board retains an overriding discretion to scale down the STIP (or reduce it to zero) in the event of a material aviation safety incident. This is in addition to the Board's overall discretion over STIP awards. Any such decision would be made in light of the specific circumstances and following the recommendation of the Safety, Health, Environment and Security Committee. The Safety, Health, Environment and Security Committee performs a combined assessment of people safety performance and operational safety performance. The objective of the people safety targets is to reduce employee injuries and therefore targets were set across: – Total Recorded Injury Frequency Rate – Lost Work Case Frequency Rate – Duration Rate Operational safety performance is assessed against outcome-based measures (including operational occurrences that pose a significant threat to the safety of employees and customers) and risk-based lead indicators commonly associated with aviation industry accidents.
Customer	Customer Service is measured against NPS targets. This is a survey-based measure of how strongly our customers promote the services of our businesses in preference to our direct competitors. Individual NPS targets are set for Qantas Domestic, Qantas International, Qantas Frequent Flyer, Jetstar Australia Domestic, Jetstar Australia Long Haul, Jetstar Asia, Jetstar Japan and Jetstar Pacific. Qantas Domestic targets being the most on-time major Australian domestic airline. Therefore a target comparing on-time performance of Qantas Domestic to the on-time performance of its major Australian domestic competitor is included as a STIP measure. As agreed with and reported to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), punctuality is measured as the number of flights operating on-time (on an on-time departure basis) as a percentage of the total number of flights operated.
Strategic Initiatives	To support the strategic initiatives of strengthening and growing Qantas Loyalty, STIP targets were set to grow Qantas Loyalty EBIT as well as targets to develop and grow new business initiatives including Qantas Cash, Aquire and Red Planet. To support the strategic initiative of delivering on Jetstar opportunities and partnerships in Asia, EBIT targets and strategic milestone targets were set for each of Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

Summary of Key Contract Terms as at 30 June 2015

Contract Details	Alan Joyce	Tino La Spina[1]	Andrew David[1]	Gareth Evans	Lesley Grant	Jayne Hrdlicka
Base Pay	$2,125,000[2]	$850,000	$850,000	$1,000,000	$800,000[3]	$1,000,000
STIP 'At Target' opportunity expressed as a % of Base Pay	80% for 2014/2015 120% for 2015/2016	50% for 2014/2015 80% for 2015/2016	50% for 2014/2015 80% for 2015/2016	50% for 2014/2015 80% for 2015/2016	50% for 2014/2015 80% for 2015/2016	50% for 2014/2015 80% for 2015/2016
LTIP 'At Target' opportunity expressed as a % of Base Pay	120% for 2014/2015 80% for 2015/2016	50% for 2014/2015 50% for 2015/2016	50% for 2014/2015 50% for 2015/2016	80% for 2014/2015 50% for 2015/2016	55% for 2014/2015 50% for 2015/2016	80% for 2014/2015 50% for 2015/2016
Travel entitlements	An annual benefit of trips for these Executives and eligible beneficiaries during employment[4], at no cost to the individual, as follows:					
	4 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul
	12 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul
	The same benefit is provided for use post-employment, based on the period of service in a senior Executive role within the Qantas Group.					
Notice	Employment may be terminated by either the Executive or Qantas by providing six months' written notice[5]. 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[5].					

1 Following a restructure of the Executive team during the year, Mr La Spina and Mr David commenced in key management roles on 1 March 2015. Awards under the 2015–2017 LTIP were made prior to commencing in a key management role.
2 Base Pay for Mr Joyce is $2,125,000. From 1 January 2014, Mr Joyce elected to forgo five per cent of his Base Pay. Therefore, Base Pay was paid using an annual rate of $2,018,750 from 1 January 2014 to 30 June 2015.
3 Base Pay for Ms Grant is $850,000 from 1 July 2015.
4 These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement arises.
5 Other than for misconduct or unsatisfactory performance.

Risk Management and Clawback Policy

The STIP and the LTIP have design elements that protect against the risk of unintended and unjustified pay outcomes, that is:

- Diversity in their performance measures, which as a suite of measures cannot be directly and imprudently influenced by one individual employee
- Clear maximum values specified for scorecard outcomes under the STIP and a challenging vesting scale under the LTIP
- Diversity of the timeframes within which performance is measured, with performance under the STIP being measured over one year and performance under the LTIP being measured over three years
- Deferral of a portion of awards under the STIP with a restriction period of up to two years providing an alignment with shareholder interests.
- While formal management shareholding requirements are not imposed, the CEO has a material holding in Qantas shares which at 30 June 2015 was valued at more than four times Base Pay. The potential equity awards under the STIP and the LTIP will assist Executives in maintaining shareholdings in Qantas.

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

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

The Remuneration Committee has performed a review of the STIP and LTIP terms and conditions and has modified them to better enable Qantas to clawback remuneration in accordance with the policy. These changes will apply to all new plans from 1 July 2015.

Employee Share Trading Policy

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

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

In addition, nominated employees (including KMP) are:

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

Remuneration Mix

The Base Pay and 'At Target' STIP and LTIP opportunities are set with reference to external benchmark market data including comparable roles in other listed Australian companies and international airlines. The 'At Target' STIP and LTIP opportunities for the CEO and KMP are detailed in the Summary of Key Contract Terms on page 40.

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

This change in pay mix involved a decrease in the STIP opportunity and an increase in the LTIP opportunity for each Executive. The pay mix changes that apply to the CEO and KMP for 2014/2015 are also detailed in the Summary of Key Contract Terms on page 40. There is no increase to the total 'At Target' remuneration as a result of these changes as the increase in LTIP opportunity is offset by a decrease in STIP opportunity.

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

Target Remuneration Mix for 2014/2015	Base Pay %	STIP %	LTIP %
Alan Joyce	33	27	40
Tino La Spina	50	25	25
Andrew David	50	25	25
Gareth Evans	43	22	35
Lesley Grant	49	24	27
Jayne Hrdlicka	43	22	35
Simon Hickey	43	22	35
Lyell Strambi	43	22	35

The target remuneration mix does not match the statutory remuneration mix for 2014/2015, as:

- Actual STIP and LTIP outcomes each year differ from the 'At Target' level
- Statutory reward mix is calculated on an accrual basis in accordance with accounting standards, so each year's statutory remuneration includes a portion of the value of share-based payments awarded in previous years. A portion of current year awards are also deferred over future periods where there are performance conditions or restriction periods

	Performance-related Remuneration			
	Cash-based		Equity Settled Share-based	
Statutory Remuneration Mix	Base Pay & Other %	Cash Incentives %	STIP %	LTIP %
Alan Joyce	32	28	6	34
Tino La Spina	64	22	3	11
Andrew David	49	21	18	12
Gareth Evans	44	21	5	30
Lesley Grant	49	24	6	21
Jayne Hrdlicka	44	21	5	30
Simon Hickey	59	19	1	21
Lyell Strambi	57	20	2	21

DIRECTORS' REPORT CONTINUED

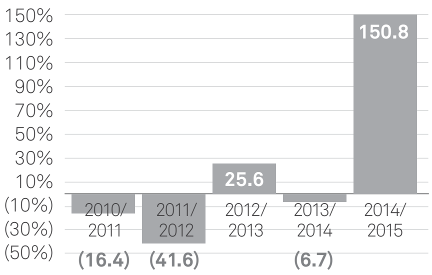
FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

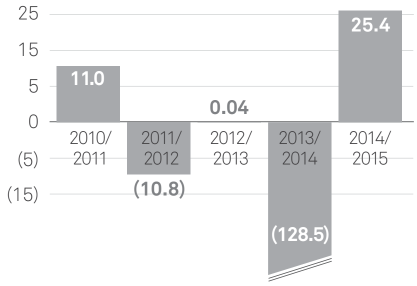
Qantas Financial Performance History

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

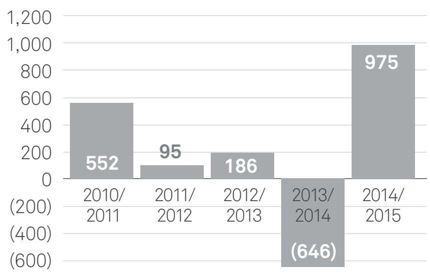
QANTAS TSR PERFORMANCE (%)



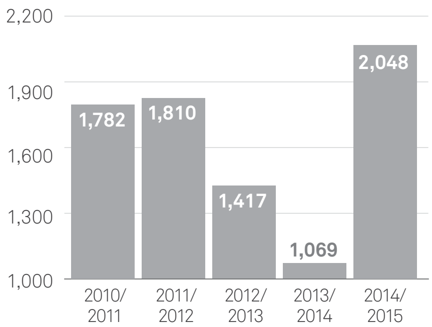
EARNINGS PER SHARE (CENTS)



UNDERLYING PROFIT BEFORE TAX ($M)



OPERATING CASHFLOW ($M)



1 Underlying Profit Before Tax (PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. Statutory Profit After Tax for 2014/2015 was $560 million (2014: ($2.8) billion, 2013: $2 million, 2012: ($244) million and 2011: $249 million).

7) PERFORMANCE-RELATED REMUNERATION

Performance Remuneration Affecting Future Periods

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

	Future Expense by Plan					Future Expense by Financial Year			
	Deferred Shares		LTIP Awards						
Executives	2012/2013 $'000	2014/2015 $'000	2014–2016[1] $'000	2015–2017[2] $'000	Total $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
Alan Joyce	20	651	670	2,409	3,750	2,102	1,413	235	3,750
Tino La Spina	–	98	48	256	402	217	159	26	402
Andrew David	–	599	55	298	952	577	345	30	952
Gareth Evans	6	184	197	678	1,065	601	398	66	1,065
Lesley Grant	5	140	79	373	597	320	237	40	597
Jayne Hrdlicka	6	176	197	677	1,056	596	394	66	1,056

1 The number of Rights granted under the 2014–2016 LTIP on 18 October 2013 were determined using the fair value of a Right on 1 July 2013 ($0.790 per Right), being the start of the performance period. For accounting purposes, accounting standards require the share-based payment expense to be calculated using the fair value of a Right on the grant date ($0.830 per Right).

2 The number of Rights granted under the 2015–2017 LTIP (on 24 October 2014 for Mr Joyce and 15 September 2015 for other Executives) were determined using the fair value of a Right on 1 July 2014 ($0.785 per Right), being the start of the performance period. For accounting purposes, accounting standards require the share-based payment expense to be calculated using the fair value of a Right on the grant date ($0.970 per Right for Mr Joyce and $0.972 for other Executives).

Equity Instruments Held by Key Management Personnel

Set out in the following tables are the holdings of equity instruments granted as remuneration to the KMP by Qantas. Non-Executive Directors do not receive any remuneration in the form of share-based payments, although they may salary sacrifice a portion of their Directors' fees to purchase shares.

(i) Short Term Incentive Plan (STIP)

		Number of Shares						
Key Management Personnel[1]		1 July	Commenced as KMP	Granted	Forfeited	Vested and Transferred	Ceased Employment	30 June
Alan Joyce	2015	**284,769**	**–**	**–**	**–**	**–**	**–**	**284,769**
	2014	375,014	–	284,769	–	(375,014)	–	284,769
Gareth Evans	2015	**148,227**	**–**	**–**	**–**	**(62,620)**	**–**	**85,607**
	2014	174,278	–	85,607	–	(111,658)	–	148,227
Lesley Grant	2015	**108,431**	**–**	**–**	**–**	**(42,926)**	**–**	**65,505**
	2014	107,189	–	65,505	–	(64,263)	–	108,431
Jayne Hrdlicka	2015	**128,244**	**–**	**–**	**–**	**(50,080)**	**–**	**78,164**
	2014	85,784	–	78,164	–	(35,704)	–	128,244
Simon Hickey[2] ceased as KMP 28 February 2015	2015	**127,398**	**–**	**–**	**–**	**(127,398)**	**–**	**n/a**
	2014	158,353	–	78,164	–	(109,119)	–	127,398
Lyell Strambi[3] ceased as KMP 28 February 2015	2015	**141,662**	**–**	**–**	**–**	**(141,662)**	**–**	**n/a**
	2014	159,373	–	81,889	–	(99,600)	–	141,662

1 Mr La Spina and Mr David have no holding in STIP as at 30 June 2015.
2 Mr Hickey ceased as a KMP on 28 February 2015 and ceased employment with Qantas on 15 May 2015.
3 Mr Strambi ceased as a KMP and ceased employment with Qantas on 28 February 2015.

One-third of the 2011/12 STIP awards (granted on 22 August 2012) were delivered to participants in deferred shares subject to a two year restriction period. The restriction period on these shares ended during 2014/2015.

One-third of the 2012/13 STIP awards (granted on 6 September 2013) were delivered to participants in deferred shares that are subject to a two year restriction period. The restriction period on these shares applied throughout 2014/2015.

(ii) Long Term Incentive Plan (LTIP)

		Number of Rights						
Key Management Personnel		1 July	Commenced as KMP	Granted	Lapsed/ Forfeited	Vested and Transferred	Ceased Employment	30 June[3]
Alan Joyce	2015	**6,401,000**	**–**	**3,248,000**	**(1,675,000)**	**–**	**–**	**7,974,000**
	2014	5,334,000	–	2,151,000	(1,084,000)	–	–	6,401,000
Tino La Spina commenced as KMP 1 March 2015	2015	**n/a**	**721,500**	**–**	**–**	**–**	**–**	**721,500**
	2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Andrew David commenced as KMP 1 March 2015	2015	**n/a**	**823,000**	**–**	**–**	**–**	**–**	**823,000**
	2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gareth Evans	2015	**1,865,731**	**–**	**1,019,000**	**(456,000)**	**–**	**–**	**2,428,731**
	2014	1,351,731	–	633,000	(119,000)	–	–	1,865,731
Lesley Grant	2015	**747,000**	**–**	**561,000**	**(191,000)**	**–**	**–**	**1,117,000**
	2014	566,000	–	253,000	(72,000)	–	–	747,000
Jayne Hrdlicka	2015	**1,581,000**	**–**	**1,019,000**	**(191,000)**	**–**	**–**	**2,409,000**
	2014	948,000	–	633,000	–	–	–	1,581,000
Simon Hickey[1] ceased as KMP 28 February 2015	2015	**1,620,545**	**–**	**1,019,000**	**(2,606,000)**	**(33,545)**	**–**	**n/a**
	2014	1,091,545	–	633,000	(104,000)	–	–	1,620,545
Lyell Strambi[2] ceased as KMP 28 February 2015	2015	**1,846,000**	**–**	**1,019,000**	**(2,865,000)**	**–**	**–**	**n/a**
	2014	1,332,000	–	633,000	(119,000)	–	–	1,846,000

1 Mr Hickey ceased as a KMP on 28 February 2015 and ceased employment with Qantas on 15 May 2015. All unvested Rights (2,606,000) lapsed on termination.
2 Mr Strambi ceased as a KMP and ceased employment with Qantas on 28 February 2015. All unvested Rights (2,865,000) lapsed on termination.
3 The 30 June 2015 balance includes the Rights granted under the 2013–2015 LTIP which vested at 85 per cent and converted into shares following the performance hurdle testing conducted as at 30 June 2015.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

The Rights granted during the year (granted on 24 October 2014 for Mr Joyce and 15 September 2014 for other Executives) were under the 2015–2017 LTIP, which will be tested against the performance hurdles as at 30 June 2017. The fair value of a Right on the grant date was $0.970 for Mr Joyce and $0.972 for other Executives.

100 per cent of Rights under the 2012–2014 LTIP (granted on 28 October 2011 for Mr Joyce and 23 August 2011 for other Executives) lapsed during the year following testing of the performance hurdles as at 30 June 2014.

85 per cent of Rights under the 2013–2015 LTIP vested following the testing of performance hurdles as at 30 June 2015.

100 per cent of Rights awarded to Mr Hickey and Mr Strambi under the 2013–2015 LTIP, the 2014–2016 LTIP and the 2015–2017 LTIP lapsed on termination of employment. Consistent with the approach to LTIP awards on termination of employment outlined on page 37, Mr Hickey and Mr Strambi may become eligible for a deferred cash payment to be made at the end of the respective performance periods for these awards. Any payment would have regard to:

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

(iii) Performance Share Plan (PSP)

		Number of Shares						
Key Management Personnel		1 July	Commenced as KMP	Granted	Forfeited	Transferred	Ceased Employment	30 June
Gareth Evans	**2015**	**36,621**	**–**	**–**	**–**	**–**	**–**	**36,621**
	2014	36,621	–	–	–	–	–	36,621
Lesley Grant	**2015**	**64,989**	**–**	**–**	**–**	**–**	**–**	**64,989**
	2014	64,989	–	–	–	–	–	64,989
Simon Hickey[1] ceased as KMP 28 February 2015	**2015**	**49,000**	**–**	**–**	**–**	**(49,000)**	**–**	**n/a**
	2014	90,213	–	–	–	(41,213)	–	49,000
Lyell Strambi[2] ceased as KMP 28 February 2015	2014	75,000	–	–	–	(75,000)	–	–

1 Mr Hickey ceased as a KMP on 28 February 2015 and ceased employment with Qantas on 15 May 2015.
2 Mr Strambi ceased as a KMP and ceased employment with Qantas on 28 February 2015.

The above shares are vested and available to call.

(iv) Retention Plan (RP)

		Number of Shares						
Key Management Personnel		1 July	Commenced as KMP	Granted	Forfeited	Transferred	Ceased Employment	30 June
Simon Hickey[1] ceased as KMP 28 February 2015	**2015**	**200,000**	**–**	**–**	**–**	**(200,000)**	**–**	**n/a**
	2014	400,000	–	–	–	(200,000)	–	200,000

1 Mr Hickey ceased as a KMP on 28 February 2015 and ceased employment with Qantas on 15 May 2015.

(v) Deferred Share Plan (DSP)

		Number of Shares						
Key Management Personnel		1 July	Commenced as KMP	Granted	Forfeited	Transferred	Ceased Employment	30 June
Andrew David[1] commenced as KMP 1 March 2015	**2015**	**n/a**	**588,482**	**–**	**–**	**–**	**–**	**588,482**
	2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1 The deferred shares were awarded to Mr David prior to commencing as a KMP and are subject a restriction period until 31 December 2016.

(vi) Equity Holdings and Transactions

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

Key Management Personnel – Executives	Interest in Shares as at 1 July 2014	Commenced as KMP	Awarded as Remuneration	Rights Converted to Shares	Other Change[1]	Ceased Employment	Interest in Shares as at 30 June 2015
Alan Joyce	3,190,971	–	–	–	–	–	3,190,971
Tino La Spina commenced as KMP 1 March 2015	n/a	30,992	–	–	–	–	30,992
Andrew David commenced as KMP 1 March 2015	n/a	588,482	–	–	–	–	588,482
Gareth Evans	502,749	–	–	–	(300,000)	–	202,749
Lesley Grant	316,183	–	–	–	(100,000)	–	216,183
Jayne Hrdlicka	196,948	–	–	–	–	–	196,948
Simon Hickey[2] ceased as KMP 28 February 2015	376,398	–	–	33,545	–	409,943	n/a
Lyell Strambi[3] ceased as KMP 28 February 2015	216,862	–	–	–	(134,773)	82,089	n/a

1 Other change includes shares purchased, sold or forfeited.
2 Mr Hickey ceased as a KMP on 28 February 2015 and ceased employment with Qantas on 15 May 2015. The total equity holding for Mr Hickey as at 28 February 2015 was 409,943.
3 Mr Strambi ceased as a KMP and ceased employment with Qantas on 28 February 2015.

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

Loans and Other Transactions with Key Management Personnel

No KMP or their related parties held any loans from the Qantas Group during or at the end of the year ended 30 June 2015 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.

8) NON-EXECUTIVE DIRECTOR FEES

Non-Executive Director fees are determined within an aggregate Non-Executive Directors' fee pool limit. An annual total fee pool of $2.75 million (excluding industry standard travel entitlements received) was approved by shareholders at the 2013 AGM.

Total Non-Executive Directors' remuneration (excluding industry standard travel entitlements received) for the year ended 30 June 2015 was $1.99 million (2014: $2.14 million), which is within the approved annual fee pool.

Non-Executive Directors' remuneration reflects the responsibilities of Non-Executive Directors. Fees are benchmarked against Non-Executive Director fees of S&P/ASX50 companies.

The Board base fee and Committee base fee are presented in the table below. From 1 January 2014 until 30 June 2015, all Directors elected to forgo five per cent of both their base fee and Committee fee.

	Board		Committees[1]	
	Chairman[2]	Member	Chairman	Member
Board Fees[3]	$560,000	$144,000	$58,000	$29,000

1 Committees are the Audit Committee, Remuneration Committee, Nominations Committee and Safety, Health, Environment and Security Committee.
2 The Chairman does not receive any additional fees for serving on or chairing any Board Committee.
3 From 1 January 2014, all Directors elected to forgo five per cent of their fees. From 1 January 2014 until 30 June 2015, the Chairman was paid based on an annual fee of $532,000, other Non-Executive Directors were paid based on an annual fee of $137,000, each Committee Chair was paid based on an annual fee of $55,000 and each Committee member was paid based on an annual fee of $27,500.

Non-Executive Directors do not receive any performance-related remuneration.

Overseas-based Non-Executive Directors are paid a travel allowance when travelling on international journeys of greater than six hours to attend Board and Committee Meetings or Board-related activities requiring participation of all Directors.

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

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

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

REMUNERATION REPORT (AUDITED) CONTINUED

Remuneration for the Year Ended 30 June 2015 – Non-Executive Directors

		Short-term Employee Benefits			Post-employment Benefits			
		Base Pay (Cash)	Non-cash Benefits	Sub-total	Superannuation	Travel	Sub-total	Total
Leigh Clifford Chairman	**2015**	**497**	**43**	**540**	**35**	**25**	**60**	**600**
	2014	511	37	548	35	23	58	606
Maxine Brenner[1] Non-Executive Director	**2015**	**175**	**20**	**195**	**17**	**12**	**29**	**224**
	2014	138	16	154	13	11	24	178
Richard Goodmanson[2] Non-Executive Director	**2015**	**250**	**34**	**284**	**–**	**12**	**12**	**296**
	2014	255	14	269	–	11	11	280
Jacqueline Hey[1] Non-Executive Director	**2015**	**150**	**9**	**159**	**14**	**12**	**26**	**185**
	2014	129	11	140	12	11	23	163
Garry Hounsell[3] Non-Executive Director ceased as KMP 25 February 2015	**2015**	**132**	**54**	**186**	**13**	**12**	**25**	**211**
	2014	207	24	231	18	11	29	260
William Meaney[2] Non-Executive Director	**2015**	**222**	**–**	**222**	**–**	**12**	**12**	**234**
	2014	213	–	213	–	11	11	224
Paul Rayner Non-Executive Director	**2015**	**201**	**38**	**239**	**19**	**12**	**31**	**270**
	2014	199	19	218	18	11	29	247
Todd Sampson[4] Non-Executive Director commenced as KMP 25 February 2015	**2015**	**52**	**16**	**68**	**5**	**12**	**17**	**85**
	2014	–	–	–	–	–	–	–
Barbara Ward Non-Executive Director	**2015**	**193**	**13**	**206**	**18**	**12**	**30**	**236**
	2014	179	24	203	18	11	29	232
Total	**2015**	**1,872**	**227**	**2,099**	**121**	**121**	**242**	**2,341**
	2014	1,831	145	1,976	114	100	214	2,190

1 2013/2014 remuneration reflects the period served by Ms Brenner and Ms Hey as Non-Executive Directors from 29 August 2013 to 30 June 2014.
2 Mr Goodmanson and Mr Meaney received travel allowances of $30,000 each during 2014/2015 (2014: $30,000 for Mr Goodmanson and $25,000 for Mr Meaney). These amounts were included in their fees (cash).
3 2014/2015 remuneration reflects the period served by Mr Hounsell as Non-Executive Director from 1 July 2014 to 25 February 2015.
4 2014/2015 remuneration reflects the period served by Mr Sampson as a Non-Executive Director from 25 February 2015 to 30 June 2015.

Equity Holdings and Transactions

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

Key Management Personnel – Non-Executive Directors	Interest in Shares as at 1 July 2014	Commenced as KMP	Other Change[1]	Ceased as KMP	Interest in Shares as at 30 June 2015
Leigh Clifford	251,622	–	–	–	**251,622**
Maxine Brenner	–	–	21,900	–	**21,900**
Richard Goodmanson	20,000	–	–	–	**20,000**
Jacqueline Hey	–	–	30,000	–	**30,000**
Garry Hounsell ceased as KMP 25 February 2015	80,000	–	–	80,000	**n/a**
William Meaney	–	–	–	–	**–**
Paul Rayner	71,622	–	100,000	–	**171,622**
Todd Sampson commenced as KMP 25 February 2015	n/a	–	5,000	–	**5,000**
Barbara Ward	47,597	–	–	–	**47,597**

1 Other change includes shares purchased or sold.

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

ENVIRONMENTAL OBLIGATIONS

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

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

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

INDEMNITIES AND INSURANCE

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

The Directors and the Company Secretaries listed on page 25 and individuals who formerly held any of these positions have the benefit of the indemnity in the Qantas Constitution. Members of Qantas' Executive Management team and certain former members of the Executive Management team have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board. In respect to non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2014/2015 or to the date of this Report.

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

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

NON-AUDIT SERVICES

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

a. The non-audit services provided during 2014/2015 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 2014/2015 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 48.

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

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

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 2015, 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

28 August 2015

Duncan McLennan
Partner

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

Limited liability by a scheme approved under Professional Standards Legislation

Rounding

Qantas is a company of a kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998. In accordance with the Class Order, amounts in this Directors' Report and the Financial Report have been rounded to the nearest million dollars unless otherwise stated.

Signed pursuant to a Resolution of the Directors:

Leigh Clifford
Chairman

28 August 2015

Alan Joyce
Chief Executive Officer

28 August 2015

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2015

CONTENTS

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	Qantas Group 2015 $M	2014 $M
REVENUE AND OTHER INCOME			
Net passenger revenue		13,667	13,242
Net freight revenue		936	955
Other	4	1,213	1,155
Revenue and other income		**15,816**	**15,352**
EXPENDITURE			
Manpower and staff related		3,604	3,770
Fuel		3,937	4,461
Aircraft operating variable		3,206	3,303
Depreciation and amortisation		1,096	1,422
Impairment of cash generating unit		–	2,560
Impairment of specific assets		28	387
Non-cancellable aircraft operating lease rentals		495	520
Share of net loss of investments accounted for under the equity method	14	40	66
Other	4	2,362	2,635
Expenditure		**14,768**	**19,124**
Statutory profit/(loss) before income tax expense and net finance costs		**1,048**	**(3,772)**
Finance income	5	90	82
Finance costs	5	(349)	(286)
Net finance costs	**5**	**(259)**	**(204)**
Statutory profit/(loss) before income tax expense		**789**	**(3,976)**
Income tax (expense)/benefit	6	(229)	1,133
Statutory profit/(loss) for the year		**560**	**(2,843)**
Attributable to:			
Members of Qantas		557	(2,843)
Non-controlling interests		3	–
Statutory profit/(loss) for the year		**560**	**(2,843)**
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic/diluted earnings/(loss) per share (cents)	7	25.4	(128.5)

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 2015

	Qantas Group	
	2015 $M	2014 $M
Statutory profit/(loss) for the year	560	(2,843)
Items that are or may be reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	(44)	(106)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1]	91	(70)
Recognition of effective cash flow hedges on capitalised assets, net of tax	(2)	(19)
Time value of options, net of tax[2]	(95)	–
Foreign currency translation of controlled entities	5	2
Foreign currency translation of investments accounted for under the equity method	5	1
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial gains, net of tax	38	113
Other comprehensive loss for the year	**(2)**	**(79)**
Total comprehensive income/(loss) for the year	**558**	**(2,922)**
Total comprehensive income/(loss) attributable to:		
Members of Qantas	554	(2,922)
Non-controlling interests	4	–
Total comprehensive income/(loss) for the year	**558**	**(2,922)**

1 These amounts were allocated to revenue of $(40) million (2014: $(110) million), fuel expenditure of $170 million (2014: $10 million), and income tax expense of $(39) million (2014: $30 million) in the Consolidated Income Statement.
2 The net fair value movement in time value of options relating to cash flow hedges.

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2015

	Notes	Qantas Group 2015 $M	Qantas Group 2014 $M
CURRENT ASSETS			
Cash and cash equivalents	10	2,908	3,001
Receivables	11	959	1,196
Other financial assets	26	613	172
Inventories	12	322	317
Assets classified as held for sale	13	136	134
Other	18	111	112
Total current assets		**5,049**	**4,932**
NON-CURRENT ASSETS			
Receivables	11	134	158
Other financial assets	26	49	34
Investments accounted for under the equity method	14	134	143
Property, plant and equipment	15	10,715	10,500
Intangible assets	16	803	741
Deferred tax assets	17	333	548
Other	18	313	262
Total non-current assets		**12,481**	**12,386**
Total assets		**17,530**	**17,318**
CURRENT LIABILITIES			
Payables	19	1,881	1,851
Revenue received in advance	20	3,584	3,406
Interest-bearing liabilities	21	771	1,210
Other financial liabilities	26	416	182
Provisions	22	818	876
Total current liabilities		**7,470**	**7,525**
NON-CURRENT LIABILITIES			
Revenue received in advance	20	1,359	1,183
Interest-bearing liabilities	21	4,791	5,273
Other financial liabilities	26	68	66
Provisions	22	395	405
Total non-current liabilities		**6,613**	**6,927**
Total liabilities		**14,083**	**14,452**
Net assets		**3,447**	**2,866**
EQUITY			
Issued capital	23	4,630	4,630
Treasury shares		(7)	(16)
Reserves	23	(66)	(81)
Retained earnings		(1,115)	(1,671)
Equity attributable to the members of Qantas		**3,442**	**2,862**
Non-controlling interests		5	4
Total equity		**3,447**	**2,866**

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 2015

30 June 2015 Qantas Group $M	Issued Capital	Treasury Shares	Employee Compen-sation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Deferred Benefit Reserve	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2014	4,630	(16)	32	(72)	(41)	–	(1,671)	4	2,866
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR									
Statutory profit for the year	–	–	–	–	–	–	557	3	560
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(44)	–	–	–	–	(44)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	91	–	–	–	–	91
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	(2)	–	–	–	–	(2)
Time value of options, net of tax	–	–	–	(95)	–	–	–	–	(95)
Defined benefit actuarial gains, net of tax	–	–	–	–	–	38	–	–	38
Foreign currency translation of controlled entities	–	–	–	–	4	–	–	1	5
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	5	–	–	–	5
Total other comprehensive income/(loss)	–	–	–	(50)	9	38	–	1	(2)
Total comprehensive income/(loss) for the year	–	–	–	(50)	9	38	557	4	558
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Treasury shares acquired	–	(1)	–	–	–	–	–	–	(1)
Share-based payments	–	–	29	–	–	–	–	–	29
Shares vested and transferred to employees	–	10	(8)	–	–	–	(2)	–	–
Share-based payments unvested and lapsed	–	–	(6)	–	–	–	1	–	(5)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(4)	(4)
Total contributions by and distributions to owners	–	9	15	–	–	–	(1)	(4)	19
Change in ownership interest in subsidiaries									
Deconsolidation of controlled entity	–	–	–	–	3	–	–	–	3
Acquisition of non-controlling interest	–	–	–	–	–	–	–	1	1
Total change in ownership interest	–	–	–	–	3	–	–	1	4
Total transactions with owners	–	9	15	–	3	–	(1)	(3)	23
Balance as at 30 June 2015	4,630	(7)	47	(122)	(29)	38	(1,115)	5	3,447

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 2015

30 June 2015 Qantas Group $M	Issued Capital	Treasury Shares	Employee Compen-sation Reserve	Hedge Reserve	Deferred Benefit Reserve	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2013	4,693	(43)	49	123	(44)	1,057	5	5,840
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR								
Statutory loss for the year	–	–	–	–	–	(2,843)	–	(2,843)
Other comprehensive (loss)/income								
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(106)	–	–	–	(106)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(70)	–	–	–	(70)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	(19)	–	–	–	(19)
Defined benefit actuarial gains, net of tax	–	–	–	–	–	113	–	113
Foreign currency translation of controlled entities	–	–	–	–	2	–	–	2
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	1	–	–	1
Total other comprehensive (loss)/income	–	–	–	(195)	3	113	–	(79)
Total comprehensive (loss)/income for the year	–	–	–	(195)	3	(2,730)	–	(2,922)
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Contributions by and distributions to owners								
Shares bought back[1]	(63)	–	–	–	–	–	–	(63)
Share-based payments	–	–	12	–	–	–	–	12
Shares vested and transferred to employees	–	27	(23)	–	–	(4)	–	–
Share-based payments unvested and lapsed	–	–	(6)	–	–	6	–	–
Dividends paid	–	–	–	–	–	–	(1)	(1)
Total contributions by and distributions to owners	(63)	27	(17)	–	–	2	(1)	(52)
Total transactions with owners	(63)	27	(17)	–	–	2	(1)	(52)
Balance as at 30 June 2014	4,630	(16)	32	(72)	(41)	(1,671)	4	2,866

1 45,415,538 shares were bought back and cancelled during the year ended 30 June 2014.

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	Qantas Group 2015 $M	Qantas Group 2014 $M
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		17,239	16,720
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs)		(14,747)	(15,288)
Cash generated from operations		**2,492**	**1,432**
Cash payments to employees for redundancies and related costs		(251)	(185)
Interest received		85	74
Interest paid		(281)	(254)
Dividends received from investments accounted for under the equity method		5	4
Income taxes paid		(2)	(2)
Net cash from operating activities	27	**2,048**	**1,069**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		(1,359)	(1,161)
Interest paid and capitalised on qualifying assets	5	(17)	(34)
Payments for the acquisition of controlled entities, net of cash acquired		(7)	–
Payments for investments accounted for under the equity method		(58)	(72)
Net receipts for aircraft assigned to investments accounted for under the equity method[1]		266	8
Proceeds from disposal of property, plant and equipment		194	141
Proceeds from disposal of controlled entities, net of cash disposed		28	70
Net proceeds from/(loans to) investments accounted for under the equity method		9	(21)
Net cash used in investing activities		**(944)**	**(1,069)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for shares bought back		–	(63)
Payments for treasury shares		(1)	–
Proceeds from borrowings		796	717
Repayments of borrowings		(2,276)	(1,027)
Proceeds from sale and finance leaseback of non-current assets		275	564
Net payments for aircraft security deposits and hedges related to debt		(8)	(17)
Dividends paid to non-controlling interests		(4)	(1)
Net cash (used in)/provided by financing activities		**(1,218)**	**173**
Net (decrease)/increase in cash and cash equivalents held		**(114)**	**173**
Cash and cash equivalents at the beginning of the year		3,001	2,829
Effects of exchange rate changes on cash and cash equivalents		21	(1)
Cash and cash equivalents at the end of the year	10	**2,908**	**3,001**

1 Net receipts for aircraft assigned to Jetstar Japan Co. Ltd and Jetstar Hong Kong Airways Limited.

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 2015

1. REPORTING ENTITY

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

The Consolidated Financial Statements for the year ended 30 June 2015 comprise Qantas and its controlled entities (together referred to as the Qantas Group) and the Qantas Group's interest in investments accounted for under the equity method.

Qantas has five subsidiaries that are material to the Qantas Group in 2015 and 2014. The Parent has majority voting rights in respect of each of the material subsidiaries. Materiality has been assessed based on the contribution of statutory profit/(loss) to the Qantas Group.

The Consolidated Financial Statements of Qantas for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 28 August 2015.

(A) STATEMENT OF COMPLIANCE

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

(B) BASIS OF PREPARATION

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

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

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

Details of the Qantas Group's accounting policies, including changes during the year are included in Notes 37 and 38.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

- Note 22 – Provisions
- Note 24 – Impairment Testing of Cash Generating Units
- Note 31 – Superannuation

3. UNDERLYING PROFIT/(LOSS) BEFORE TAX,OPERATING SEGMENTS AND RETURN ON INVESTED CAPITAL

(A) UNDERLYING PROFIT/(LOSS) BEFORE TAX (UNDERLYING PBT)

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

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

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

(B) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:

Operating segments	Operations
Qantas Domestic	The Australian domestic passenger flying business of Qantas
Qantas International	The international passenger flying business of Qantas
Qantas Freight	The air cargo and express freight business of Qantas
Jetstar Group	The Jetstar passenger flying businesses
Qantas Loyalty	The Qantas customer loyalty program (Qantas Frequent Flyer) as well as other marketing services, loyalty and recognition programs
Corporate	The centralised management and governance of the Qantas Group

(C) ANALYSIS BY OPERATING SEGMENT[1]

2015 $M	Qantas Domestic	Qantas International	Qantas Freight	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[5]	Consolidated
REVENUE AND OTHER INCOME								
External segment revenue and other income	5,291	4,878	1,059	3,283	1,244	49	12	15,816
Inter-segment revenue and other income	537	589	8	181	118	(40)	(1,393)	–
Total segment revenue and other income	**5,828**	**5,467**	**1,067**	**3,464**	**1,362**	**9**	**(1,381)**	**15,816**
Share of net profit/(loss) of investments accounted for under the equity method[2]	4	4	–	(37)	–	–	–	(29)
Underlying EBITDAR[3]	**1,171**	**706**	**156**	**625**	**323**	**(149)**	**(8)**	**2,824**
Non-cancellable aircraft operating lease rentals	(219)	(42)	(5)	(229)	–	–	–	(495)
Depreciation and amortisation	(472)	(397)	(37)	(166)	(8)	(14)	(2)	(1,096)
Underlying EBIT	**480**	**267**	**114**	**230**	**315**	**(163)**	**(10)**	**1,233**
Underlying net finance costs						(258)		(258)
Underlying PBT						**(421)**		**975**
ROIC %[4]								**16.2%**

2014 $M	Qantas Domestic	Qantas International	Qantas Freight	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[5]	Consolidated
REVENUE AND OTHER INCOME								
External segment revenue and other income	5,284	4,658	1,074	3,073	1,192	70	1	15,352
Inter-segment revenue and other income	564	639	10	149	115	(58)	(1,419)	–
Total segment revenue and other income	**5,848**	**5,297**	**1,084**	**3,222**	**1,307**	**12**	**(1,418)**	**15,352**
Share of net profit/(loss) of investments accounted for under the equity method	2	2	–	(70)	–	–	–	(66)
Underlying EBITDAR[3]	**804**	**188**	**60**	**310**	**293**	**(150)**	**(3)**	**1,502**
Non-cancellable aircraft operating lease rentals	(203)	(33)	(5)	(279)	–	–	–	(520)
Depreciation and amortisation	(571)	(652)	(31)	(147)	(7)	(13)	(1)	(1,422)
Underlying EBIT	**30**	**(497)**	**24**	**(116)**	**286**	**(163)**	**(4)**	**(440)**
Underlying net finance costs						(206)		(206)
Underlying PBT						**(369)**		**(646)**
ROIC %[4]								**(1.5%)**

1 Qantas Domestic, Qantas International, Qantas Freight, Jetstar Group, Qantas Loyalty and Corporate are the operating segments of the Qantas Group.
2 Share of net profit/(loss) of investments accounted for under the equity method excluding share of losses in Jetstar Hong Kong which have been recognised as items outside of Underlying PBT.
3 Underlying EBITDAR represents Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.
4 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital (Refer to Note 3(G)).
5 Unallocated/Eliminations represent other businesses of the Qantas Group which are not considered to be significant reportable segments and consolidation elimination entries.

3. UNDERLYING PROFIT/(LOSS) BEFORE TAX,OPERATING SEGMENTS AND RETURN ON INVESTED CAPITAL CONTINUED

Basis of Preparation

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

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

The significant accounting policies applied in implementing this basis of preparation are set out 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 which operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process. – Net freight revenue includes air cargo and express freight revenue and is reported by the Qantas Freight operating segment. – Frequent Flyer redemption revenue, marketing revenue, membership fees and other related revenue is reported by the Qantas Loyalty operating segment. – 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 Domestic, Qantas International and Jetstar Group's aircraft bellyspace by Qantas Freight Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of frequent flyer points to Qantas Domestic, Qantas International and Jetstar Group. Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices. Qantas Loyalty does not derive net profit from inter-segment transactions relating to frequent flyer point issuances and redemptions.
Share of net profit/(loss) of investments accounted for under the equity method	Share of net profit/(loss) of investments accounted for under the equity method is reported by the operating segment which is accountable for the management of the investment. The share of net profit/(loss) of investments accounted for under the equity method for Qantas Airlines' investments has been equally shared between Qantas Domestic and Qantas International.
Underlying EBITDAR	The significant expenses impacting Underlying EBITDAR are as follows: – Manpower and staff related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by Qantas Domestic and Qantas International 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 they are directly attributable or, in the case of Qantas Airlines, between Qantas Domestic and Qantas International using an appropriate allocation methodology. To apply this accounting policy, where necessary, expenditure is recharged between operating segments as a cost recovery.
Depreciation and amortisation	Qantas Domestic, Qantas International, Qantas Freight and Jetstar Group report depreciation expense for 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.
Non-cancellable aircraft operating lease rentals	Qantas Domestic, Qantas International, Qantas Freight and Jetstar Group report non-cancellable aircraft operating lease rentals for aircraft externally leased by the Qantas Group and flown by the segment.

(D) DESCRIPTION OF UNDERLYING PBT AND RECONCILIATION FROM STATUTORY PROFIT/(LOSS) BEFORE TAX

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

Underlying PBT was derived by adjusting Statutory Profit/(Loss) Before Tax for the impacts of:

i. Ineffectiveness and Non-designated Derivatives relating to Other Reporting Periods

In prior reporting periods, Underlying PBT was adjusted for the impacts of AASB 139 which relate to other reporting periods. The AASB 139 adjustments to Statutory Profit/(Loss) Before Tax ensured derivative mark-to-market movements that relate to underlying exposures in other reporting periods were recognised in Underlying PBT in those reporting periods.

In the current reporting period, as a result of the early adoption of AASB 9 (2013), there is now better alignment between Underlying PBT and Statutory Profit/(Loss) Before Tax. However, there will continue to be a difference between Statutory Profit/(Loss) Before Tax and Underlying PBT resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

ii. Other Items not Included in Underlying PBT

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

Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments and impairments of assets and other transactions outside the ordinary course of business.

The reconciliation of Underlying PBT from Statutory Profit/(Loss) Before Tax is detailed in the table below.

	Qantas Group	
	2015 $M	2014 $M
Statutory profit/(loss) before tax	789	(3,976)
Ineffectiveness and non-designated derivatives relating to other reporting periods		
– Exclude current year derivative mark-to-market movements relating to underlying exposures in future years	3	(58)
– Exclude current year derivative mark-to-market movements relating to capital expenditure	–	21
– Include prior years' derivative mark-to-market movements relating to underlying exposures in the current year	35	(27)
– Include adjustment for implied depreciation expense relating to excluded capital expenditure mark-to-market movements	–	(6)
– Exclude ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs	1	(2)
	39	(72)
Other items not included in Underlying PBT		
– Impairment of Qantas International CGU	–	2,560
– Redundancies, restructuring and other transformation costs	80	428
– Fleet restructuring costs[1]	4	394
– Net impairment of other intangible assets	7	9
– Net gain on sale of controlled entities and related assets	(11)	(62)
– Net impairment of investments	19	50
– B787-8 introduction costs	–	14
– Write-off of Jetstar Hong Kong Business[2]	21	–
– Other	27	9
	147	3,402
Underlying PBT	975	(646)

1 Fleet restructuring costs includes impairment of aircraft together with other aircraft associated property, plant and equipment, inventory and other related costs.
2 The write-off of the Jetstar Hong Kong Business includes the impairment of the investment, write-off of deferred costs and the Group's share of net losses for the year ended 30 June 2015.

3. UNDERLYING PROFIT/(LOSS) BEFORE TAX,OPERATING SEGMENTS AND RETURN ON INVESTED CAPITAL CONTINUED

iii. Underlying EBIT

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

(E) UNDERLYING PBT PER SHARE

	Qantas Group	
	2015 cents	2014 cents
Basic/diluted Underlying PBT per share	44.4	(29.2)

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

(F) ANALYSIS BY GEOGRAPHICAL AREAS

i. Revenue and Other Income by Geographic Areas

		Qantas Group	
	Notes	2015 $M	2014 $M
Net passenger and freight revenue			
Australia		10,586	10,558
Overseas		4,017	3,639
Total net passenger and freight revenue		**14,603**	**14,197**
Other revenue/income	4	1,213	1,155
Total revenue and other income		**15,816**	**15,352**

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

ii. Non-Current Assets by Geographic Areas

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

(G) RETURN ON INVESTED CAPITAL (ROIC %)

Return on Invested Capital (ROIC %) is a non-statutory measure and is the 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 to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they were owned aircraft.

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

	Qantas Group	
	2015 $M	2014 $M
ROIC EBIT		
Underlying EBIT	1,233	(440)
Add: Non-cancellable aircraft lease rentals	495	520
Less: Notional depreciation	(252)	(273)
ROIC EBIT	1,476	(193)

ii. Average Invested Capital

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

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

	Qantas Group 2015 $M	Qantas Group 2014 $M
INVESTED CAPITAL		
Receivables (current and non-current)	1,093	1,354
Inventories	322	317
Other assets (current and non-current)	424	374
Investments accounted for using the equity method	134	143
Property, plant and equipment	10,715	10,500
Intangible assets	803	741
Assets classified as held for sale	136	134
Payables	(1,881)	(1,851)
Provisions (current and non-current)	(1,213)	(1,281)
Revenue received in advance (current and non-current)	(4,943)	(4,589)
Capitalised operating leased assets[1]	3,100	3,553
Invested Capital as at 30 June	**8,690**	**9,395**
Average Invested Capital for the year ended 30 June[2]	**9,091**	**13,004**

1 Capitalised operating lease assets are initially measured at fair value at lease commencement date (translated to Australian dollars) and subsequently depreciated in accordance with the Group's accounting policies for owned aircraft. The calculated depreciation is reported as 'Notional Depreciation' in the determination of ROIC EBIT.
2 The impairment of the Qantas International CGU was recognised as at 30 June 2014.

iii. ROIC %

	Qantas Group 2015 %	Qantas Group 2014 %
ROIC %[1]	**16.2**	**(1.5)**

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

4. OTHER REVENUE/INCOME AND OTHER EXPENDITURE

	Notes	Qantas Group 2015 $M	Qantas Group 2014 $M
OTHER REVENUE/INCOME			
Frequent Flyer marketing revenue, membership fees and other revenue		348	300
Frequent Flyer store and other redemption revenue[1]		286	275
Contract work revenue		141	227
Retail, advertising and other property revenue		154	156
Other		284	197
Total other revenue/income		**1,213**	**1,155**
OTHER EXPENDITURE			
Commissions and other selling costs		544	494
Computer and communication		400	394
Capacity hire		292	331
Non-aircraft operating lease rentals		235	238
Property		244	245
Marketing and advertising		103	86
Redundancies[2]		60	370
Inventory write-off	27	10	61
Contract work materials		16	57
Ineffective and non-designated derivatives	26	13	(8)
Net gain on sale of controlled entity and related assets	27	(11)	(62)
Employee benefit discount rate and other assumption changes		(8)	(53)
Other		464	482
Total other expenditure[3]		**2,362**	**2,635**

1 Frequent Flyer redemption revenue excludes redemptions on Qantas Group flights which are reported as net passenger revenue in the Consolidated Income Statement.
2 Redundancies include defined benefit curtailment expenses of $5 million (2014: $36 million).
3 Employee benefit discount rate and other assumption changes have been disclosed separately within other expenditure rather than manpower expenses as these changes do not reflect the current service costs for employees. Airport security charges are included in aircraft operating variable costs. Selling and marketing expenses have been separately disclosed as either marketing and advertising, commissions and other selling costs or other expenditure. The comparative for 30 June 2014 has been restated to enable comparability.

5. NET FINANCE COSTS

	Qantas Group 2015 $M	Qantas Group 2014 $M
FINANCE INCOME		
Interest income on financial assets measured at amortised cost	83	73
Interest income from investments accounted for under the equity method	5	6
Unwind of discount on receivables	2	3
Total finance income	**90**	**82**
FINANCE COSTS		
Interest expense on financial liabilities measured at amortised cost	324	280
Interest paid and capitalised on qualifying assets[1]	(17)	(34)
Fair value hedges		
Fair value adjustments on hedged items	2	(10)
Fair value adjustments on derivatives designated in a fair value hedge	(2)	8
Total finance costs on financial liabilities	**307**	**244**
Unwind of discount on provisions and other liabilities		
Employee benefits	22	27
Other liabilities and provisions	20	15
Total unwind of discount on other liabilities and provisions	**42**	**42**
Total finance costs	**349**	**286**
Net finance costs	**(259)**	**(204)**

1 The borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities being 6.3 per cent (2014: 5.7 per cent).

6. INCOME TAX

	Qantas Group 2015 $M	Qantas Group 2014 $M
RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT		
Current income tax (expense)/benefit		
Current year – foreign	(2)	–
Adjustments for prior year	–	–
	(2)	**–**
Deferred income tax expense		
Origination and reversal of temporary differences	(104)	716
(Benefit)/utilisation of tax losses	(117)	417
	(221)	**1,133**
Adjustments for prior year	(6)	–
	(227)	**1,133**
Total income tax (expense)/benefit in the Consolidated Income Statement	**(229)**	**1,133**

	Qantas Group 2015 $M	Qantas Group 2014 $M
RECONCILIATION BETWEEN INCOME TAX (EXPENSE)/BENEFIT AND STATUTORY PROFIT/(LOSS) BEFORE INCOME TAX		
Statutory profit/(loss) before income tax (expense)/benefit	789	(3,976)
Income tax (expense)/benefit using the domestic corporate tax rate of 30 per cent	(237)	1,193
Adjusted for:		
Non-assessable dividends from controlled entities	10	1
Non-deductible share of net loss for investments accounted for under the equity method	(14)	(21)
Non-deductible losses for controlled entities	(7)	(15)
Utilisation of previously unrecognised foreign branch and controlled entity losses	5	–
Write-down of investments	(2)	(15)
Recognition of previously unrecognised deferred tax liability on investments	–	(11)
Other net (non-deductible)/non-assessable items	(4)	(8)
Prior period differences	20	9
Income tax (expense)/benefit	(229)	1,133
RECOGNISED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Cash flow hedges	21	86
Defined benefit actuarial gains	(17)	(46)
Other	2	–
Income tax benefit recognised directly in the Consolidated Statement of Comprehensive Income	6	40

7. EARNINGS/(LOSS) PER SHARE

	Qantas Group 2015 cents	Qantas Group 2014 cents
Basic/diluted earnings/(loss) per share	25.4	(128.5)
	$M	$M
Statutory profit/(loss) attributable to members of Qantas	557	(2,843)
	Number M	Number M
WEIGHTED AVERAGE NUMBER OF SHARES		
Issued shares as at 1 July	2,196	2,242
Shares bought back and cancelled	–	(46)
Issued shares as at 30 June	2,196	2,196
Weighted average number of shares (basic and diluted) as at 30 June	2,196	2,212

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

8. AUDITOR'S REMUNERATION

	Qantas Group	
	2015 $'000	2014 $'000
AUDIT AND AUDIT RELATED SERVICES		
Auditors of Qantas – KPMG		
– Audit and review of Financial Report	3,219	3,202
– Other regulatory audit services	23	44
Total audit and audit related services	**3,242**	**3,246**
OTHER SERVICES		
Auditors of Qantas – KPMG		
– In relation to other assurance, taxation and due diligence services	1,588	778
– Other non-audit services	570	34
Total other services	**2,158**	**812**
Total auditor's remuneration	**5,400**	**4,058**

9. SHAREHOLDER DISTRIBUTIONS

(A) DIVIDENDS DECLARED AND PAID

No dividends were declared or paid in the current year by Qantas. No final dividend will be paid in relation to the year ended 30 June 2015.

For the year ended 30 June 2015, $4 million dividends (2014: $1 million) were declared and paid to non-controlling interest shareholders by non-wholly owned controlled entities.

(B) FRANKING ACCOUNT

	Qantas Group	
	2015 $M	2014 $M
Total franking account balance at 30 per cent	84	84

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

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

10. CASH AND CASH EQUIVALENTS

	Qantas Group	
	2015 $M	2014 $M
Cash balances	253	206
Cash at call	197	137
Short-term money market securities and term deposits	2,458	2,658
Total cash and cash equivalents	**2,908**	**3,001**

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

Short-term money market securities of $81 million (2014: $33 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.

11. RECEIVABLES

	Qantas Group	
	2015 $M	2014 $M
CURRENT		
Trade debtors		
Trade debtors	712	724
Provision for impairment losses	(2)	(3)
Total trade debtors	**710**	**721**
Sundry debtors	249	475
Total current receivables	**959**	**1,196**
NON-CURRENT		
Sundry debtors	134	158
Total non-current receivables	**134**	**158**
The ageing of trade debtors, net of provision for impairment losses, at 30 June was:		
Not past due	628	600
Past due 1–30 days	52	48
Past due 31–120 days	15	67
Past due 121 days or more	15	6
Total trade debtors	**710**	**721**

12. INVENTORIES

	Qantas Group	
	2015 $M	2014 $M
Engineering expendables	270	245
Consumable stores	49	52
Work in progress	3	20
Total inventories	**322**	**317**

13. ASSETS CLASSIFIED AS HELD FOR SALE

	Qantas Group	
	2015 $M	2014 $M
Assets		
Property, plant and equipment	136	134
Total assets classified as held for sale	**136**	**134**

The non-recurring fair value measurement for property, plant and equipment classified as held for sale has been categorised under the fair value hierarchy as Level 3 based on the inputs to the valuation technique used. Refer to Note 37 for a definition of the fair value hierarchy.

The fair value less costs to sell for the individual assets was determined with reference to recent sale transactions.

14. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	Qantas Group	
	2015 $M	2014 $M
Carrying amount of investments accounted for under the equity method	**134**	**143**
Share of losses of investments accounted for under the equity method	(40)	(66)
Share of other comprehensive income	5	1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

15. PROPERTY, PLANT AND EQUIPMENT

Qantas Group $M	2015 At Cost	2015 Accumulated Depreciation and Impairment	2015 Net Book Value	2014 At Cost	2014 Accumulated Depreciation and Impairment	2014 Net Book Value
Freehold land	50	–	50	50	–	50
Buildings	335	214	121	305	203	102
Leasehold improvements	1,647	1,108	539	1,651	1,067	584
Plant and equipment	1,535	1,063	472	1,481	1,003	478
Aircraft and engines	17,937	8,955	8,982	17,131	8,658	8,473
Aircraft spare parts	791	409	382	757	365	392
Aircraft deposits	169	–	169	551	130	421
Total property, plant and equipment at net book value	**22,464**	**11,749**	**10,715**	**21,926**	**11,426**	**10,500**

Qantas Group 2015 $M	Opening Net Book Value	Additions[1]	Disposals	Transfers[2]	Transferred to Assets Classified as Held for Sale	Depreciation	Impairment	Other[3]	Closing Net Book Value
Reconciliations									
Freehold land	50	–	–	–	–	–	–	–	50
Buildings	102	–	–	29	–	(10)	–	–	121
Leasehold improvements	584	56	–	(65)	–	(43)	–	7	539
Plant and equipment	478	44	(6)	36	–	(81)	(1)	2	472
Aircraft and engines[4]	8,473	483	(23)	829	(42)	(841)	(29)	132	8,982
Aircraft spare parts	392	44	(4)	–	6	(39)	–	(17)	382
Aircraft deposits	421	610	(42)	(819)	–	–	(1)	–	169
Total property, plant and equipment	**10,500**	**1,237**	**(75)**	**10**	**(36)**	**(1,014)**	**(31)**	**124**	**10,715**

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

1 Additions include capitalised interest of $14 million (2014: $34 million).
2 Transfers include transfers between categories of property, plant and equipment and transfers to other balance sheet accounts.
3 Other includes foreign exchange movements and non-cash additions including those relating to finance leases.
4 Aircraft and engines include finance-leased assets with a net book value of $1,796 million (2014: $1,933 million).

Secured Assets

Certain aircraft and engines act as security against related financings. Under the terms of certain financing facilities entered into by the Qantas Group, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters. The total carrying amount of assets under pledge is $4,822 million (2014: $5,934 million).

16. INTANGIBLE ASSETS

Qantas Group $M	2015 At Cost	2015 Accumulated Depreciation and Impairment	2015 Net Book Value	2014 At Cost	2014 Accumulated Depreciation and Impairment	2014 Net Book Value
Goodwill	206	–	206	195	–	195
Airport landing slots	35	–	35	35	–	35
Software	1,152	638	514	1,048	573	475
Brand names and trademarks	25	–	25	22	–	22
Customer contracts/relationships	27	21	6	27	13	14
Contract intangible assets	17	–	17	–	–	–
Total intangible assets	**1,462**	**659**	**803**	**1,327**	**586**	**741**

Qantas Group 2015 $M	Opening Net Book Value	Additions[1]	Acquisition of Controlled Entity	Transfers[2]	Amortisation	Intangibles Impairments	Other[3]	Closing Net Book Value
Goodwill	195	–	8	–	–	–	3	206
Airport landing slots	35	–	–	–	–	–	–	35
Software	475	122	–	(2)	(74)	(7)	–	514
Brand names and trademarks	22	–	–	–	–	–	3	25
Customer contracts/relationships	14	–	–	–	(8)	–	–	6
Contract intangible assets	–	17	–	–	–	–	–	17
Total intangible assets	**741**	**139**	**8**	**(2)**	**(82)**	**(7)**	**6**	**803**
2014 $M								
Goodwill	197	–	–	–	–	–	(2)	195
Airport landing slots	35	–	–	–	–	–	–	35
Software	438	99	–	11	(63)	(9)	(1)	475
Brand names and trademarks	22	–	–	–	–	–	–	22
Customer contracts/relationships	22	–	–	–	(8)	–	–	14
Total intangible assets	**714**	**99**	**–**	**11**	**(71)**	**(9)**	**(3)**	**741**

1 Additions include capitalised interest of $3 million (2014: nil).
2 Includes transfers between categories of intangible assets and transfers to other balance sheet accounts.
3 Other includes foreign exchange movements.

17. DEFERRED TAX ASSETS/(LIABILITIES)

	Qantas Group 2015 $M	Qantas Group 2014 $M
Deferred tax assets	333	548
Total deferred tax assets	**333**	**548**

Qantas Group 2015 $M	Opening Balance	Recognised in the Consolidated Income Statement	Recognised in Other Comprehensive Income	Closing Balance
Reconciliations				
Inventories	(15)	1	–	(14)
Property, plant and equipment and intangible assets	(1,148)	(247)	–	(1,395)
Payables	25	(2)	–	23
Revenue received in advance	674	25	–	699
Interest-bearing liabilities	(85)	14	–	(71)
Other financial assets/liabilities	(45)	49	21	25
Provisions	349	(41)	–	308
Other items	(179)	97	(15)	(97)
Tax value of recognised tax losses[1]	972	(117)	–	855
Total deferred tax assets/(liabilities)	**548**	**(221)**	**6**	**333**

1 A net deferred tax asset of $333 million (2014: $548 million) has been recognised. The Group considers it probable this deferred tax asset will be recovered.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

17. DEFERRED TAX ASSETS/(LIABILITIES) CONTINUED

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

Unrecognised Deferred Tax Assets

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

	Qantas Group	
	2015 $M	2014 $M
Tax losses – New Zealand operations	13	14
Tax losses – Singapore operations	31	25
Tax losses – Hong Kong operations	14	9
Total unrecognised deferred tax assets – tax losses	**58**	**48**

18. OTHER ASSETS

	Qantas Group	
	2015 $M	2014 $M
CURRENT		
Prepayments	109	104
Other	2	8
Total current other assets	**111**	**112**
NON-CURRENT		
Net defined benefit asset (refer to Note 31)	285	233
Other	28	29
Total non-current other assets	**313**	**262**

19. PAYABLES

	Qantas Group	
	2015 $M	2014 $M
Trade creditors	550	613
Other creditors and accruals	1,331	1,238
Total payables	**1,881**	**1,851**

20. REVENUE RECEIVED IN ADVANCE

	Qantas Group 2015 $M	Qantas Group 2014 $M
CURRENT		
Unavailed passenger revenue	2,612	2,411
Unredeemed Frequent Flyer revenue	879	897
Other revenue received in advance	93	98
Total current revenue received in advance	**3,584**	**3,406**
NON-CURRENT		
Unredeemed Frequent Flyer revenue	1,305	1,131
Other revenue received in advance	54	52
Total non-current revenue received in advance	**1,359**	**1,183**

21. INTEREST-BEARING LIABILITIES

	Note	Qantas Group 2015 $M	Qantas Group 2014 $M
CURRENT			
Bank loans – secured		304	459
Bank loans – unsecured		–	450
Other loans – unsecured		374	69
Lease and hire purchase liabilities – secured	29	93	232
Total current interest–bearing liabilities		**771**	**1,210**
NON-CURRENT			
Bank loans – secured		2,083	2,313
Bank loans – unsecured		273	546
Other loans – unsecured		1,030	1,336
Lease and hire purchase liabilities – secured	29	1,405	1,078
Total non-current interest-bearing liabilities		**4,791**	**5,273**

Certain current and non-current interest-bearing liabilities relate to specific financings of aircraft and engines and are secured by the aircraft to which they relate (refer to Note 15). During the year, there were non-cash financing activities relating to additions of property, plant and equipment under finance leases of $30 million (2014: $130 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

22. PROVISIONS

	Qantas Group 2015 $M	2014 $M
CURRENT		
Annual leave	253	259
Long service leave	291	316
Redundancies and other employee benefits	138	206
Total current employee benefits	**682**	**781**
Onerous contracts	1	23
Make good on leased assets	63	10
Insurance, legal and other	72	62
Total other current provisions	**136**	**95**
Total current provisions	**818**	**876**
NON-CURRENT		
Total non-current employee benefits	**41**	**61**
Onerous contracts	2	3
Make good on leased assets	211	177
Insurance, legal and other	141	164
Total other non-current provisions	**354**	**344**
Total non-current provisions	**395**	**405**

Changes in Accounting Estimates – Discount Rates

Qantas has changed its estimate of the discount rates used to calculate the present value of employee benefits in accordance with AASB 119: Employee Benefits (AASB 119). AASB 119 requires employee benefit provisions to be discounted to their present value using a discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Previously, it was determined that there was no deep market in Australia for such bonds and therefore, the market yields at the end of the reporting period for government bonds was used. In March 2015, the Group of 100 commissioned the actuarial firm Milliman to perform an assessment of the depth of Australia's high quality corporate bond market. In their report released in April 2015, Milliman concluded that it is generally accepted practice that bonds rated AA or above are considered high quality and therefore there is now sufficient evidence to support a conclusion that the high quality corporate bond market in Australia is deep. From this date, as required by AASB 119 the Group has changed the rate it uses to discount its Employee Benefit Provisions from State Government Bond Rates to the Corporate Bond Rate.

During the year, the discount rate determined with reference to Corporate Bonds was higher than State Government Bonds. However, a significant reduction in discount rates due to market movements has offset the increase in discount rate resulting from the change to Corporate Bond Rates. The net favourable impact of the change in discount rates on Employee Benefits provisions of $14 million was recognised in the Consolidated Income Statement for the year ended 30 June 2015.

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

Qantas Group 2015 $M	Opening Balance	Provisions Made	Provisions Utilised	Unwind of Discount	Closing Balance	Current	Non-current	Total
Reconciliations								
Onerous contracts	26	–	(23)	–	3	1	2	3
Make good on leased assets	187	104	(26)	9	274	63	211	274
Insurance, legal and other	226	36	(57)	8	213	72	141	213
Total	**439**	**140**	**(106)**	**17**	**490**	**136**	**354**	**490**

Nature and Purpose of Provisions

i. Onerous Contracts

An onerous contract is a contract in which the unavoidable cost of meeting the obligations under the contract exceeds the economic benefit expected to be received. The Qantas Group has raised this provision in respect of operating leases on premises and onerous customer contracts.

iv. Make Good on Leased Assets

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

v. Insurance, Legal and Other

The Qantas Group self-insures for risks associated with workers compensation in certain jurisdictions. A provision is recognised when an incident occurs that may give rise to a claim and is measured at the present value of the cost that the entity expects to incur in settling the claim. Legal provisions include estimates of the likely penalties to be incurred in relation to claims and litigation in the normal course of business.

23. CAPITAL AND RESERVES

	Qantas Group	
	2015 $M	2014 $M
ISSUED CAPITAL		
Issued and paid-up capital: 2,196,330,250 (2014: 2,196,330,250) ordinary shares, fully paid	4,630	4,630

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of wind-up, Qantas ordinary shareholders rank after all creditors and are fully entitled to any residual proceeds on liquidation.

Treasury shares consist of shares held in trust for Qantas employees in relation to equity compensation plans. As at 30 June 2015, 3,512,952 (2014: 8,230,499) shares were held in trust and classified as treasury shares.

	Qantas Group	
	2015 $M	2014 $M
RESERVES		
Employee compensation reserve	47	32
Hedge reserve (refer to Note 26(C))	(122)	(72)
Foreign currency translation reserve	(29)	(41)
Defined benefit reserve	38	–
Total reserves	**(66)**	**(81)**

Nature and Purpose of Reserves

i. Employee Compensation Reserve

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee. No gain or loss is recognised in the Consolidated Income Statement on the purchase, sale, issue or cancellation of Qantas' own equity instruments.

ii. Hedge Reserve

The hedge reserve is comprised of 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.

iii. 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.

iv. Defined Benefit Reserve

The defined benefit reserve comprises the remeasurements of the net defined benefit asset/(liability) which are recognised in other comprehensive income in accordance with AASB 119 Employee Benefits (2011).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

24. IMPAIRMENT TESTING OF CASH GENERATING UNITS

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

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

Assumption	How determined
Cash Flows	Cash flows were projected based on the approved Financial Plan. Cash flows to determine a terminal value were extrapolated using a constant growth rate of 2.5 per cent per annum, which does not exceed the long-term average growth rate for the industry. Cash outflows include capital expenditure for the purchase of aircraft and other property, plant and equipment. These do not include capital expenditure that enhances the current performance of assets and related cash flows have been treated consistently.
Discount Rate	A pre-tax discount rate of 10 per cent per annum has been used in discounting the projected cash flows of the CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2014: 10.5 per cent per annum). The discount rate is based on the risk-free rate for 10 year Australian Government Bonds adjusted for a risk premium to reflect both the increased risk of investing in equities and the risk of the specific CGU.

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

	Qantas Group	
	2015 $M	2014 $M
Goodwill		
Qantas Domestic	10	10
Qantas Loyalty	13	5
Qantas Freight	49	49
Jetstar Group	134	131
	206	**195**
Other intangible assets with indefinite useful lives		
Qantas International	35	35
Jetstar Group	25	22
	60	**57**

No impairment was recognised for the identified CGUs during the year ended 30 June 2015 (2014: $2,560 million).

25. SHARE-BASED PAYMENTS

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

Further details regarding the operation of equity plans for Executives are outlined in the Directors' Report from pages 24 to 47.

The total equity settled share-based payment expense for the year was $29 million (2014: $12 million). The total cash settled share-based payment expense for the year was $6 million (2014: nil).

(A) LONG TERM INCENTIVE PLAN (LTIP)

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

	Number of Rights	
Performance Rights reconciliation	2015	2014
Rights outstanding as at 1 July	33,579,432	28,174,047
Rights granted	64,317,000	13,790,000
Rights forfeited	(1,914,000)	(4,571,000)
Rights lapsed	(15,614,000)	(3,755,000)
Rights exercised	(58,844)	(58,615)
Rights outstanding as at 30 June	**80,309,588**	**33,579,432**
Rights exercisable as at 30 June	**157,588**	**216,432**

During the 2014/2015 year, 64,317,000 Rights were granted. No amount has been paid, or is payable, by the Executive in relation to these Rights. Performance hurdles in relation to the outstanding Rights at 30 June 2015 were tested as at 30 June 2015. As a result, 1,740,150 Rights from the 2013–2015 LTIP award will lapse subsequent to 30 June 2015.

During the year, 58,844 Rights were exercised.

At 30 June 2015, 38,517 Rights are available to be exercised at the request of the Executive under the 2005/2006 award and a further 119,071 Rights under the 2006/2007 award (2014: 14,860 Rights under the 2004/2005 award, 44,682 Rights under 2005/2006 award and 156,890 Rights under the 2006/2007 award).

Fair Value Calculation

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

The weighted average fair value of Rights granted during the year was $1.06 (2014: $0.83).

	2015			2014
Inputs into the models	3 May 2015	24 October 2014	15 September 2014	18 October 2013
Rights granted	2,580,500	4,688,500	57,048,000	13,790,000
Weighted average share value	$3.40	$1.43	$1.48	$1.43
Expected volatility	35%	35%	35%	35%
Dividend yield	3.7%	1.2%	1.2%	1.5%
Risk-free interest rate	2.0%	2.5%	2.5%	2.9%

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 35 to 36.

There were no awards of Qantas shares made under the STIP during the year ended 30 June 2015 (2014: 794,470 with a weighted average share value of $1.36).

(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 MIP outcome is based on individual performance (50 per cent) and scorecard performance (50 per cent). 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 35 to 36.

There were no awards of Qantas shares made under the MIP during the year ended 30 June 2015 (2014: nil).

26. DERIVATIVES AND HEDGING INSTRUMENTS

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

(A) OTHER FINANCIAL ASSETS AND LIABILITIES

	Qantas Group	
	2015 $M	2014 $M
NET OTHER FINANCIAL ASSETS/(LIABILITIES)		
Derivatives		
Designated as cash flow hedges[1]	176	(98)
Designated as fair value hedges[1]	2	(10)
De-designated derivatives	–	(7)
Not qualifying for hedge accounting (including time value of options)	–	73
Net other financial assets/(liabilities)	**178**	**(42)**
Net other financial assets/(liabilities) included in the Consolidated Balance Sheet		
Other financial assets – current	613	172
Other financial assets – non-current	49	34
Other financial liabilities – current	(416)	(182)
Other financial liabilities – non-current	(68)	(66)
Net other financial assets/(liabilities)	**178**	**(42)**

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

26. DERIVATIVES AND HEDGING INSTRUMENTS CONTINUED

(B) OFFSETTING OTHER FINANCIAL ASSETS AND LIABILITIES

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

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

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

	2015			2014		
Qantas Group $M	Amounts Presented in the Consolidated Balance Sheet	Amounts Subject to Netting	Net Amount	Amounts Presented in the Consolidated Balance Sheet	Amounts Subject to Netting	Net Amount
Financial assets						
Other financial assets	662	(374)	288	206	(114)	92
Financial liabilities						
Other financial liabilities	(484)	374	(110)	(248)	114	(134)
Total	**178**	**–**	**178**	**(42)**	**–**	**(42)**

(C) HEDGE RESERVE

At 30 June 2015, the Qantas Group held various types of derivative financial instruments that were designated as cash flow hedges of future forecast transactions. These were hedging of:

- Future AUD fuel costs and foreign currency operational payments by exchange derivative contracts (forwards, swaps or options) including aviation fuel purchases by crude, gasoil and jet kerosene derivative contracts (forwards, swaps or options)
- Future interest payments by interest rate derivative contracts (forwards, swaps or options)
- Future capital expenditure payments by foreign exchange derivative contracts (forwards or options)

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

Qantas Group 2015 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
Contracts to hedge				
Future AUD fuel costs	(124)	3	–	(121)
Future interest payments	(7)	(27)	(2)	(36)
Future capital expenditure payments	35	–	–	35
Total net gain/(loss) included within hedge reserve	**(96)**	**(24)**	**(2)**	**(122)**

2014 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
Contracts to hedge				
Future AUD fuel costs	(33)	(1)	–	(34)
Future interest payments	(8)	(20)	(4)	(32)
Future capital expenditure payments	(6)	–	–	(6)
Total net gain/(loss) included within hedge reserve	**(47)**	**(21)**	**(4)**	**(72)**

(D) HEDGE ACCOUNTING

	As at 30 June 2015								
	Nominal amount of hedging instrument and hedged item	Hedge Rates	Carrying amount of the hedging instrument (AUD)[1]		Change in value of the hedging instrument used for calculating hedge ineffective-ness for 2015	Change in value of the hedged item used for calculating hedge ineffective-ness for 2015	Change in the value of the hedging instrument recognised in other compre-hensive income	Hedge ineffective-ness recognised in profit or loss[2]	Amount reclassified from the cash flow hedge reserve to profit or loss[3]
			Assets	Liabilities					
	M	$M	$M	$M	$M	$M	$M	$M	$M
CASH FLOW HEDGES									
AUD fuel costs (up to 2 years)	barrels 33	AUD/barrel 70–135	539	(419)	(131)	118	(118)	(13)	(170)
Revenue (up to 2 years)	AUD $38	AUD/JPY 81	–	(38)	(2)	2	(2)	–	40
Capital Expenditure (up to 2 years)	AUD $472	AUD/USD 0.90–0.78	66	(12)	64	(64)	64	–	–
Interest (up to 6 years)	AUD $828	Fixed 4.40%–5.99%	56	(53)	(6)	6	(6)	–	–
FAIR VALUE HEDGES									
Interest (up to 5 years)	AUD $20	Floating n/a	2	–	–	–	n/a	–	n/a

1 Hedging instruments are located within the Other Financial Assets and Other Financial Liabilities caption on the Consolidated Balance Sheet and includes costs of hedging.
2 Hedge ineffectiveness is recognised in the Other caption in the Consolidated Income Statement.
3 Amounts reclassified from the cash flow hedge reserve to the Fuel caption in the Consolidated Income Statement.

Carrying amount of the hedged item equals the nominal amount of the hedging instrument.

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

For the year ended 30 June 2015, the time value component of options accounted for under AASB 9 (2013) requires the change in fair value arising from the time value of options be recognised in other comprehensive income to the extent that it relates to a hedged item. The Qantas Group early adopted AASB 9 (2013) with a date of initial application of 1 July 2014.

For the year ended 30 June 2014, the amounts recognised in the Consolidated Income Statement reflect hedge ineffectiveness on changes in the fair value of any derivative instrument in a cash flow hedge, or part of a derivative instrument that does not qualify for hedge accounting. The time value component of options accounted for under AASB 139 does not form part of the designated hedge relationship and therefore changes in fair value of the time value component are recognised immediately in the Consolidated Income Statement.

	Qantas Group	
	2015 $M	2014 $M
INEFFECTIVE AND NON-DESIGNATED DERIVATIVES		
Ineffective portion of cash flow hedges	–	110
Components of derivatives not hedge accounted (including time value of options)	–	(102)
Hedge ineffectiveness on transition to AASB 9	13	–
Ineffective and non-designated derivatives expense	**13**	**8**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

27. NOTES TO THE CASH FLOW STATEMENT

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

		Qantas Group	
	Note	2015 $M	2014 $M
Statutory profit/(loss) for the year		**560**	**(2,843)**
Adjustments for:			
Non-cash items included in profit/(loss):			
Depreciation and amortisation		1,096	1,422
Share-based payments	25	29	12
Impairment of specific assets and investments		28	387
Impairment of cash generating unit		–	2,560
Inventory write-off	4	10	61
Amortisation of deferred financing fees and lease benefits		24	18
Net (gain)/loss on disposal of property, plant and equipment		(17)	1
Net gain on sale of controlled entity and related assets	4	(11)	(62)
Share of net loss of investments accounted for under the equity method		40	66
Other items		30	32
Cash items not included in profit/(loss) relating to operating activities:			
Hedging related activities		(240)	(158)
Dividends received from investments accounted for under the equity method		5	4
Changes in other items:			
– Receivables		28	274
– Inventories		(30)	(28)
– Other assets		(13)	35
– Payables		25	15
– Revenue received in advance		360	360
– Provisions		(103)	46
– Deferred tax assets/(liabilities)		227	(1,133)
Net cash from operating activities		**2,048**	**1,069**

(B) FINANCING FACILITIES

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

	Qantas Group	
	2015 $M	2014 $M
FINANCING FACILITIES		
Committed bank overdraft[1]		
Facility available	7	7
Amount of facility used	–	–
Amount of facility unused	**7**	**7**
Committed secured funding		
Facility available	–	500
Amount of facility used	–	–
Amount of facility unused	**–**	**500**

1 The bank overdraft facility covers the combined balances of Qantas and its wholly owned controlled entities. Subject to the continuance of satisfactory credit ratings, the bank overdraft facility may be utilised at any time. This facility may be terminated without notice.

	Qantas Group 2015 $M	Qantas Group 2014 $M
FINANCING FACILITIES CONTINUED		
Committed revolving facility[1]		
Facility available	940	630
Amount of facility used	–	–
Amount of facility unused	**940**	**630**
Commercial paper and medium-term notes (subject to Dealer Panel participation)		
Facility available	2,000	1,000
Amount of facility used	(950)	(950)
Amount of facility unused	**1,050**	**50**

1 The revolving facility includes $425 million with a term of three years from 24 April 2015, $425 million with a term of four years from 24 April 2015 and $90 million with a term of five years from 31 July 2014. There is an additional $100 million with a term of five years effective from 7 July 2015.

28. ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

On 24 March 2015, Qantas Frequent Flyer Limited (Qantas Loyalty) acquired a 51 per cent controlling interest in Taylor Fry Holdings Pty Limited (Taylor Fry Holdings), which owns 100 per cent of Taylor Fry Pty Limited for $9 million. From this date, the results of Taylor Fry Holdings are consolidated into the results of the Group with a 49 per cent non-controlling interest being recognised. Goodwill of $8 million was recognised on acquisition.

During the year, the Group sold the Tour East Group subsidiaries for SGD$18.3 million (A$16.3 million). These entities are wholly owned subsidiaries of the Holiday Tours and Travel Group of which Qantas owns 75 per cent. A gain on sale of these subsidiaries of $13 million was recognised.

29. COMMITMENTS

(A) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	Qantas Group 2015 $M	Qantas Group 2014 $M
AS LESSEE		
Finance lease and hire purchase liabilities included in the Consolidated Financial Statements		
Aircraft and engines – payable:		
Not later than one year	135	262
Later than one year but not later than five years	553	402
Later than five years	1,150	946
	1,838	**1,610**
Less: future lease and hire purchase finance charges and deferred lease benefits	(340)	(300)
Total finance lease and hire purchase liabilities	**1,498**	**1,310**

	Note	Qantas Group 2015 $M	Qantas Group 2014 $M
Finance lease and hire purchase liabilities included in the Consolidated Financial Statements			
Current liabilities	21	93	232
Non-current liabilities	21	1,405	1,078
Total finance lease and hire purchase liabilities		**1,498**	**1,310**

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

29. COMMITMENTS CONTINUED

(B) OPERATING LEASE COMMITMENTS

	Qantas Group 2015 $M	Qantas Group 2014 $M
AS LESSEE		
Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements		
Aircraft and engines – payable:		
No later than one year	469	456
Later than one year but not later than five years	802	930
Later than five years	88	140
	1,359	1,526
Non-aircraft – payable:		
No later than one year	175	170
Later than one year but not later than five years	521	505
Later than five years but not later than 10 years	332	289
Later than 10 years	398	399
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	(3)	(4)
	1,423	1,359
	2,782	2,885

(C) CAPITAL EXPENDITURE COMMITMENTS

The Group's capital expenditure commitments as at 30 June 2015 are $10,090 million (2014: $8,632 million). The Group has certain rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure.

The Group's capital expenditure commitments are predominately denominated in US dollars. Disclosures outlined above are translated to Australian dollar presentational currency at the 30 June 2015 closing exchange rate of $0.77 (30 June 2014: $0.94).

30. CONTINGENT LIABILITIES

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

(A) GUARANTEES

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

(B) AIRCRAFT FINANCING

As part of the financing arrangements for the acquisition of aircraft, the Qantas Group has provided certain guarantees and indemnities to various lenders and equity participants in leveraged lease transactions. In certain circumstances, including the insolvency of major international banks and other counterparties that have a minimum credit rating of A-/A3, the Qantas Group may be required to make payment under these guarantees.

(C) LITIGATION

i. Freight and Passenger Third Party Class Actions

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

ii. Other Claims and Litigation

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

31. 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: historically the investment strategy of the QSP's defined benefit plan was to invest in a significant proportion of growth assets to match the growth in the plan liabilities. If the plan assets underperform by more than expected, the Group may be required to provide additional funding to the plan. In April 2013, Qantas and the Trustee of the QSP adopted a plan to progressively de-risk the defined benefit investment portfolio as the plan's funding position improves over time.
- Interest rate risk: changes in bond yields, such as a decrease in 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 $96 million of normal employer contributions will be paid by the Qantas Group to its defined benefit plans in 2015/2016.

In May 2013, a revised additional funding plan (effective from 1 July 2013), which addresses the requirements of APRA Prudential Standards, was agreed with the Trustee of the QSP. The determination of Qantas' additional employer contributions under the funding plan is triggered where the Defined Benefit Vested Benefits Index (DB VBI) is below 100 per cent. The DB VBI is the ratio of the QSP's assets attributable to the defined benefit liabilities to the total defined benefit amount that the QSP would be required to pay if all members were to voluntarily leave the plan on the funding valuation date. The additional funding plan also triggers further contributions being made where the amount of any retrenchment benefit paid from the plan is in excess of the funded benefit at the time of payment. Qantas contributed an additional $14 million to the QSP during the year ended 30 June 2015 (2014: $8 million).

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

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

	Qantas Group					
	Present Value of Obligation $M		Fair Value of Plan Assets $M		Net Defined Benefit (Asset)/ Liability $M	
	2015	2014	2015	2014	2015	2014
Balance as at 1 July	**2,172**	**2,223**	**(2,405)**	**(2,339)**	**(233)**	**(116)**
Included in the Consolidated Income Statement						
Current service cost	135	140	–	–	135	140
Past service cost[1]	5	36	–	–	5	36
Interest expense/(income)	97	117	(104)	(118)	(7)	(1)
Contributions by plan participants	–	–	(23)	(23)	(23)	(23)
Total amount included in manpower and staff related expenditure	**237**	**293**	**(127)**	**(141)**	**110**	**152**
Included in the Consolidated Statement of Comprehensive Income						
Remeasurements:						
– Return on plan assets, excluding interest income	–	–	(94)	(101)	(94)	(101)
– Loss/(gain) from change in demographic assumptions	2	(34)	–	–	2	(34)
– Loss from change in financial assumptions	81	51	–	–	81	51
– Experience gains	(43)	(76)	–	–	(43)	(76)
– Exchange differences on foreign plans	19	7	(20)	(6)	(1)	1
Total amount recognised in other comprehensive income	**59**	**(52)**	**(114)**	**(107)**	**(55)**	**(159)**
Contributions by employer	–	–	(107)	(110)	(107)	(110)
Benefit payments	(344)	(292)	344	292	–	–
Balance as at 30 June	**2,124**	**2,172**	**(2,409)**	**(2,405)**	**(285)**	**(233)**

1 Past service cost of $5 million (2014: $36 million) for defined benefit curtailment expenses relates to a significant reduction in employees covered by the QSP's defined benefit plan as a result of transformation initiatives.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

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:

		Qantas Group 2015 %	Qantas Group 2014 %
Australian equity[1]		14	18
Global equity[1]	– United States	9	11
	– Europe	8	9
	– Japan	2	2
	– Other	4	7
Private equity		5	5
Fixed interest[1]	– Government bonds	11	12
	– Other	9	7
Credit[1]	– Corporate debt	9	7
	– Other	2	2
Hedge funds		11	10
Property and infrastructure		9	9
Cash and cash equivalents[1]		7	1
		100	100

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

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

(D) ACTUARIAL ASSUMPTIONS AND SENSITIVITY

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

	Qantas Group 2015 %	Qantas Group 2014 %
Discount rate (Australia)	4.4	4.4
Future salary increases (Australia)[1]	3.0	3.0

1 For the 30 June 2015 actuarial calculation, salary increases of 2.1 per cent in year 1 and year 2 and 3 per cent for the remaining duration of the plan were assumed. For the 30 June 2014 actuarial calculation, nil salary increase in year 2 and year 3 and three per cent in all other years for the remaining duration of the Plan were assumed.

The expected long-term rate of return is based on the weighted average of expected returns on each individual asset class where the weightings reflect the proportion of defined benefit assets invested in each asset class. Each asset class' expected return is based on expectations of average returns over the next 10 years.

The weighted average duration of the QSP's defined benefit obligation as at 30 June 2015 was 10 years (2014: 12.6 years).

The sensitivity of the defined benefit obligation to changes in the significant assumption is as follows:

		Impact on Defined Benefit Obligation			
		30 June 2015		30 June 2014	
	Change in Assumption	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	1%	Decrease by 11.3%	Increase by 13.3%	Decrease by 11.5%	Increase by 11.6%
Future salary increase	1%	Increase by 10.6%	Decrease by 9.3%	Increase by 10.3%	Decrease by 10.7%

Defined contribution fund

The Qantas Group's results include $165 million (2014: $173 million) of expenses in relation to defined contribution funds.

32. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) (Class Order), the wholly owned entities identified below are relieved from the Corporations Act requirements for preparation, audit, distribution and lodgment of Financial Statements and Directors' Reports.

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

It is a condition of the Class Order that Qantas and each of the controlled entities eligible to obtain relief under the Class Order enter into a Deed of Cross Guarantee (Deed).

Under the Deed, Qantas guarantees to each creditor payment in full of any debt upon the winding up under certain provisions of the Corporations Act of any of the controlled entities that is party to the Deed. If the winding up occurs under other provisions of the Corporations Act, Qantas will only be liable if, six months after a resolution or order for the winding up of the controlled entity, any debt of a creditor of that controlled entity has not been paid in full. Each controlled entity that is party to the Deed has given similar guarantees in the event Qantas is wound up.

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

The Consolidated Condensed Income Statement and Balance Sheet for Qantas and each of its controlled entities that are party to the Deed 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 that are not party to the Deed are carried at cost less any accumulated impairment
- Dividends received from investments are recognised as income

(A) CONDENSED INCOME STATEMENT

	Consolidated	
	2015 $M	2014 $M
Revenue and other income	15,370	14,876
Expenditure	(14,491)	(18,532)
Statutory profit/(loss) before income tax expense and net finance costs	**879**	**(3,656)**
Net finance costs	(246)	(195)
Statutory profit/(loss) before income tax expense	**633**	**(3,851)**
Income tax (expense)/benefit	(230)	1,049
Statutory profit/(loss) for the year	**403**	**(2,802)**
Retained earnings as at 1 July	(1,548)	1,139
Defined benefit actuarial gains, net of tax	–	113
Shares vested and transferred to employees	(2)	(4)
Share-based payments unvested and lapsed	1	6
Retained earnings as at 30 June	**(1,146)**	**(1,548)**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

32. DEED OF CROSS GUARANTEE CONTINUED

(B) BALANCE SHEET

	Consolidated 2015 $M	2014 $M
CURRENT ASSETS		
Cash and cash equivalents	2,759	2,899
Receivables	1,234	1,526
Other financial assets	613	172
Inventories	322	317
Assets classified as held for sale	136	134
Other	102	104
Total current assets	**5,166**	**5,152**
NON-CURRENT ASSETS		
Receivables	1,406	1,743
Other financial assets	49	34
Investments	268	430
Property, plant and equipment	10,682	10,447
Intangible assets	702	654
Deferred tax asset	330	461
Other	292	239
Total non-current assets	**13,729**	**14,008**
Total assets	**18,895**	**19,160**
CURRENT LIABILITIES		
Payables	2,000	1,898
Revenue received in advance	3,505	3,330
Interest-bearing liabilities	924	1,389
Other financial liabilities	414	182
Provisions	799	854
Total current liabilities	**7,642**	**7,653**
NON-CURRENT LIABILITIES		
Revenue received in advance	1,359	1,183
Interest-bearing liabilities	6,056	6,852
Other financial liabilities	68	66
Provisions	329	380
Total non-current liabilities	**7,812**	**8,481**
Total liabilities	**15,454**	**16,134**
Net assets	**3,441**	**3,026**
EQUITY		
Issued capital	4,630	4,630
Treasury shares	(7)	(16)
Reserves	(36)	(40)
Retained earnings	(1,146)	(1,548)
Total equity	**3,441**	**3,026**

33. RELATED PARTIES

(A) REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

	Qantas Group	
	2015 $'000	2014 $'000
Short-term employee benefits	13,985	9,129
Post-employment benefits	605	522
Other long-term benefits	306	(285)
Share-based payments	6,463	4,421
Termination benefits	1,316	–
	22,675	**13,787**

Further details in relation to the remuneration of KMPs are included in the Directors' Report from pages 28 to 46.

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

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

Transactions between the Qantas Group and associates include:

- The Qantas Group provides airline seats on domestic and international routes to Helloworld Ltd for sale through its travel agency network
- The Qantas Group sells Frequent Flyer points to Helloworld Ltd and redeems vouchers on the Qantas Frequent Flyer store
- The Qantas Group established a business service agreement with Jetstar-branded airlines in Japan, Hong Kong and Vietnam for the provision of business services to enable the low cost airline to operate a consistent customer experience for the Jetstar brand
- The Qantas Group provided a secured aircraft facility to Jetstar Hong Kong to facilitate the acquisition of aircraft.

Transactions and balances with investments accounted for under the equity method are included in the Consolidated Financial Statements as follows:

	Qantas Group	
	2015 $M	2014 $M
Revenue and other income	60	61
Finance income	5	6
Expenditure	61	49
Receivables	67	292
Payables	6	5

34. FINANCIAL RISK MANAGEMENT

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

The Qantas Group is subject to liquidity, interest rate, foreign exchange, fuel price and credit risks. These risks are an inherent part of the operations of an international airline. The Qantas Group manages these risk exposures using various financial instruments, governed by a set of policies approved by the Board. The Qantas Group's policy is not to enter into, issue or hold derivative financial instruments for speculative trading purposes.

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

(A) LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Qantas Group manages liquidity risk by targeting a minimum liquidity level, ensuring long-term commitments are managed with respect to forecast available cash inflows, maintaining access to a variety of additional funding sources, including commercial paper and standby facilities and managing maturity profiles.

Qantas may from time to time seek to purchase and retire outstanding debt through cash purchases in open market transactions, privately negotiated transactions or otherwise. Any such repurchases would depend on prevailing market conditions, liquidity requirements and possibly other factors.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

34. FINANCIAL RISK MANAGEMENT CONTINUED

Qantas Group 2015 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
FINANCIAL LIABILITIES				
Payables	1,881	–	–	1,881
Bank loans – secured[1]	383	1,481	885	2,749
Bank loans – unsecured[1]	11	313	–	324
Other loans – unsecured[1]	472	613	777	1,862
Lease and hire purchase liabilities[1]	135	553	1,150	1,838
Derivatives – inflows	(370)	(58)	(4)	(432)
Derivatives – outflows	334	109	8	451
Net other financial assets/liabilities – outflows	(152)	(22)	–	(174)
Total financial liabilities	**2,694**	**2,989**	**2,816**	**8,499**

2014 $M	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
FINANCIAL LIABILITIES				
Payables	1,851	–	–	1,851
Bank loans – secured[1]	556	1,616	1,039	3,211
Bank loans – unsecured[1]	486	611	–	1,097
Other loans – unsecured[1]	168	693	1,096	1,957
Lease and hire purchase liabilities[1]	262	402	946	1,610
Derivatives – inflows	(122)	(409)	(19)	(550)
Derivatives – outflows	152	459	29	640
Net other financial assets/liabilities – outflows	(14)	(8)	–	(22)
Total financial liabilities	**3,339**	**3,364**	**3,091**	**9,794**

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

(B) MARKET RISK

The Qantas Group has exposure to market risk in the following areas: interest rate, foreign exchange and fuel price. The following section summarises the Qantas Group's approach to managing these risks.

i. Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Qantas Group has exposure to movements in interest rates arising from its portfolio of interest rate sensitive assets and liabilities in a number of currencies, predominantly in AUD, GBP, USD, JPY, NZD and EUR. These principally include corporate debt, leases and cash. The Qantas Group manages interest rate risk by using a floating versus fixed rate debt framework. The relative mix of fixed and floating interest rate funding is managed by using interest rate swaps, forward rate agreements and options.

For the year ended 30 June 2015, interest-bearing liabilities amounted to $5,562 million (2014: $6,483 million). The fixed/floating split is 37 per cent and 63 per cent respectively (2014: 31 per cent and 69 per cent).

For the year ended 30 June 2015, other financial assets and liabilities included derivative financial instruments relating to debt obligations and future interest payments totalling $5 million (asset) (2014: $64 million (liability)).

ii. Foreign Exchange Risk (Revenue and Capital Expenditure)

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

Cross-currency swaps are used to convert long-term foreign currency borrowings to currencies in which the Qantas Group has forecast sufficient surplus net revenue to meet the principal and interest obligations under the swaps. Where long-term borrowings are held in foreign currencies in which the Qantas Group derives surplus net revenue, offsetting forward foreign exchange contracts have been used to match the timing of cash flows arising under the borrowings with the expected revenue surpluses. These foreign currency borrowings have a maturity of between one and 12 years. To the extent a foreign exchange gain or loss is incurred, and the cash flow hedge is deemed effective, this is deferred until the net revenue is realised.

As at 30 June 2015, total unrealised exchange gains on hedges of net revenue designated to service long-term debt were $12 million (2014: $54 million).

Forward foreign exchange contracts and currency options are used to hedge a portion of remaining net foreign currency revenue or expenditure in accordance with Qantas Group policy. Net foreign currency revenue and expenditure out to two years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board. Purchases and disposals of property, plant and equipment denominated in a foreign currency may be hedged out to two years using a combination of forward foreign exchange contracts and currency options.

For the year ended 30 June 2015, other financial assets and liabilities included derivative financial instruments used to hedge foreign currency, including hedging of future capital and operating expenditure payments, totalling $54 million (net asset) (2014: $2 million (net liability)). These are recognised at fair value in accordance with AASB 9.

iii. Future AUD Fuel Costs

The Qantas Group uses options and swaps on jet kerosene, gasoil and crude oil to hedge exposure to movements in the USD price of aviation fuel. Qantas considers the crude component to be a separately identifiable and measureable component of aviation fuel. The foreign exchange risk in the total fuel cost is separately hedged using foreign exchange contracts and currency options. Hedging is conducted in accordance with Qantas Group policy. Fuel consumption out to two years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board.

For the year ended 30 June 2015, other financial assets and liabilities include fuel and foreign exchange derivatives totalling $120 million (net asset) (2014: $24 million (net asset)). These are recognised at fair value in accordance with AASB 9.

iv. Sensitivity on Interest Rate, Foreign Exchange and Fuel Price Risk

The table below summarises the gain/(loss) impact of reasonably possible changes in market risk, relating to existing financial instruments, on net profit and equity before tax. For the purpose of this disclosure, the following assumptions were used:

- 100 basis points (2014: 100 basis points) increase and decrease in all relevant interest rates
- 20 per cent (2014: 20 per cent) USD depreciation and USD appreciation
- 20 per cent (2014: 20 per cent) increase and decrease in all relevant fuel indices
- Sensitivity analysis assumes hedge designations as at 30 June 2015 remain unchanged and that all designations are effective
- Sensitivity analysis on foreign currency pairs and fuel indices of 20 per cent represent recent volatile market conditions
- Sensitivity analysis assumes an offset between USD and fuel price indices based on observed market movements

	Profit Before Tax		Equity (Before Tax)	
Qantas Group $M	2015	2014	2015	2014
100bps increase in interest rates				
Variable rate interest-bearing instruments (net of cash)	(10)	(18)	–	–
Derivatives designated in a cash flow hedge relationship	–	–	21	25
Derivatives and fixed rate debt in a fair value hedge relationship	–	–	–	–
100bps decrease in interest rates				
Variable rate interest-bearing instruments (net of cash)	10	18	–	–
Derivatives designated in a cash flow hedge relationship	–	–	(22)	(26)
Derivatives and fixed rate debt in a fair value hedge relationship	–	–	–	–
20% movement in AUD fuel costs				
20% (2014: 20%) USD depreciation, 20% (2014: 20%) increase per barrel in fuel indices	–	(77)	(26)	14
20% (2014: 20%) USD appreciation, 20% (2014: 20%) decrease per barrel in fuel indices	–	(61)	519	723

(C) CREDIT RISK

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

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

- Trade debtor counterparties: the credit risk is the recognised amount, net of any impairment losses. As at 30 June 2015, trade debtors amounted to $710 million (2014: $721 million). The Qantas Group has credit risk associated with travel agents, industry settlement organisations and credit provided to direct customers. The Qantas Group minimises this credit risk through the application of stringent credit policies and accreditation of travel agents through industry programs.
- Other financial asset counterparties: the Qantas Group restricts its dealings to counterparties that have acceptable credit ratings. Should the rating of a counterparty fall below certain levels, internal policy dictates that approval by the Board is required to maintain the level of the counterparty exposure.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

34. FINANCIAL RISK MANAGEMENT CONTINUED

The table below sets out the maximum exposure to credit risk as at 30 June 2015:

	Notes	Qantas Group 2015 $M	2014 $M
On Consolidated Balance Sheet			
Cash and cash equivalents	10	2,908	3,001
Receivables	11	1,093	1,354
Other financial assets	26	662	206

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 2015, 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 $2,963 million (2014: $3,057 million). Refer to Note 26(B) 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.

(D) FAIR VALUE

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

The fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The fair value of options is determined using standard valuation techniques.

Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet in accordance with AASB 9. Refer to Note 37 for a definition of the fair value hierarchy.

		2015			2014		
		Carrying Amount held at			Carrying Amount held at		
	Notes	Fair Value through profit and loss	Amortised Cost	Fair Value	Fair Value through profit and loss	Amortised Cost	Fair Value
Financial assets							
Cash and cash equivalents	10	–	2,908	2,917	–	3,001	3,011
Receivables	11	–	1,093	1,093	–	1,354	1,354
Other financial assets[1]	26	662	–	662	206	–	206
Financial liabilities							
Payables	19	–	1,881	1,881	–	1,851	1,851
Interest-bearing liabilities	21	–	5,562	5,575	–	6,483	6,392
Other financial liabilities[1]	26	484	–	484	248	–	248

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

(E) CAPITAL MANAGEMENT

The Qantas Group's capital management framework is designed to maximise shareholder value by targeting 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 commensurate with credit rating metrics[1] between BBB and BBB-, which minimises cost of capital, through holding an appropriate mix of debt (net debt including off balance sheet for aircraft operating leases) and equity
- Achieve Return on Invested Capital (ROIC) performance that exceeds cost of capital over the cycle. ROIC performance for the year ended 30 June 2015 was 16.2 per cent (2014: (1.5) per cent)
- Grow Invested Capital over time via disciplined ROIC accretive investment, with flexibility to increase or decrease annual investment levels as required. The Qantas Group's average Invested Capital during the year ended 30 June 2015 was $9.1 billion (2014: $13 billion)

1 Primary credit rating metrics are 'Funds From Operations (FFO) to Debt' and 'Debt to EBITDA' under Standard & Poor's rating methodology and the equivalent ratios under Moody's rating methodology

The Qantas Group takes a disciplined approach to continually reviewing its capital structure against the optimal capital structure. Where there is surplus capital, the Group seeks to enhance shareholder value with the appropriate mix of growth and shareholder returns. Where surplus capital enables returns to be made to shareholders, the Board will have regard to a range of factors (including the level of franking credits available) to determine the ideal method to return capital, be it through dividends, buybacks (off or on market), capital returns or a combination of each.

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 under a range of adverse scenarios.

35. EVENTS SUBSEQUENT TO BALANCE DATE

Sale of Terminal Three

On 18 August 2015, Qantas Airways Limited and Sydney Airport Corporation Limited (SACL) reached a commercial agreement that delivers long-term certainty to both concerning the airport's domestic third terminal. Under the terms of the 10-year deal, ownership of Terminal Three will revert from Qantas to SACL as of 1 September 2015. Qantas held a 30-year lease on the terminal, signed in 1989, which was due to expire on 30 June 2019.

Qantas will receive total cash proceeds of $535 million from SACL which exceeds the carrying value of the assets disposed.

Use of the terminal from 1 September will incur a per-passenger charge at an agreed rate through to 2025. In line with current operations, Qantas will retain exclusive use of Terminal Three and will manage the terminal on behalf of SACL until July 2019.

After that time, Qantas will retain priority access to Terminal Three through to 2025. The arrangement with SACL also incorporates a five-year agreement covering Qantas' domestic runway charge and Qantas and Jetstar international aeronautical charges.

Shareholder Distribution

On 20 August 2015, Qantas announced that the Board proposed to undertake a capital management initiative for Qantas shareholders, comprising a distribution to shareholders of 23 cents per share and a related share consolidation.

The proposed capital management initiative (subject to shareholder approval at Qantas' Annual General Meeting in October 2015) is comprised of:

- a return of approximately $505 million of share capital (to be effected by Qantas paying each shareholder 23 cents per share held), to be paid in November 2015; and
- an equal and proportionate share consolidation, relating to the return of capital, through the conversion of each share into 0.939 shares.

Other than the matters noted above, there has not arisen in the interval between 30 June 2015 and the date of this Report any other event that would have had a material effect on the Consolidated Financial Statements as at 30 June 2015.

36. PARENT ENTITY DISCLOSURES FOR QANTAS AIRWAYS LIMITED (QANTAS)

(A) CONDENSED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

	Qantas	
	2015 $M	2014 $M
Revenue and other income	11,254	10,143
Expenditure	(10,139)	(13,874)
Statutory profit/(loss) before income tax expense and net finance costs	**1,115**	**(3,731)**
Net finance costs	(246)	(190)
Statutory profit/(loss) before income tax (expense)/benefit	**869**	**(3,921)**
Income tax (expense)/benefit	(88)	1,073
Statutory profit/(loss) for the year	**781**	**(2,848)**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

36. PARENT ENTITY DISCLOSURES FOR QANTAS AIRWAYS LIMITED (QANTAS) CONTINUED

(B) CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Qantas 2015 $M	Qantas 2014 $M
Statutory profit/(loss) for the year	**781**	**(2,848)**
Effective portion of changes in fair value of cash flow hedges, net of tax	(42)	(97)
Transfer of hedge reserve to the Income Statement, net of tax	91	(70)
Recognition of effective cash flow hedges on capitalised assets, net of tax	(2)	(19)
Time value of options, net of tax	(95)	–
Defined benefit actuarial gains, net of tax	35	109
Total other comprehensive income/(loss) for the year	**(13)**	**(77)**
Total comprehensive income/(loss) for the year	**768**	**(2,925)**

(C) CONDENSED BALANCE SHEET AS AT 30 JUNE 2015

	Qantas 2015 $M	Qantas 2014 $M
CURRENT ASSETS		
Cash and cash equivalents	2,748	2,897
Receivables	4,169	3,533
Inventories	240	232
Other	809	372
Total current assets	**7,966**	**7,034**
NON-CURRENT ASSETS		
Receivables	1,405	1,735
Property, plant and equipment	9,253	8,986
Intangible assets	464	419
Other	1,188	1,599
Total non-current assets	**12,310**	**12,739**
Total assets	**20,276**	**19,773**
CURRENT LIABILITIES		
Payables	4,204	3,517
Revenue received in advance	2,956	2,847
Interest-bearing liabilities	923	1,389
Other	1,068	907
Total current liabilities	**9,151**	**8,660**
NON-CURRENT LIABILITIES		
Revenue received in advance	1,359	1,183
Interest-bearing liabilities	6,056	6,852
Other	283	434
Total non-current liabilities	**7,698**	**8,469**
Total liabilities	**16,849**	**17,129**
Net assets	**3,427**	**2,644**
EQUITY		
Issued capital	4,630	4,630
Treasury shares	(7)	(16)
Reserves	(39)	(33)
Retained earnings	(1,157)	(1,937)
Total equity	**3,427**	**2,644**

(D) CAPITAL EXPENDITURE COMMITMENTS

Qantas' capital expenditure commitments as at 30 June 2015 are $10,051 million (2014: $8,622 million). Qantas has certain rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure.

Qantas' capital expenditure commitments are predominantly denominated in US dollars. Disclosures outlined above are translated to Australian dollar presentational currency at the 30 June 2015 closing exchange rate of $0.77 (30 June 2014: $0.94).

(E) FINANCING FACILITIES

The financing facilities held by the parent entity are the same as those held by the Group as disclosed in Note 27(B).

(F) CONTINGENT LIABILITIES

The contingent liabilities held by the parent entity are the same as those held by the Group as disclosed in Note 30.

(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 32.

(H) INTEREST-BEARING LIABILITIES

The parent entity has total interest-bearing liabilities of $6,979 million (2014: $8,241 million), of which $3,185 million (2014: $3,532 million) represent lease and hire purchase liabilities payable to controlled entities. Of the $3,794 million (2014: $4,709 million) payable to other parties, $2,128 million (2014: $2,314 million) represents secured bank loans and lease liabilities with the remaining balance representing unsecured loans and deferred lease benefits.

37. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 38, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(A) PRINCIPLES OF CONSOLIDATION

i. Business Combinations

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Negative goodwill arising on an acquisition is recognised directly in the Consolidated Income Statement. Transaction costs are expensed as incurred. Any contingent consideration is measured at fair value at the date of acquisition.

ii. 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.

iii. 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.

iv. Loss of Control

When the Group loses control over a controlled entity, it derecognises the assets and liabilities of the controlled entity and any related non-controlling interest and other components of equity. Any resulting gain or loss on sale is recognised in the Consolidated Income Statement. Any interest retained in the former controlled entity is measured at fair value when control is lost and depending on the nature of the retained interest, is recognised as either an investment accounted for under the equity method where the Group retains significant influence or as a financial asset.

v. 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. Investments in associates are accounted for under the equity accounting method. The investments are carried at the lower of the equity accounted amount and the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

37. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Group's share of the associates' post-acquisition profit or loss is recognised in the Consolidated Income Statement from the date that significant influence commences until the date that significant influence ceases. The Group's share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value of the investment.

Dividends reduce the carrying amount of the equity accounted investment.

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

vi. Transactions Eliminated on Consolidation

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

ii. Foreign Operations

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

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

(C) FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS

i. Recognition and Measurement of Non-derivative Financial Assets

The Group classifies non-derivative financial assets at initial recognition as either financial assets at fair value through profit and loss or financial assets at amortised cost.

Financial assets at fair value through profit or loss	A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are initially recognised at fair value plus any directly attributable transaction costs, except for trade receivables which do not contain a significant financing component and are recognised at transaction price. Subsequent to initial measurement, they are measured at amortised cost using the effective interest rate method.

ii. Recognition and Measurement of Non-derivative Financial Liabilities

Non-derivative financial liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, these liabilities are stated at amortised cost, with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis. Non-derivative financial liabilities that are designated as hedged items are subject to measurement under the hedge accounting requirements.

iii. De-recognition of Non-derivative Financial Instruments

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised (i.e. removed from the Group's Consolidated Balance Sheet) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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 a hedge and reported as ineffectiveness.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

37. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

iv. Ineffective and Non-designated Derivatives

Gains and losses on derivative financial instruments qualifying for hedge accounting are recognised in the same category in the Consolidated Income Statement as the underlying hedged item. Changes in underlying market conditions or hedging strategies could result in recognition in the Consolidated Income Statement of changes in fair value of derivative financial instruments designated as hedges.

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.

v. Fair Value Calculations

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market are estimated using valuation techniques consistent with accepted market practice. The Qantas Group uses a variety of methods and input assumptions that are based on market conditions existing at balance date.

The different methods of estimating the fair value of these items have been defined in the Consolidated Financial Statements as follows:

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

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

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

vi. Financial Guarantee Contracts

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

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

Where guarantees in relation to loans or payables of investments accounted for under the equity method 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. Passenger and Freight Revenue

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

Passenger revenue and freight revenue is recognised when passengers or freight are uplifted. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket, historic trends and experience.

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

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

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

ii. Frequent Flyer Marketing Revenue

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

iii. Frequent Flyer Redemption Revenue

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

iv. Frequent Flyer Membership Fee Revenue

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

v. Contract Work Revenue

Contract work revenue results from the rendering of services associated with contracts. Where services performed are in accordance with contractually agreed terms over a short period and are task specific, revenue is recognised when the services have been performed or when the resulting ownership of the goods passes to the customer. Revenue on long-term contracts to provide goods or services is recognised in proportion to the stage of completion of the contract (when the stage of contract completion can be reliably measured) or otherwise on completion of the contract.

vi. Commissions Revenue

Commissions revenue is recognised where the Group acts in the capacity of an agent rather than a principal in a transaction. The revenue reported is the net amount of commissions made by the Group and is recognised as the services are performed.

vii. Aircraft Financing Fees

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

viii. Dividend Revenue

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

ix. Other Revenue/Income

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

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

Tours and travel revenue is recognised when tours and travel air tickets and land content are utilised. Tours and travel revenue is measured at the net amount of commission retained by the Qantas Group.

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

(E) TAXES

i. Income Tax

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

Current Tax

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

Deferred Tax

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

- temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit;
- temporary differences relating to investments in controlled entities and investments accounted for under the equity method to the extent that they will probably not reverse in the foreseeable future; or
- 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 improve.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

37. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantially enacted at reporting date.

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

ii. 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.

iii. 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.

(F) INVENTORIES

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

(G) IMPAIRMENT

i. Non-financial Assets

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

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

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

ii. Financial Assets

The carrying value of financial assets is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

(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.

The cost of acquired assets includes the initial estimate at the time of installation of the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate. The unwinding of the discount is treated as a finance charge. The cost also may include transfers from hedge reserve of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment in accordance with Note 37(C).

Borrowing costs associated with the acquisition, construction or production of qualifying assets are recognised as part of the cost of the asset to which they relate.

ii. Subsequent Expenditure

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

iii. Depreciation

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

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

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

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

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

iv. Maintenance and Overhaul Costs

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

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

Maintenance checks which are covered by the third party maintenance agreements where there is a transfer of risk and legal obligation are expensed on the basis of hours flown.

All other maintenance costs are expensed as incurred.

Modifications that enhance the operating performance or extend the useful lives of aircraft are capitalised and depreciated over the remaining estimated useful life of the asset or remaining lease term (as appropriate). Manpower costs in relation to employees who are dedicated to major modifications to aircraft are capitalised as part of the cost of the modification to which they relate.

v. Manufacturers' Credits

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

vi. Capital Projects

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

(I) ASSETS CLASSIFIED AS HELD FOR SALE

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

37. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(J) LEASES

i. Determining Whether an Arrangement Contains a Lease

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

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values for a finance lease, if the Group concludes that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

ii. Finance Leased and Hire Purchase Assets

Leased assets under which the Qantas Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

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

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

iii. Operating Leases

Rental payments under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the term of the lease.

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

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

(K) INTANGIBLE ASSETS

i. Recognition and Measurement

Goodwill is stated at cost less any accumulated impairment losses. With respect to investments accounted for under the equity method, the carrying amount of goodwill is included in the carrying amount of the investment.

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

ii. Subsequent Expenditure

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

iii. Amortisation

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

	Years
Software	3 – 10
Customer Contracts/Relationships	5 – 10

(L) EMPLOYEE BENEFITS

Wages, Salaries, Annual Leave and Sick Leave	Liabilities for wages, salaries, annual leave (including leave loading) and sick leave vesting to employees are recognised in respect of employees' services up to the end of the reporting period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as workers compensation insurance, superannuation and payroll tax. The annual leave provision is discounted using Corporate Bond rates which most closely match the terms to maturity of the provision. The unwinding of the discount is treated as a finance charge.
Employee Share Plans	The grant date fair value of equity-settled share-based payment awards granted to employees is generally 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 non-vesting conditions (such as market performance conditions), the grant date fair value of the share-based payment is measured to reflect such conditions and that there is no true-up for differences between expected and actual outcomes. The fair value of equity-based entitlements settled in cash is recognised as an employee expense with a corresponding increase in liability over the period during which employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value. Any changes in the fair value of the liability are recognised as an employee expense in the Consolidated Income Statement.
Long Service Leave	The liability for long service leave is recognised as a provision for employee benefits and measured at the present value of estimated future payments to be made in respect of services provided by employees up to the end of the reporting period. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on staff turnover history. The provision is discounted using Corporate Bond rates which most closely match the terms to maturity of the provision. The unwinding of the discount is treated as a finance charge.
Defined Contribution Superannuation Plans	The Qantas Group contributes to employee defined contribution superannuation plans. Contributions to these plans are recognised as an expense in the Consolidated Income Statement as incurred.
Defined Benefit Superannuation Plans	The Qantas Group's net obligation with respect to defined benefit superannuation plans is calculated separately for each plan. The Qantas Superannuation Plan has been split based on the divisions which relate to accumulation members and defined benefit members. Only defined benefit members are included in the Qantas Group's net obligation calculations. The calculation estimates the amount of future benefit that employees have earned in return for their service in the current and prior periods, which is discounted to determine its present value, and the fair value of any plan assets is deducted. The 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

37. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Defined Benefit Superannuation Plans (continued)	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 (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the Consolidated Income Statement. The discount rate used is the Corporate Bond rate which has a maturity date that approximates the terms of Qantas obligations. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.
Employee Termination Benefits	Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(M) PROVISIONS

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

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

Onerous Contracts	A provision for onerous contracts is measured at present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.
Make Good on Leased Assets	Aircraft – a provision for return costs to meet contractual return aircraft minimum conditions, at the end of the lease terms for the aircraft under operating leases, are recognised over the lease term. Property and environment – where the occupation of property or land gives rise to an obligation for site closure or rehabilitation, the Group recognises a provision for the costs associated with restoration.
Insurance, Legal and Other	Insurance – the Qantas Group is a licenced self-insurer under the Safety, Rehabilitation and Compensation Act 1988, New South Wales Workers Compensation Act, the Victorian Accident Compensation Act and the Queensland Workers' Compensation and Rehabilitation Act. Qantas has made provision for all notified assessed workers compensation liabilities, together with an estimate of liabilities incurred but not reported, based on an independent actuarial assessment. The provision is discounted using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the liabilities and have maturity dates approximating the terms of Qantas' obligations. Workers compensation for all remaining employees is commercially insured. Legal and other provisions – these are recognised where they are incurred as a result of a past event, there is legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(N) NET FINANCE COSTS

Net finance costs comprise interest payable on borrowings calculated using the effective interest method, unwinding of the discount on provisions and receivables, interest receivable on funds invested and gains and losses on mark-to-market movement in fair value hedges.

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

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

(O) SHARE CAPITAL

i. Ordinary Shares

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

ii. Repurchase of Share Capital

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

iii. Treasury Shares

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

(P) COMPARATIVES

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

38. APPLICATION OF NEW OR REVISED ACCOUNTING STANDARDS

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 37 to all periods presented in these Consolidated Financial Statements.

The Group has adopted the following new standards and amendments to standards with a date of initial application of 1 July 2014.

AASB 9 Financial Instruments

The Group early adopted AASB 9: Financial Instruments as amended in December 2013 (AASB 9 (2013)) with a date of initial application of 1 July 2014. This standard replaced AASB 139 Financial Instruments: Recognition and Measurement (AASB 139).

The impact of this standard for the Qantas Group is as follows:

Classification and Measurement

The Group has classified its financial assets and financial liabilities in accordance with AASB 9 (2013). There were no changes in measurement of the Group's financial assets and financial liabilities as a result of the changes in classification required by AASB 9 (2013).

Hedge accounting

AASB 9 (2013) introduced a new hedge accounting model to simplify hedge accounting outcomes and more closely align hedge accounting with risk management objectives. Some of the key improvements in the standard impacting the Qantas Group include:

- Risk components – AASB 9 (2013) permits hedge accounting for a non-financial component of an economic risk that is separately identifiable and measurable. The Qantas Group uses options and swaps on jet kerosene, gasoil and crude oil to hedge exposure to movements in the price of aviation fuel. Previously under AASB 139, non-financial components of aviation fuel price, such as crude oil, were prohibited from being designated as hedged items and as a result, ineffectiveness occurred due to the differences in the mark-to-market movements of crude oil derivatives compared to the underlying aviation fuel exposure. The designation of component hedges has reduced the changes in fair value of derivative financial instruments recognised immediately in the Consolidated Income Statement as 'ineffective and non-designated derivatives'
- Cost of hedging – AASB 9 (2013) allows the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be 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 a hedged item. Under AASB 139, the Group recognised the change in these elements in the Consolidated Income Statement. This change has reduced the changes in the fair value of derivative financial instruments recognised in the Consolidated Income Statement as 'ineffective and non-designated derivatives'
- Aggregated exposures – Under AASB 9 (2013), the Group has the ability to hedge an aggregated exposure that is a combination of a derivative and a non-derivative exposure. This has allowed the Qantas Group to designate economic hedging relationships as accounting hedges, which would not have qualified under AASB 139. This change has reduced the changes in fair value of derivative financial instruments recognised in the Consolidated Income Statement as 'ineffective and non-designated derivatives'
- Hedge effectiveness – AASB 9 (2013) requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under AASB 139, an entity had to test effectiveness both retrospectively and prospectively and hedge accounting could only be applied if the relationship was 80 to 125 per cent effective. Under AASB 9 (2013), ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item. This change has not had a material impact on the Consolidated Income Statement

The Group has applied AASB 9 (2013) on a prospective basis. Accordingly, there was no retrospective adjustment to the Group results.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

39. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following table details the standards, amendments to standards and interpretations that have been identified as those which may impact the Qantas Group in the period of initial application. They are available for early adoption at 30 June 2015, but have not been applied in preparing these Consolidated Financial Statements.

Topic	Key requirements	Effective date for Qantas
AASB 15 *Revenue from Contracts with Customers* (AASB 15)	AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and AASB Interpretation 13 Customer Loyalty Programmes. AASB 15 is expected to be effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	Qantas is assessing the potential impact on the Consolidated Financial Statements resulting from the application of AASB 15 for the financial year ending 30 June 2019.
AASB 9 *Financial Instruments* (AASB 9 (2014))	AASB 9 (2014) amends AASB 9 (2013) to include a new expected credit loss model for calculating impairment on financial assets. AASB 9 (2014) is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	This standard is not expected to have a material impact on the financial statements of the Group.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2015

1 In the opinion of the Directors of Qantas Airways Limited (Qantas):

(a) The Consolidated Financial Statements and Notes, and the Remuneration Report set out on pages 28 to 46 in the Directors' Report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Qantas Group as at 30 June 2015 and of its performance for the financial year ended on that date;

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that Qantas will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that Qantas and the controlled entities will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between Qantas and those controlled entities pursuant to ASIC Class Order 98/1418.

3 The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2015.

4 The Directors draw attention to Note 1(A) which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a Resolution of the Directors:

Leigh Clifford
Chairman

28 August 2015

Alan Joyce
Chief Executive Officer

28 August 2015

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2015

To the Members of Qantas Airways Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying Financial Report of Qantas Airways Limited (Qantas), which comprises the Consolidated Balance Sheet as at 30 June 2015, and Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year ended on that date, Notes 1 to 39 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Group comprising Qantas and the entities it controlled at the year's end or from time to time during the financial year (Qantas Group).

Directors' Responsibility for the Financial Report

The Directors of Qantas are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that is free from material misstatement whether due to fraud or error. In Note 1(A), the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the Financial Statements of the Group comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Report.

We performed the procedures to assess whether in all material respects the Financial Report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

a. The Financial Report of the Qantas Group is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the Qantas Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.
b. The Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(A).

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2015. The Directors of Qantas are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's Opinion on the Directors' Remuneration Report

In our opinion, the Remuneration Report of Qantas Airways Limited for the year ended 30 June 2015, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

DMcLennan

Duncan McLennan
Partner

Sydney
28 August 2015

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 24 July 2015.

TWENTY LARGEST SHAREHOLDERS

Shareholders		Ordinary Shares Held	% of Issued Shares
1	HSBC Custody Nominees (Australia) Limited	521,995,188	23.77
2	J P Morgan Nominees Australia Limited	440,201,130	20.04
3	National Nominees Limited	316,711,700	14.42
4	Citicorp Nominees Pty Limited	244,932,665	11.15
5	Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	105,680,455	4.81
6	BNP Paribas Noms Pty Ltd	55,175,285	2.51
7	HSBC Custody Nominees (Australia) Limited	26,944,701	1.23
8	AMP Life Limited	24,991,521	1.14
9	National Nominees Limited (N A/C)	15,312,264	0.70
10	SBN Nominees Pty Limited	13,800,000	0.63
11	Pacific Custodians Pty Limited	12,670,506	0.58
12	Share Direct Nominees Pty Ltd	8,426,759	0.38
13	HSBC Custody Nominees (Australia) Limited-GSCO ECA	4,647,969	0.21
14	RBC Investor Services Australia Nominees P/L	4,519,711	0.21
15	BNP Paribas Nominees Pty Ltd	4,102,036	0.19
16	Kilby Pty Ltd	4,000,000	0.18
17	Bond Street Custodians Limited	3,720,016	0.17
18	HSBC Custody Nominees (Australia) Limited – A/C 2	3,431,034	0.16
19	UBS Nominees Pty Ltd	3,420,000	0.16
20	UBS Nominees Pty Ltd	3,231,493	0.15
Total		**1,817,914,433**	**82.77**

DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shareholders by size of shareholding:

Number of Shares	OrdinaryShares Held	Number of Shareholders	% of Issued Shares
1–1,000[1]	20,434,761	40,625	0.93
1,001–5,000	127,459,275	51,655	5.80
5,001–10,000	58,169,655	8,355	2.65
10,001–100,000	101,002,119	4,612	4.60
100,001 and over	1,889,264,440	200	86.02
Total	**2,196,330,250**	**105,447**	**100.00**

1 1,002 shareholders hold less than a marketable parcel of shares in Qantas, as at 24 July 2015.

SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Qantas:

Shareholders	Ordinary Shares Held	% of Issued Shares
Commonwealth Bank of Australia[1]	207,369,897	9.44
UBS AG and its related bodies corporate[2]	166,950,222	7.60
Franklin Resources, Inc.[3]	145,465,122	6.62
Westpac Banking Corporation Group[4]	136,925,095	6.23

1 Substantial shareholder notice dated 22 June 2015.
2 Substantial shareholder notice dated 2 December 2014.
3 Substantial shareholder notice dated 9 July 2015.
4 Substantial shareholder notice dated 17 March 2015.

FINANCIAL CALENDAR AND ADDITIONAL INFORMATION

2015		2016	
26 February	Half year results announcement	23 February	Half year results announcement
30 June	Year end	7 March	Record date for interim dividend*
20 August	Preliminary final results announcement	8 April	Interim dividend payable*
23 October	Annual General Meeting	30 June	Year end
		24 August	Preliminary final results announcement
		8 September	Record date for final dividend*
		12 October	Final dividend payable*
		21 October	Annual General Meeting

* Subject to a dividend being declared by the Board.

2015 ANNUAL GENERAL MEETING

The 2015 AGM of Qantas Airways Limited will be held at 11:00am on Friday 23 October in Perth.

Further details are available in the Investors section on the Qantas website (www.qantas.com)

COMPANY PUBLICATIONS

In addition to the Annual Report the following publications can be accessed from www.qantas.com:

- Annual Review;
- Databook;
- Traffic and Sustainability Statistics;
- Corporate Governance Statement; and
- Workplace Gender Equality Report.

REGISTERED OFFICE

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10 Bourke Road, Mascot NSW 2020 Australia

Telephone +61 2 9691 3636

Facsimile +61 2 9490 1888

www.qantas.com

QANTAS SHARE REGISTRY

Link Market Services Limited

Level 12, 680 George Street, Sydney NSW 2000 Australia; or
Locked Bag A14, Sydney South NSW 1235 Australia

Telephone 1800 177 747 (toll free within Australia)
International +61 2 8280 7390
Facsimile +61 2 9287 0303

Email registry@qantas.com

STOCK EXCHANGE

Australian Securities Exchange

Exchange Centre, 20 Bridge Street, Sydney NSW 2000 Australia

DEPOSITARY FOR AMERICAN DEPOSITARY RECEIPTS

BNY Mellon

Depositary Receipts Division
22nd Floor, 101 Barclay Street, New York NY 10286 USA

Telephone +1 212 815 2293
Facsimile +1 212 571 3050

ADDITIONAL SHAREHOLDER INFORMATION

Using your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of your registered address you are able to view your holding online through Qantas' share registry, Link Market Services, by logging on at www.linkmarketservices.com.au, where you will have the option to:

- view your holding balance;
- retrieve holding statements;
- review your dividend payment history; and
- access shareholder forms.

The Investor Centre also allows you to update or add details to your shareholding, including the following:

- change or amend your address if 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; and
- add/change TFN/ABN details.

COMPANY SECRETARIES

Andrew Finch

Sarah Udy

John Morris

An electronic copy of this Annual Report is available at www.qantas.com