QANTAS AIRWAYS LIMITED AND ITS CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

ABN: 16 009 661 901

ASX CODE: QAN

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Results for Announcement to the Market

Qantas Airways Limited (Qantas) and its controlled entities (the Qantas Group or Group) Results for Announcement to the Market are detailed below.

	June 2018 $M	June 2017 $M	Change $M	Change %
Revenue and other income	17,060	16,057	1,003	6.2
Statutory profit after tax	980	853	127	14.9
Statutory profit after tax attributable to members of Qantas	980	852	128	15.0
Underlying profit before tax	1,604	1,401	203	14.5

DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

	Amount per Ordinary Share cents	Franked Amount per Ordinary Share cents	Dividend Declared $M	Payment Date
2018 final dividend	10.0	10.0	168	October 2018
2018 interim dividend	7.0	-	122	April 2018
2017 final dividend	7.0	-	127	October 2017

(A) Dividends declared and paid

In August 2018, the Directors declared a fully franked final dividend of ten cents per ordinary share totalling $168 million. The record date for determining entitlements to the final dividend is 6 September 2018. The dividend will be paid on 10 October 2018.

During the year ended 30 June 2018, the Group paid two unfranked dividends of seven cents per ordinary share totalling $249 million ($127 million on 13 October 2017 and $122 million on 12 April 2018). Dividends of $0.3 million were paid to non–controlling interest shareholders by non–wholly owned controlled entities.

(B) Other shareholder distributions

In August 2018, the Directors announced an on-market share buy-back of up to $332 million.

During the year ended 30 June 2018, the Group completed the on-market share buy-back of $373 million, which was announced in August 2017 and the on-market share buy-back of $378 million announced in February 2018. The Group purchased a total of 125 million ordinary shares for $751 million at a weighted average share price of $6.02.

EXPLANATION OF RESULTS

Please refer to the Review of Operations for an explanation of the results.

The information provided in this report contains all the information required by ASX Listing Rule 4.3A.

Other Information

		June 2018	June 2017
Net assets per ordinary share[1]	$	2.35	1.96
Net tangible assets per ordinary share[1]	$	2.23	1.59
Basic/diluted earnings per share (Statutory Earnings per share)[2]	cents	56	46
Underlying Earnings per share[3]	cents	64	55

1 Based on number of shares outstanding at the end of the period.
2 Based on the weighted average number of shares outstanding during the period.
3 Underlying Earnings per share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 29.5% (2017: 27.8%) divided by the weighted average number of shares outstanding during the period .

Other Information continued

ENTITIES OVER WHICH CONTROL, JOINT CONTROL OR SIGNIFICANT INFLUENCE WAS GAINED OR LOST DURING THE YEAR

Loyalty Magic Pty Ltd (deregistered on 4 September 2017)

Accumulate Loyalty Services Limited (disposed on 31 October 2017)

Qantas Ventures Pty Limited (a wholly owned controlled entity incorporated on 2 November 2017)

QF 738 Leasing 5 Pty Ltd (deregistered on 3 January 2018)

QF 744 Leasing 3 Pty Ltd (deregistered on 3 January 2018)

QF A332 Leasing 3 Pty Limited (deregistered on 3 January 2018)

OWNERSHIP INTEREST IN INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	June 2018 %	June 2017 %
Fiji Resorts Limited	21	21
Hallmark Aviation Services L.P.	49	49
HT & T Travel Philippines, Inc.	28	28
Holiday Tours and Travel (Thailand) Ltd.	37	37
Holiday Tours and Travel Vietnam Co. Ltd.	37	37
Holiday Tours and Travel (GSA) Ltd.	37	37
Helloworld Travel Limited.	17	18
Jetstar Japan Co., Ltd.	33	33
Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
PT Holidays Tours & Travel	37	37

ASIC GUIDANCE

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

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. In line with previous years and in accordance with the *Corporations Act 2001*, the Preliminary Final Report is unaudited and contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2018. The Annual Financial Report is being audited and is expected to be made available on 31 August 2018.

Review of Operations continued

For the year ended 30 June 2018

RESULT HIGHLIGHTS

Underlying Profit Before Tax

1,604 $M

FY18	**1,604**
FY17	1,401
FY16	1,532
FY15	975

Statutory Profit After Tax

980 $M

FY18	**980**
FY17	853
FY16	1,029
FY15	560

Return on Invested Capital

22.0 %

FY18	**22.0%**
FY17	20.1%
FY16	22.7%
FY15	16.2%

The Qantas Group reported a record Underlying Profit Before Tax[1] (Underlying PBT) of $1,604 million for the 12 months ended 30 June 2018, an increase of $203 million from 2016/17. The Group's Statutory Profit After Tax of $980 million was up $127 million from the prior year. The Statutory Profit Before Tax for this financial year included $213 million of costs which were not included in Underlying PBT. These costs included redundancies, restructuring and other costs associated with ongoing transformation.

The Group's three-year ambitious program to turnaround the business was successful. The building of this strong foundation and continuing to transform the business has allowed delivery of another record financial performance while effectively managing rising fuel costs.

Financial highlights for the 2017/18 financial year are:
— Record Statutory Earnings per share of 56 cents per share
— Continued strong Return on Invested Capital (ROIC)[2] of 22.0 per cent
— Delivery of $463 million in transformation benefits, well in excess of the $400 million annual target
— All operating segments delivering ROIC greater than their Weighted Average Cost of Capital (WACC)[3]
— Record operating cash flow of $3.4 billion

Disciplined capacity management and the dual brand strategy allowed the Group's domestic business (including both Qantas Domestic and Jetstar's domestic business) to report record Underlying Earnings before Interest and Taxation (EBIT). Jetstar Group's domestic and international businesses combined to deliver a record result for the Jetstar Group. Qantas International delivered improved earnings this financial year supported by improvement in Unit Revenue and higher seat factors that helped to offset rising fuel prices. Qantas Loyalty delivered another record performance providing a growing and diversified earnings stream, not directly exposed to fuel prices.

The Group's Financial Framework continues to guide our strategy. The balance sheet strengthened, with Net Debt[4] at $4.9 billion, below the bottom of the target range. Looking forward, this net debt position provides the Group with significant financial flexibility. The record operating cash flow of $3.4 billion allowed net capital expenditure[5] of $1.97 billion to be invested in the business and $1 billion of surplus capital to be returned to shareholders through a combination of dividends and on-market share buy-backs.

Giving consideration to the strength of the balance sheet and the near-term outlook for the business, the Board resolved to distribute a further $500 million of surplus capital to shareholders. This includes a 10 cent per share fully franked final dividend, totalling $168 million and an additional on-market share buy-back of up to $332 million.

1 Underlying Profit Before Tax (Underlying PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas Domestic, Qantas International, Jetstar Group and Qantas Loyalty operating segments is Underlying Earnings Before Net Finance Costs and Income Tax Expense (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying PBT to Statutory Profit Before Tax on Page 10.
2 Return on Invested Capital is calculated as ROIC EBIT for the 12 months ended 30 June 2018, divided by the 12 month average Invested Capital. ROIC EBIT is calculated by adjusting Underlying EBIT for the period to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they are owned aircraft.
3 Weighted Average Cost of Capital is calculated on a pre-tax basis.
4 Net debt under the Group's Financial Framework includes net on balance sheet debt and off-balance sheet aircraft operating lease liabilities.
5 Net capital expenditure of $1.97 billion is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) of $1.97 billion and the impact to Invested Capital of commencing/returning operating leases. There was no commencement/return of operating leases in 2017/18.

Review of Operations continued

For the year ended 30 June 2018

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

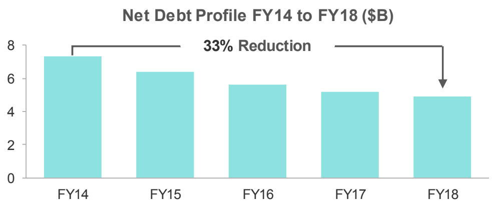
Qantas' Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings per Share (EPS) growth over the cycle, which in turn should generate Total Shareholder Return (TSR) in the top quartile of the ASX100 and a basket of global airlines,[6] the Financial Framework has three clear priorities and associated long-term targets:

1. Maintaining an Optimal Capital Structure	2. ROIC > WACC Through the Cycle	3. Disciplined Allocation of Capital
Minimise cost of capital by targeting a net debt range of $5.1 billion to $6.3 billion	Deliver ROIC > 10 per cent[7] through the cycle	Grow Invested Capital with disciplined investment, return surplus capital

MAINTAINABLE EPS GROWTH OVER THE CYCLE

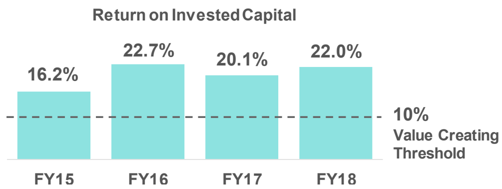
TOTAL SHAREHOLDER RETURN IN THE TOP QUARTILE

Maintaining an Optimal Capital Structure



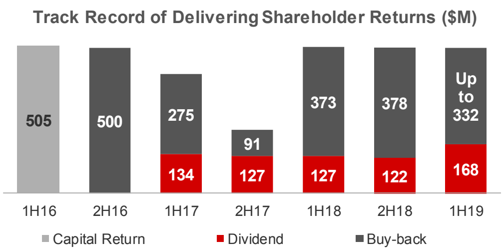
The Group's Financial Framework targets an optimal capital structure with a net debt range of between $5.1 billion and $6.3 billion, based on the current Average Invested Capital of approximately $8.8 billion, a minimum ROIC of 10 per cent and net debt/ROIC EBITDA range of 2.0-2.5 times. This capital structure optimises the Group's cost of capital, preserves financial strength and therefore enhances long-term shareholder value. At 30 June 2018, net debt was $4.9 billion. The Group's optimal capital structure is consistent with investment grade credit metrics. The Group is rated BBB- with Standard & Poor's and Baa2 with Moody's Investor Services.

ROIC > WACC Through the Cycle



Return on Invested Capital (ROIC) of 22.0 per cent was above the Group's value creating threshold ROIC of 10 per cent for the fourth consecutive year.

Disciplined Allocation of Capital

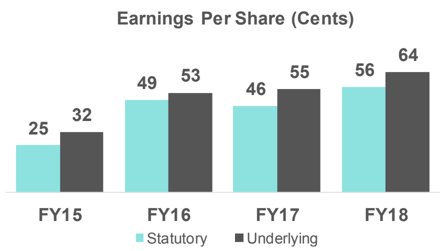


The Qantas Group takes a disciplined approach to allocating capital with the aim to grow Invested Capital and return surplus capital to shareholders.

- Net capital expenditure of $1.97 billion was invested during the financial year
- $1 billion was distributed to shareholders in 2017/18 through ordinary dividends and on-market share buy-backs

In August 2018, the Directors declared a fully franked final dividend of 10 cents per ordinary share totalling $168 million and announced an on-market share buy-back of up to $332 million.

Maintainable EPS Growth Over the Cycle



Statutory Earnings per Share was 56 cents. The increase from 2016/17 was driven by an increase in Statutory Profit After Tax and a 5.3 per cent reduction in weighted average shares on issue. The Group purchased 125 million shares for $751 million at an average price of $6.02.

6 Target Total Shareholder Return within the top quartile of the ASX100 and the global listed airline peer group as stated in the 2017 Annual Report, with reference to the 2017-2019 Long Term Incentive Plan.
7 Target of 10 per cent ROIC allows ROIC to be greater than pre-tax WACC through the cycle.

Review of Operations continued

For the year ended 30 June 2018

GROUP PERFORMANCE

Underlying PBT for 2017/18 was $1,604 million compared to an Underlying PBT of $1,401 million in 2016/17. The record result was due primarily to the increase in net passenger revenue and benefits from transformation that more than offset the increases in fuel and expenses associated with additional flying activity. Net passenger revenue increased by six per cent, through revenue uplift from additional flying activity and strong improvement in Group Unit Revenue.

Group Underlying Income Statement Summary	June 2018 $M	June 2017 $M	Change $M	Change %
Net passenger revenue	14,715	13,857	858	6
Net freight revenue	862	808	54	7
Other revenue	1,483	1,392	91	7
Revenue and other income	**17,060**	**16,057**	**1,003**	**6**
Operating expenses (excluding fuel)[8]	(10,268)	(9,683)	(585)	(6)
Fuel	(3,232)	(3,039)	(193)	(6)
Depreciation and amortisation[8]	(1,517)	(1,382)	(135)	(10)
Non-cancellable aircraft operating lease rentals	(272)	(356)	84	24
Share of net profit/(loss) of investments accounted for under the equity method	15	(7)	22	>100
Total underlying expenditure	**(15,274)**	**(14,467)**	**(807)**	**(6)**
Underlying EBIT	**1,786**	**1,590**	**196**	**12**
Net finance costs	(182)	(189)	7	4
Underlying PBT	**1,604**	**1,401**	**203**	**14**

Operating Statistics		June 2018	June 2017	Change	Change %
Available Seat Kilometres (ASK)[9]	M	152,428	150,323	2,105	1.4
Revenue Passenger Kilometres (RPK)[10]	M	126,814	121,178	5,636	4.7
Passengers carried	'000	55,273	53,659	1,614	3.0
Revenue Seat Factor[11]	%	83.2	80.6	2.6pts	3.2
Operating Margin[12]	%	10.5	9.9	0.6pts	6.1
Unit Revenue (RASK)[13]	c/ASK	8.31	8.00	0.31	3.9
Total unit cost[14]	c/ASK	(7.26)	(7.07)	(0.19)	(2.7)
Ex-fuel unit cost[15]	c/ASK	(5.15)	(5.03)	(0.12)	(2.4)

Group capacity (Available Seat Kilometres) increased by 1.4 per cent, while demand (Revenue Passenger Kilometres) increased by 4.7 per cent, resulting in a 2.6 percentage point increase in Revenue Seat Factor. Unit Revenue increased by 3.9 per cent in 2017/18 with an increase of 3.5 per cent in the first-half compared to the first half of 2016/17, improving to an increase of 4.4 per cent in the second-half compared to the second half of 2016/17, as capacity discipline in both the domestic and international markets prevailed. The Group's total unit cost increased by 2.7 per cent including the impact of higher fuel prices and costs associated with increased revenue. This includes commissions, down-gauging of aircraft and investment in improved customer experience including in-flight Wi-Fi.

TRANSFORMATION

The Group maintained its focus on ongoing transformation, delivering $463 million in benefits which exceeded the annual target of $400 million. This included net revenue benefits of $176 million from a range of initiatives including structural changes such as the introduction of the Dreamliner to Qantas International, the Singapore hub restructure and commencement of the Perth to London direct service. Non-fuel costs were reduced by $254 million through a combination of technology-based innovations, commercial sourcing benefits as well as optimising scheduled maintenance on the A380 fleet. With rising fuel costs and a continued focus on reducing carbon emissions, $33 million in fuel benefits was achieved through a range of fuel efficiency measures including increased utilisation of ground power units and single engine taxiing.

8 Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT such as those items identified by Management as not representing the underlying performance of the business. Refer to the reconciliation on page 10.
9 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
10 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
11 Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.
12 Operating Margin is Group Underlying EBIT divided by Group total revenue.
13 Unit Revenue is calculated as ticketed passenger revenue per ASK. The prior period has been restated to conform with current year presentation.
14 Total Unit Cost is Underlying PBT less ticketed passenger revenue per ASK. The comparative period has been restated to conform with current year presentation.
15 Ex-fuel unit cost is measured as Underlying PBT less ticketed passenger revenue, fuel and share of profit/(loss) of investments accounted for under the equity method, adjusted for the impact of changes in foreign exchange rates, discount rates and other actuarial assumptions per ASK. The comparative period has been restated to conform with current year presentation.

Review of Operations continued

For the year ended 30 June 2018

CASH GENERATION

Cash Flow Summary	June 2018 $M	June 2017 $M	Change $M	Change %
Operating cash flows	3,413	2,704	709	26
Investing cash flows (excluding aircraft operating lease refinancing)	(1,971)	(1,395)	(576)	(41)
Net free cash flow	**1,442**	**1,309**	**133**	**10**
Aircraft operating lease refinancing	(230)	(651)	421	65
Financing cash flows	(1,296)	(854)	(442)	(52)
Cash at beginning of year	1,775	1,980	(205)	(10)
Effect of foreign exchange on cash	3	(9)	12	>100
Cash at end of year	**1,694**	**1,775**	**(81)**	**(5)**

Debt Analysis		June 2018	June 2017	Change	Change %
Net on balance sheet debt[16]	$M	3,054	3,062	(8)	–
Capitalised operating lease liabilities[17]	$M	1,849	2,150	(301)	(14)
Net debt[18]		**4,903**	**5,212**	**(309)**	**(6)**
FFO/net debt[19]	%	67	58	9 pts	
Debt/EBITDA[20]	times	2.0	2.3	(0.3 times)	

Operating cash flows were a record $3.4 billion, as earnings improved.

Net capital expenditure of $1.97 billion included investment in replacement fleet such as the final payments and progress payments for the 787-9 Dreamliners for Qantas International, customer experience initiatives including lounge upgrades, the continuation of the Airbus A330 reconfiguration program and Wi-Fi installation on the Qantas Domestic fleet. Qantas generated $1.4 billion of net free cash flow in the period, an increase of $133 million from the prior year. This facilitated net debt reduction and returns to shareholders.

With reduced financial leverage and minimal near-term refinancing risk, the Group has continued to optimise the mix of liquidity with less requirement for short-term liquidity held in cash. The Group used $230 million cash in excess of its short-term requirements to purchase six aircraft out of maturing operating leases. Using the Group's existing cash balance in this way achieved the following benefits:

- Reduced gross debt and cost of carry with minimal impact to net debt
- Greater fleet and maintenance planning flexibility
- Reduced exposure to US$ lease rentals

The Group enhanced the quality of the unencumbered pool of aircraft by adding five new 787-9s, bringing the total unencumbered aircraft to 61 per cent of the fleet with an approximate value of US$4.0 billion.[21]

Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changes in market conditions and earnings scenarios. At 30 June 2018, the Group's leverage metrics were well within investment grade metrics (BBB/Baa) with FFO/net debt[19] of 67 per cent and Debt/EBITDA[20] of 2.0 times.

FLEET

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

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

During the year, the Group continued to cross utilise the A330-200 and 737-800 aircraft between Qantas Domestic and Qantas International, optimising capacity to match demand. These aircraft were released from Qantas Domestic through capacity right sizing in the domestic market. At 30 June 2018, the Qantas Group fleet[22] totalled 313 aircraft. During 2017/18, the Group acquired five 787-9s (Qantas International), retired one 747-400 (Qantas International) and transferred two A320-200 aircraft from Jetstar to QantasLink.

16 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents.
17 Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at a long-term exchange rate.
18 Net debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.
19 Management's estimate based on Standard and Poor's methodology.
20 Management's estimate based on Moody's methodology.
21 Based on AVAC market values.
22 Includes Qantas Airways, Jetstar Australia and New Zealand, Jetstar Asia, Qantas Freight and Network Aviation, and excludes aircraft operated by Jetstar Japan and Jetstar Pacific.

Review of Operations continued

For the year ended 30 June 2018

Fleet Summary (Number of aircraft)	June 2018	June 2017
A380	12	12
747-400/400ER	10	11
A330-200/300	28	28
737-800	75	75
787-9	5	–
717-200	20	20
Q200/300/400	45	45
F100	17	17
A320-200	2	–
Total Qantas (including QantasLink and Network Aviation)	**214**	**208**
Q300	5	5
A320/A321-200	77	79
787-8	11	11
Total Jetstar Group	**93**	**95**
737-300/400F	5	5
767-300F	1	1
Total Freight	**6**	**6**
Total Group	**313**	**309**

SEGMENT PERFORMANCE

Segment Performance Summary	June 2018 $M	June 2017 $M	Change $M	Change %
Qantas Domestic	768	645	123	19
Qantas International	399	374	25	7
Jetstar Group	461	417	44	11
Qantas Loyalty	372	369	3	1
Corporate	(195)	(173)	(22)	(13)
Unallocated/Eliminations	(19)	(42)	23	55
Underlying EBIT	**1,786**	**1,590**	**196**	**12**
Net finance costs	(182)	(189)	7	4
Underlying PBT	**1,604**	**1,401**	**203**	**14**

QANTAS DOMESTIC

Revenue

5,973 $M

FY18	5,973
FY17	5,632
FY16	5,710
FY15	5,828

Underlying EBIT

768 $M

FY18	768
FY17	645
FY16	578
FY15	480

Operating Margin

12.9 %

FY18	12.9%
FY17	11.5%
FY16	10.1%
FY15	8.2%

Metrics		June 2018	June 2017	Change
ASKs	M	34,385	35,231	(2.4%)
Seat factor	%	77.8	76.4	1.4pts

Qantas Domestic reported a record Underlying EBIT of $768 million, up 19.1 per cent from 2016/17. Qantas Domestic was able to offset fuel price increases as Unit Revenue increased by eight per cent compared to 2016/17 through continued capacity management discipline. Qantas Domestic maintained its leadership position in the corporate market while growing its share of the Small to Medium Enterprise (SME) market. During the year Qantas Domestic also benefited from the recovery of the resources market.

The dual brand strategy together with the benefits of transformation and investment in our customers continued to deliver leading

Review of Operations continued

For the year ended 30 June 2018

margins in the Australian domestic market, with the operating margin for Qantas Domestic up 1.4 percentage points to 12.9 per cent.

Qantas Domestic continued to invest in customer experience delivering:

- >15 percentage points customer advocacy[23] premium to competitor[24]
- 84 per cent on-time performance[25]
- More than half of the 737 fleet Wi-Fi equipped (improved Net Promotor Score (NPS) for in-flight entertainment on Wi-Fi equipped 737s); A330 Wi-Fi roll-out underway
- Improved offerings for regional travel through expansion of resident fares program and turboprop refurbishment
- The new Melbourne Qantas Club and business lounge upgrades underway.

QANTAS INTERNATIONAL

Revenue

6,892 $M

FY18	6,892
FY17	6,413
FY16	6,496
FY15	6,295

Underlying EBIT

399 $M

FY18	399
FY17	374
FY16	576
FY15	381

Operating Margin

5.8 %

FY18	5.8%
FY17	5.8%
FY16	8.9%
FY15	6.1%

Metrics		June 2018	June 2017	Change
ASKs	M	69,280	66,389	4.4%
Seat factor	%	84.2	81.0	3.2pts

Qantas International reported an Underlying EBIT of $399 million for 2017/18, up 6.7 per cent compared to 2016/17. Unit Revenue increased by 2.5 per cent in competitive market conditions while Qantas International maintained its strong operating margin in a rising fuel price environment.

Structural transformation continues to build earnings resilience with the introduction of the 789 Dreamliner to the fleet, successful launch of the direct Perth – London service in March 2018 and the completion of the Singapore hub switch creating increased network connectivity. Qantas International has ordered six additional Dreamliners, accelerating 747 retirements and is strengthening its customer proposition through extended partnerships and alliances.

Qantas International continued to invest in customer experience delivering:

- Higher customer advocacy[23] on Dreamliner routes, including Perth – London
- New London and Perth transit hub lounges opened
- First five 787-9s delivered,[26] enabling new network opportunities, cost efficiencies and yield premium.

JETSTAR GROUP

Revenue

3,767 $M

FY18	3,767
FY17	3,600
FY16	3,636
FY15	3,464

Underlying EBIT

461 $M

FY18	461
FY17	417
FY16	452
FY15	230

Operating Margin

12.2 %

FY18	12.2%
FY17	11.6%
FY16	12.4%
FY15	6.6%

Metrics		June 2018	June 2017	Change
ASKs	M	48,763	48,703	0.1%
Seat factor	%	85.6	83.1	2.5pts

The Jetstar Group reported Underlying EBIT of $461 million, a record result in an increasing fuel price environment. Jetstar Domestic delivered record earnings of $311 million with Unit Revenue up five per cent driven by a three per cent seat factor improvement on a one per cent capacity reduction. Jetstar International[27] had strong earnings with ROIC>WACC whilst all Jetstar's branded airlines in Asia[28] were

23 Customer advocacy measured as Net Promoter Score (NPS). Based on Qantas internal reporting.
24 Competitor refers to Virgin Australia. Based on Qantas internal reporting.
25 On time performance (OTP) of Qantas Domestic operations. Measured as departures within 15 minutes of scheduled departure time for FY18. Source: BITRE
26 New 787-9 deliveries as at 30 June 2018.
27 Includes Jetstar International Australian operations and Jetstar New Zealand (including Jetstar regionals).
28 Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific (Vietnam).

Review of Operations continued

For the year ended 30 June 2018

profitable. Jetstar Japan maintained its domestic Low Cost Carrier (LCC) leadership position,[29] Jetstar Pacific improved its domestic position as capacity discipline returned to the market and Jetstar Asia contributed to benefits from the Singapore hub switch.

Jetstar continued its investment in digital transformation and customer experience delivering:

- Cabin Enhancement Program for A320/321 retrofit progressed with improved NPS for completed aircraft[30]
- Club Jetstar continued growth with more than 250,000 members[31]
- Investing in innovation and digital capability to personalise the customer experience and drive ancillary margin growth.

QANTAS LOYALTY

Revenue

1,546 $M

FY18	1,546
FY17	1,505
FY16	1,454
FY15	1,362

Underlying EBIT

372 $M

FY18	372
FY17	369
FY16	346
FY15	315

Operating Margin

24.1 %

FY18	24.1%
FY17	24.5%
FY16	23.8%
FY15	23.1%

Metrics		June 2018	June 2017	Change
QFF members	M	12.3	11.8	4.2%

Qantas Loyalty reported another record result with Underlying EBIT of $372 million, up one per cent compared to 2016/17. The strategy to mitigate interchange fee regulatory change was on track during this transition year.

Coalition Business fundamentals continue to strengthen with:

- Co-branded credit card growth outpacing the market[32]
- Strengthening the Woolworths' proposition, first full year of the new program
- Growth in everyday earn partners, successful launch of Red Energy
- Expanding member redemption options including enhanced access to air, hotel and point of sale
- Qantas Classic International redemptions up 10 per cent.[33]

Qantas Business Rewards membership and partner growth supported the airline SME share growth strategy. Qantas Travel Money[34] increased its customer value proposition and was awarded a 5 star Canstar rating. New businesses remain on track with Qantas Insurance[35] moving into scale up phase and the successful launch of the Qantas Premier Everyday Card.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax of $1,391 million for 2017/18 was $210 million higher than the previous year.

Underlying PBT

Underlying PBT is the primary reporting measure used by the Qantas Group's Chief Operating Decision-Making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, 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.

	2018 $M	2017 $M
Reconciliation of Underlying PBT to Statutory Profit Before Tax		
Underlying PBT	**1,604**	**1,401**
Items not included in Underlying PBT		
– Transformation costs	(162)	(142)
– Turnaround, Wage Freeze bonus and Record Results employee bonus	(53)	(85)
– Net gains/(losses) on investments	12	20
– Other	(10)	(13)
Total items not included in Underlying PBT	**(213)**	**(220)**
Statutory Profit Before Tax	**1,391**	**1,181**

29 Measured as percentage of market share for FY18. Source: Diio Mi.
30 Compared to aircraft with equivalent seat pitch.
31 Members as at August 2018.
32 Based on the number of credit card accounts with interest-free periods. Market growth calculated excluding Qantas' contribution to market based on June 2018 compared to June 2017. Source: RBA credit and card charges statistics.
33 Compared to 2016/17.
34 Previously Qantas Cash.
35 Previously Qantas Assure.

Review of Operations continued

For the year ended 30 June 2018

Items which are identified by Management and reported to the CODM 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 costs relating to major transformational/restructuring initiatives, gains/(losses) on transactions involving investments, impairments of assets and other transactions outside the ordinary course of business.

- Transformation costs of $162 million were incurred during the year. Transformation costs included redundancy and related costs of $43 million, fleet restructuring costs of $81 million (primarily relates to costs for the introduction of the 789 Dreamliners and the retirement of the 747 fleet) and other upfront costs of $38 million directly incurred to enable the delivery of transformation benefits.
- Turnaround employee bonus of $53 million payable to non-executive employees that agree to an 18 month pay freeze, in recognition of the successful completion of the Turnaround Program.
- Net gains/(losses) on investments of $12 million relates to the sale of a business within the Qantas Loyalty segment and the recycling of the foreign exchange translation reserve on disposal of an investment.

MATERIAL BUSINESS RISKS

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or an epidemic. Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects. The Group's focus is on continuously improving the controls to manage or mitigate these risks as the nature of these risks and the risk landscape for the Qantas Group has not materially changed compared with the previous year. The Qantas Group continues to operate in a domestic and international environment where elevated political risk for the business will be the norm. The increased level of unpredictability makes it imperative that the Group continues to plan for wide ranges of scenarios and risks to ensure its robustness.

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

Fuel and foreign exchange volatility: The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2018/19, the Group's hedging profile is positioned such that 2018/19 fuel costs are expected to be $3.92[36] billion with an average 54 per cent participation rate[37] to lower fuel prices. Fuel price is 73 per cent hedged for the remainder of 2018/19. Complementing the hedging program, increased focus on forecasting and the operational agility of our aviation operations are supporting the Group to manage the residual uncertainty.

Cyber security and data governance: The cyber security and data environment is continuously evolving. Qantas remains focused on further strengthening its governance, processes and technology controls to continue to protect the integrity and privacy of data and maintain compliance with regulatory requirements. The Qantas Group's ongoing investment in cyber transformation initiatives, together with its extensive Control and Risk Framework,[38] operate to reduce the likelihood of cyber security and data privacy incidents, assisting with the early detection and mitigation of impact. Given the nature of this risk, the appropriateness of the controls is continuously reviewed by the Group Cyber and Privacy Committee and is subject to independent assurance on a periodic basis.

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

Climate change: The Qantas Group is subject to short-term and long-term climate-related physical and transition risks. These risks are an inherent part of the operations of an airline and are managed by strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate policies) impact the proximity of climate-related risks. The Qantas Group is responding to increased demand for transparency on identification and management of climate-related risks by aligning its 2017/18 corporate disclosures with the Taskforce on Climate-Related Financial Disclosures (TCFD)

36 As at 20 August 2018. This assumes forward market rates of Jet Fuel US$85.80 per barrel and AUD/USD 0.7317. 2018/19 fuel cost could be impacted by a breakdown in correlation or by increases in refining margins.
37 As at 20 August 2018. Participation from current market Brent prices down US$10 per barrel for the remainder of 2018/19.
38 An overview of the Group Risk Management Framework is contained in the Qantas Group Business Practices Document available on www.qantas.com.au

Consolidated Income Statement

For the year ended 30 June 2018

	Notes	2018 $M	2017 $M
REVENUE AND OTHER INCOME			
Net passenger revenue		14,715	13,857
Net freight revenue		862	808
Other	4(B)	1,483	1,392
Revenue and other income		**17,060**	**16,057**
EXPENDITURE			
Manpower and staff related		4,300	4,033
Fuel		3,232	3,039
Aircraft operating variable		3,596	3,436
Depreciation and amortisation		1,528	1,382
Non-cancellable aircraft operating lease rentals		272	356
Share of net (profit)/loss of investments accounted for under the equity method		(15)	7
Other	5	2,574	2,434
Expenditure		**15,487**	**14,687**
Statutory profit before income tax expense and net finance costs		**1,573**	**1,370**
Finance income		48	46
Finance costs		(230)	(235)
Net finance costs		**(182)**	**(189)**
Statutory profit before income tax expense		**1,391**	**1,181**
Income tax expense	6	(411)	(328)
Statutory profit for the year		**980**	**853**
Attributable to:			
Members of Qantas		980	852
Non-controlling interests		–	1
Statutory profit for the year		**980**	**853**
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic/diluted earnings per share (cents)	3	**56**	**46**

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 2018

	2018 $M	2017 $M
Statutory profit for the year	**980**	**853**
Items that are or may be subsequently reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	559	46
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1]	(230)	(6)
Recognition of effective cash flow hedges on capitalised assets, net of tax	16	(2)
Net changes in hedge reserve for time value of options, net of tax	51	(22)
Foreign currency translation of controlled entities	3	(4)
Foreign currency translation of investments accounted for under the equity method	(3)	(9)
Share of other comprehensive income of investments accounted for under the equity method	4	2
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial gains, net of tax	84	175
Fair value gains on investments, net of tax	1	–
Other comprehensive income for the year	**485**	**180**
Total comprehensive income for the year	**1,465**	**1,033**

Attributable to:		
Members of Qantas	1,465	1,032
Non-controlling interests	–	1
Total comprehensive income for the year	**1,465**	**1,033**

1 These amounts were allocated to revenue of $nil million (2017: $1 million), fuel expenditure of $(329) million (2017: $(10) million), and income tax expense of $99 million (2017: $3 million) in the Consolidated Income Statement.

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

Consolidated Balance Sheet

As at 30 June 2018

CURRENT ASSETS	2018 $M	2017 $M
Cash and cash equivalents	1,694	1,775
Receivables	908	784
Other financial assets	474	100
Inventories	351	351
Assets classified as held for sale	118	12
Other	167	97
Total current assets	**3,712**	**3,119**
NON-CURRENT ASSETS		
Receivables	100	123
Other financial assets	112	43
Investments accounted for under the equity method	226	214
Property, plant and equipment	12,851	12,253
Intangible assets	1,113	1,025
Other	533	444
Total non-current assets	**14,935**	**14,102**
Total assets	**18,647**	**17,221**
CURRENT LIABILITIES		
Payables	2,295	2,008
Revenue received in advance	3,939	3,744
Interest-bearing liabilities	404	433
Other financial liabilities	34	69
Provisions	860	841
Liabilities classified as held for sale	64	–
Total current liabilities	**7,596**	**7,095**
NON-CURRENT LIABILITIES		
Revenue received in advance	1,446	1,424
Interest-bearing liabilities	4,344	4,405
Other financial liabilities	25	56
Provisions	367	348
Deferred tax liabilities	910	353
Total non-current liabilities	**7,092**	**6,586**
Total liabilities	**14,688**	**13,681**
Net assets	**3,959**	**3,540**
EQUITY		
Issued capital	2,508	3,259
Treasury shares	(115)	(206)
Reserves	479	12
Retained earnings	1,084	472
Equity attributable to the members of Qantas	**3,956**	**3,537**
Non-controlling interests	3	3
Total equity	**3,959**	**3,540**

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 2018

30 June 2018 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other[1] Reserves	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2017	**3,259**	**(206)**	**124**	**(100)**	**(16)**	**4**	**472**	**3**	**3,540**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR									
Statutory profit for the year	–	–	–	–	–	–	980	–	980
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	559	–	–	–	–	559
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	(230)	–	–	–	–	(230)
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	16	–	–	–	–	16
Net changes in hedge reserve for time value of options, net of tax	–	–	–	51	–	–	–	–	51
Defined benefit actuarial gains, net of tax	–	–	–	–	–	84	–	–	84
Foreign currency translation of controlled entities	–	–	–	–	3	–	–	–	3
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	(3)	–	–	–	(3)
Fair value gains on investments, net of tax	–	–	–	–	–	1	–	–	1
Share of other comprehensive income of investments accounted for under the equity method	–	–	–	4	–	–	–	–	4
Total other comprehensive income	**–**	**–**	**–**	**400**	**–**	**85**	**–**	**–**	**485**
Total comprehensive income for the year	**–**	**–**	**–**	**400**	**–**	**85**	**980**	**–**	**1,465**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(751)	–	–	–	–	–	–	–	(751)
Dividend paid	–	–	–	–	–	–	(249)	–	(249)
Treasury shares acquired	–	(162)	–	–	–	–	–	–	(162)
Share-based payments	–	–	64	–	–	–	–	–	64
Shares vested and transferred to employees	–	253	(82)	–	–	–	(119)	–	52
Total contributions by and distributions to owners	**(751)**	**91**	**(18)**	**–**	**–**	**–**	**(368)**	**–**	**(1,046)**
Total transactions with owners	**(751)**	**91**	**(18)**	**–**	**–**	**–**	**(368)**	**–**	**(1,046)**
Balance as at 30 June 2018	**2,508**	**(115)**	**106**	**300**	**(16)**	**89**	**1,084**	**3**	**3,959**

1 Other Reserves includes the Defined Benefit Reserve and the Fair Value Reserve.

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 2018

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

1 Other Reserves includes the Defined Benefit Reserve.

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 2018

	2018 $M	2017 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	18,039	16,947
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs, Turnaround, Wage Freeze and Record Results bonuses)	(14,393)	(13,982)
Cash generated from operations	**3,646**	**2,965**
Cash payments to employees for redundancies and related costs	(42)	(50)
Cash payments to employees for Turnaround, Wage Freeze and Record Results bonuses	(74)	(87)
Interest received	41	37
Interest paid	(161)	(164)
Dividends received from investments accounted for under the equity method	6	7
Income taxes paid (foreign)	(3)	(4)
Net cash from operating activities	**3,413**	**2,704**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment and intangible assets	(1,959)	(1,368)
Interest paid and capitalised on qualifying assets	(44)	(45)
Payments for investments accounted for under the equity method	(2)	(16)
Proceeds from disposal of property, plant and equipment	17	34
Proceeds from disposal of a controlled entity	17	–
Net cash used in investing activities (excluding aircraft operating lease refinancing)	(1,971)	(1,395)
Aircraft operating lease refinancing	(230)	(651)
Net cash used in investing activities	**(2,201)**	**(2,046)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for share buy-back	(751)	(366)
Payments for treasury shares	(162)	(198)
Proceeds from borrowings	668	419
Repayments of borrowings	(802)	(453)
Net receipts for aircraft security deposits and hedges related to debt	–	8
Dividends paid to shareholders	(249)	(261)
Dividends paid to non-controlling interests	–	(3)
Net cash used in financing activities	**(1,296)**	**(854)**
Net decrease in cash and cash equivalents held	**(84)**	**(196)**
Cash and cash equivalents at the beginning of the year	1,775	1,980
Effects of exchange rate changes on cash and cash equivalents	3	(9)
Cash and cash equivalents at the end of the year	**1,694**	**1,775**

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Preliminary Final Report

For the year ended 30 June 2018

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

The Preliminary Final Report (the Report) has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The Report is presented in Australian dollars, which is the functional currency of Qantas Airways Limited (Qantas) and its controlled entities (the Qantas Group) and has been prepared on the basis of historical cost except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values.

The Annual Financial Report is in the process of being audited and is expected to be made available on 31 August 2018. This Report should also be read in conjunction with any public announcements made by Qantas during the year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and ASX Listing Rules.

Qantas is a company of the kind referred to in Australian Securities and Investments Commission (ASIC) Instrument 2016/191 dated 24 March 2016. In accordance with that Instrument, all financial information presented has been rounded to the nearest million dollars, unless otherwise stated.

(B) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Qantas Group in this Preliminary Final Report are the same as those applied by the Qantas Group in the Qantas Annual Report for the year ended 30 June 2017.

(C) COMPARATIVES

Where applicable, various comparative balances have been reclassified to align with current period presentation.

(D) 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. In preparing this Report, 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 were the same as those applied to the Qantas Annual Report for the year ended 30 June 2017.

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

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

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

	2018 $M	2017 $M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX		
Underlying PBT	**1,604**	**1,401**
Items not included in Underlying PBT		
– Transformation costs	(162)	(142)
– Turnaround, Wage Freeze bonus and Record Results employee bonus	(53)	(85)
– Net gains/(losses) on investments	12	20
– Other	(10)	(13)
Total items not included in Underlying PBT	**(213)**	**(220)**
Statutory Profit Before Tax	**1,391**	**1,181**

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

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

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

i. Items not included in Underlying PBT

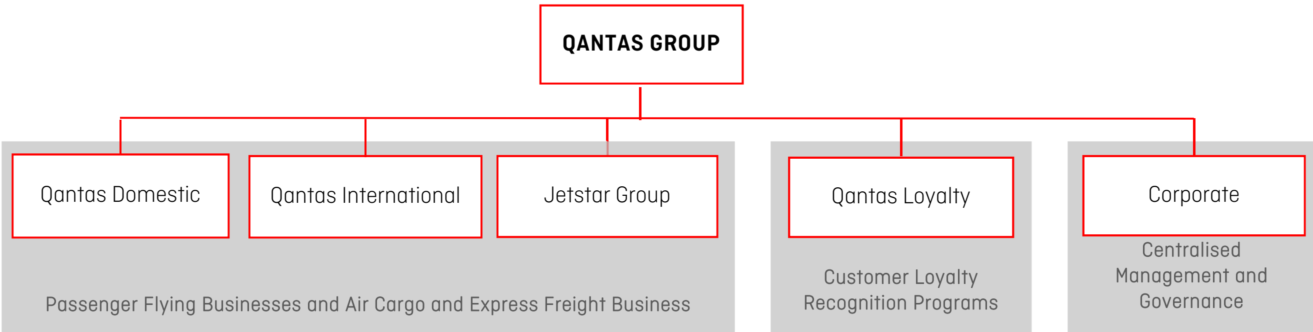
Items which are identified by Management and reported to the CODM as not representing the underlying performance of the business are not included in Underlying PBT. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to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

Items not included in Underlying PBT primarily result from costs relating to major transformational/restructuring initiatives, gains/(losses) on transactions involving investments, impairments of assets and other transactions outside the ordinary course of business.

- Transformation costs of $162 million were incurred during the year. Transformation costs included redundancy and related costs of $43 million, fleet restructuring costs of $81 million (primarily relates to costs for the introduction of the 789 Dreamliners and the retirement of the 747 fleet) and other upfront costs of $38 million directly incurred to enable the delivery of transformation benefits.
- Turnaround employee bonus of $53 million payable to non-executive employees that agree to an 18 month pay freeze, in recognition of the successful completion of the Turnaround Program.
- Net gains/(losses) on investments of $12 million relates to the sale of a business within the Qantas Loyalty segment and the recycling of the foreign exchange translation reserve on disposal of an investment.

(B) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:



The Qantas Freight segment, which was previously reported as a separate operating segment, has been included in the Qantas International segment as the performance of the freight activities are now monitored and managed by the CODM within the Qantas flying businesses. The Qantas International segment is considered to be the appropriate operating segment as the majority of freight revenue is earned in international markets. The Qantas Freight segment therefore no longer meets the definition of an operating segment in accordance with the accounting standards. Comparative information has been restated to conform with the current year presentation.

i. Underlying EBIT

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

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

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

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

ii. Analysis by Operating Segment

2018 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[2]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	5,535	6,515	3,646	1,386	18	(40)	17,060
Inter-segment revenue and other income	438	377	121	160	-	(1,096)	-
Total segment revenue and other income	**5,973**	**6,892**	**3,767**	**1,546**	**18**	**(1,136)**	**17,060**
Share of net profit/(loss) of investments accounted for under the equity method	4	4	7	–	–	–	15
Underlying EBITDAR[1]	**1,473**	**1,005**	**890**	**402**	**(182)**	**(13)**	**3,575**
Non-cancellable aircraft operating lease rentals	(76)	(64)	(132)	–	–	–	(272)
Depreciation and amortisation[3]	(629)	(542)	(297)	(30)	(13)	(6)	(1,517)
Underlying EBIT	**768**	**399**	**461**	**372**	**(195)**	**(19)**	**1,786**
Underlying net finance costs					(182)		(182)
Underlying PBT					**(377)**		**1,604**
ROIC %[4]							**22.0%**

2017 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[2]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	5,186	6,027	3,467	1,369	16	(8)	16,057
Inter-segment revenue and other income	446	386	133	136	–	(1,101)	–
Total segment revenue and other income	**5,632**	**6,413**	**3,600**	**1,505**	**16**	**(1,109)**	**16,057**
Share of net profit/(loss) of investments accounted for under the equity method	5	5	(17)	–	–	–	(7)
Underlying EBITDAR[1]	**1,364**	**933**	**835**	**391**	**(161)**	**(34)**	**3,328**
Non-cancellable aircraft operating lease rentals	(132)	(67)	(156)	–	–	(1)	(356)
Depreciation and amortisation	(587)	(492)	(262)	(22)	(12)	(7)	(1,382)
Underlying EBIT	**645**	**374**	**417**	**369**	**(173)**	**(42)**	**1,590**
Underlying net finance costs					(189)		(189)
Underlying PBT					**(362)**		**1,401**
ROIC %[4]							**20.1%**

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

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

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

(C) RETURN ON INVESTED CAPITAL

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

i. ROIC EBIT

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

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

	2018 $M	2017 $M
ROIC EBIT		
Underlying EBIT	**1,786**	**1,590**
Add back: Non-cancellable aircraft lease rentals	272	356
Less: Notional depreciation[1]	(124)	(158)
ROIC EBIT	**1,934**	**1,788**

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

ii. Average Invested Capital

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

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

	2018 $M	2017 $M
INVESTED CAPITAL		
Receivables (current and non-current)	1,008	907
Inventories	351	351
Other assets (current and non-current)	700	541
Investments accounted for under the equity method	226	214
Property, plant and equipment	12,851	12,253
Intangible assets	1,113	1,025
Assets classified as held for sale	118	12
Payables	(2,295)	(2,008)
Provisions (current and non-current)	(1,227)	(1,189)
Revenue received in advance (current and non-current)	(5,385)	(5,168)
Liabilities classified as held for sale	(64)	–
Capitalised operating leased assets[1]	1,510	1,794
Invested Capital as at 30 June	**8,906**	**8,732**
Average Invested Capital for the year ended 30 June	**8,810**	**8,891**

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

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

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

iii. ROIC %

	2018 %	2017 %
ROIC %[1]	**22.0**	**20.1**

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

iv. Underlying Earnings per share

	2018 cents	2017 cents
Underlying Earnings per share[1]	**64**	**55**

1 Underlying Earnings per share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 29.5% (2017: 27.8%)) divided by the weighted average number of shares during the year.

3 EARNINGS PER SHARE

	2018 cents	2017 cents
Basic/diluted earnings per share	**56**	**46**
	$M	**$M**
Statutory profit attributable to members of Qantas	**980**	**852**
	Number M	**Number M**
NUMBER OF SHARES		
Issued shares as at 1 July	1,808	1,919
Shares bought back and cancelled	(125)	(111)
Issued shares as at 30 June	**1,683**	**1,808**
Weighted average number of shares as at 30 June	**1,756**	**1,853**

4 REVENUE AND OTHER INCOME

(A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREAS

	2018 $M	2017 $M
Net passenger and freight revenue		
Australia	11,192	10,520
Overseas	4,385	4,145
Total net passenger and freight revenue	**15,577**	**14,665**
Other income	1,483	1,392
Total revenue and other income	**17,060**	**16,057**

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.

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

4 REVENUE AND OTHER INCOME (CONTINUED)

(B) OTHER INCOME

	2018 $M	2017 $M
Frequent Flyer marketing revenue, membership fees and other revenue	456	431
Frequent Flyer store and other redemption revenue[1]	268	257
Retail, advertising and other property revenue	150	141
Contract work revenue	177	142
Other	432	421
Total other income	**1,483**	**1,392**

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

5 OTHER EXPENDITURE

	2018 $M	2017 $M
Commissions and other selling costs	616	528
Computer and communication	477	439
Capacity hire	280	283
Property	257	250
Non-aircraft operating lease rentals	228	226
Marketing and advertising	108	123
Turnaround, Wage Freeze and Record Results employee bonuses	53	85
Redundancies and related costs	43	48
Contract work materials	37	16
Inventory write-off	9	14
Discount rate and other actuarial assumption changes on employee-related provisions	2	(21)
Net gain on disposal of property, plant and equipment	(5)	(11)
Net (gains)/losses on investments	(12)	(18)
Other	481	472
Total other expenditure	**2,574**	**2,434**

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

6 INCOME TAX EXPENSE

	2018 $M	2017 $M
RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT		
Current income tax expense		
Current income tax - Australia	(4)	–
Current income tax – foreign	(3)	(4)
Total current income tax expense	**(7)**	**(4)**
Deferred income tax expense		
Origination and reversal of temporary differences	(118)	(161)
Utilisation of tax losses	(282)	(157)
Current year deferred income tax expense	**(400)**	**(318)**
Adjustments for prior year	(4)	(6)
Total deferred income tax expense	**(404)**	**(324)**
Total income tax expense in the Consolidated Income Statement	**(411)**	**(328)**

	2018 $M	2017 $M
RECONCILIATION BETWEEN INCOME TAX EXPENSE AND STATUTORY PROFIT BEFORE INCOME TAX		
Statutory profit before income tax expense	**1,391**	**1,181**
Income tax expense using the domestic corporate tax rate of 30 per cent	(417)	(354)
Adjusted for:		
Non-assessable dividends from controlled entities	1	2
Non-assessable /(non-deductible) share of net gain/(loss) for investments accounted for under the equity method	5	(4)
(Non-deductible) losses for foreign branches and controlled entities	(6)	(1)
Utilisation of previously unrecognised foreign branch and controlled entity losses	3	4
Other net (non-deductible)/non-assessable items	6	18
(Under)/over provision from prior periods	(3)	7
Income tax expense	**(411)**	**(328)**

INCOME TAX RECOGNISED DIRECTLY IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Income tax on:		
Cash flow hedges	(170)	(7)
Defined benefit actuarial gains	(36)	(75)
Fair value gains on investments	(1)	–
Income tax expense recognised directly in the Consolidated Statement of Comprehensive Income	**(207)**	**(82)**

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

6 INCOME TAX EXPENSE (CONTINUED)

	2018 $M	2017 $M
RECONCILIATION OF INCOME TAX EXPENSE TO INCOME TAX PAYABLE		
Income tax expense	**(411)**	**(328)**
Adjusted for temporary differences		
Inventories	(10)	15
Property, plant and equipment and intangible assets	97	92
Payables	(43)	19
Revenue received in advance	3	16
Interest-bearing liabilities	(10)	1
Other financial assets/(liabilities)	91	(6)
Provisions	(13)	(11)
Other items	3	35
Temporary differences	**118**	**161**
Prior period differences	4	6
Tax on taxable income	**(289)**	**(161)**
Tax losses utilised (Australian)	282	157
Income tax payable	**(7)**	**(4)**

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

- Utilisation of carry forward tax losses that reduced taxable income of $282 million (2017: $157 million).
- Temporary differences of $118 million (2017: $161 million) that result in differences between taxable income, and Statutory Profit Before Tax which will reverse in future periods, such as accelerated tax depreciation on aircraft (timing difference due to the Qantas Group making a significant investment in renewing its fleet in recent years, which will reverse in future tax periods).

	2018 $M	2017 $M
QANTAS GROUP CARRIED FORWARD TAX LOSSES		
Tax losses available to be utilised in current year	(941)	(1,464)
Tax losses available to be utilised in future years	(10)	(10)
Total tax losses brought forward	**(951)**	**(1,474)**
Tax losses utilised against current taxable income	941	523
Tax losses carried forward to be utilised in future years	**(10)**	**(951)**

7 DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

	Amount per Ordinary Share cents	Franked Amount per Ordinary Share cents	Dividend Declared $M	Payment Date
2018 final dividend	10.0	10.0	168	October 2018
2018 interim dividend	7.0	–	122	April 2018
2017 final dividend	7.0	–	127	October 2017

(A) DIVIDENDS DECLARED AND PAID

In August 2018, the Directors declared a fully franked final dividend of ten cents per ordinary share totalling $168 million. The record date for determining entitlements to the final dividend is 6 September 2018. The dividend will be paid on 10 October 2018.

During the year ended 30 June 2018, the Group paid two unfranked dividends of seven cents per ordinary share totalling $249 million ($127 million on 13 October 2017 and $122 million on 12 April 2018). Dividends of $0.3 million were paid to non-controlling interest shareholders by non-wholly owned controlled entities.

(B) OTHER SHAREHOLDER DISTRIBUTIONS

In August 2018, the Directors announced an on-market share buy-back of up to $332 million.

During the year ended 30 June 2018, the Group completed the on-market share buy-back of $373 million, which was announced in August 2017 and the on-market share buy-back of $378 million announced in February 2018. The Group purchased a total of 125 million ordinary shares for $751 million at a weighted average share price of $6.02.

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

8 COMMITMENTS

(A) CAPITAL EXPENDITURE COMMITMENTS

The Group's capital expenditure commitments as at 30 June 2018 are $12,478 million (2017: $11,385 million). The Group has certain rights within its aircraft purchase contracts which can defer the above capital commitments.

The Group's capital expenditure commitments are predominantly denominated in US Dollars. Commitments reported above are translated to the Group's Australian dollar presentational currency at the 30 June 2018 closing exchange rate of $0.74 (30 June 2017: $0.76).

(B) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	2018 $M	2017 $M
AS LESSEE		
Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)		
Aircraft and engines – payable:		
Not later than one year	147	143
Later than one year but not later than five years	944	697
Later than five years	404	762
Total aircraft and engines	**1,495**	**1,602**
Less: future lease and hire purchase finance charges and deferred lease benefits	(207)	(238)
Total finance lease and hire purchase liabilities	**1,288**	**1,364**

	2018 $M	2017 $M
Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)		
Current liabilities	109	103
Non-current liabilities	1,179	1,261
Total finance lease and hire purchase liabilities	**1,288**	**1,364**

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.

(C) OPERATING LEASE COMMITMENTS

	2018 $M	2017 $M
AS LESSEE		
Non-cancellable operating lease commitments		
Aircraft and engines – payable:		
Not later than one year	249	279
Later than one year but not later than five years	634	715
Later than five years	58	75
Total aircraft and engines	**941**	**1,069**
Non-aircraft – payable:		
Not later than one year	162	161
Later than one year but not later than five years	395	398
Later than five years but not later than 10 years	290	295
Later than 10 years	272	298
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	(2)	(3)
Total non-aircraft	**1,117**	**1,149**
Total non-cancellable operating lease commitments	**2,058**	**2,218**

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

9 POST BALANCE DATE EVENTS

Other than as noted in Note 7 – Dividends and Other Shareholder Distributions, there has not arisen in the interval between 30 June 2018 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 2018.

10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following table details the standards, amendments to standards and interpretations that have been identified as those that may impact the Qantas Group in the period of initial application.

Topic	Impact
AASB 9 (2014) – *Financial Instruments*	The Group early adopted AASB 9 (2013) from 1 July 2014. AASB 9 (2014) amends AASB 9 (2013) to include a new expected credit loss model for calculating impairment on financial assets.
AASB 9 (2014) is effective for annual reporting periods beginning on or after 1 January 2018. The Group will adopt AASB 9 (2014) from 1 July 2018.	This standard is not expected to have a material impact on the Group.
AASB 15 - *Revenue from Contracts with Customers*	AASB 15 *Revenue from contracts with customers* (AASB 15) will replace AASB 111 *Construction Contracts*, AASB 118 Revenue and Interpretation 13 *Customer Loyalty Programmes*.
AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group will adopt AASB 15 from 1 July 2018.	AASB 15 provides a single, principles-based five-step model to be applied to all revenue contracts based on the transfer of control of goods and services to customers. AASB 15 requires separation of distinct performance obligations. Revenue is recognised when the performance obligations are satisfied and recognised at an amount that reflects the consideration the Group expects to be entitled to receive in exchange for goods and services. Application to the Qantas Group The Group will adopt AASB 15 with effect from 1 July 2018. The half-year ending 31 December 2018 and full year ending 30 June 2019 will be presented in accordance with the new standard. AASB 15 will be applied on a fully retrospective basis resulting in the comparative results for the half-year 31 December 2017 and the full year 30 June 2018 being restated as if AASB 15 had applied during those periods when the half year and full year results are presented at 31 December 2018 and 30 June 2019 respectively. Impact on retained earnings and future financial performance The effect of applying the standard on a fully retrospective basis is expected to result in an increase in opening retained earnings before tax of between \$50 million to \$100 million and an increase in opening retained earnings after tax of \$35 million to \$70 million (assuming a 30 per cent tax rate) as at 1 July 2017. For the year ended 30 June 2018, adjustments to reflect the new standard are estimated to reduce Statutory Profit Before Tax by \$25 million to \$50 million and reduce Statutory Profit After Tax by \$18 million to \$35 million (assuming a 30 per cent tax rate). The actual impacts of AASB 15 may differ from the estimates above when adopting the standard as of 1 July 2018. The practical implementation of the Group's accounting policies relating to AASB 15 are subject to change until the Group presents the 31 December 2018 Interim Financial Statements that include AASB 15. In its 31 December 2018 Interim Financial Statements, the Group will provide the final disclosure and impact on adoption of AASB 15. The adoption of the new revenue standard has no impact on the cash performance of the Group nor does it change how the Group makes decisions around the allocation of capital. Overview of the significant changes to the Group To date, the Group has identified the following significant changes to revenue recognition on adoption of the standard:

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

Topic	Impact	
AASB 15 - *Revenue from Contracts with Customers (continued)*	Area	Description of Change
	Allocation of revenue	Allocation of revenue between passenger travel and Qantas Points AASB 15 requires the allocation of a transaction price to distinct performance obligations based on their relative stand-alone selling prices. As such, the allocation of revenue between passenger travel and Qantas Points will change at a Group level under the new revenue standard. Currently the revenue is allocated using the residual method. Under AASB 15, the allocation will change to a proportional basis based on the relative stand-alone selling prices. This will result in a higher allocation to passenger travel at a Group level, which is recognised earlier than the redemption of the Qantas Points earned on that travel.
	Net passenger revenue	Ancillary services AASB 15 requires the identification of distinct performance obligations and where performance obligations are not distinct, an entity shall combine them and account for them as a single performance obligation. Under AASB 15, revenue associated with certain ancillary services related to passenger travel such as credit card fees and change fees are not considered to be distinct from the passenger flight. Revenue for these services is currently recognised when paid whereas under AASB 15, the revenue relating to these ancillary services will be deferred from booking until uplift to align with the recognition of revenue from the related passenger travel.
	Frequent Flyer Revenue	Timing of revenue recognition in relation to Qantas Points AASB 15 provides new guidance for the accounting for Qantas Points issued which are expected to expire unredeemed, which results in revenue being recognised earlier than under current accounting standards. The impact of the change will result in more revenue being recognised in prior periods (within retained earnings) and lead to a reduction in the Underlying EBIT recognised by the Qantas Loyalty segment and the Group for 30 June 2018. This change is expected to have a declining impact in future periods. The adoption of AASB 15 will also align the pattern of recognition of certain incentives with the principal activity to which the incentive related. The impact of AASB 15 does not change the operating cash flow performance of Qantas Loyalty or the Group.
	Principal/agent	Principal/agent assessment AASB 15 provides additional guidance for determining whether the Group is acting as a principal or an agent in an arrangement. As a result, some revenue streams will be recognised net of related costs rather than on a gross basis where the Group is acting as an agent. This will result in lower revenue and lower expenses being presented, with no net impact on the Group Consolidated Income Statement. Notwithstanding that at a Group level, Frequent Flyer redemption revenue for Qantas Group flights is recognised on a net basis, the Qantas Loyalty segment will continue to report Frequent Flyer redemptions on a gross basis, with the adjustment to net presentation on a Group basis being recognised within consolidation eliminations. For some other revenue streams such as Freight interline revenue, revenue will be presented on a gross basis rather than net of related costs where the Group is acting as a principal. This means there will be higher revenue and higher expenses being presented with no net impact on the Group Consolidated Income Statement. Timing of revenue recognition where the Group acts as an agent The timing of revenue recognition where the Group is acting as an agent may change to align with the principal performance obligations associated with the services provided to the principal.

Notes to the Preliminary Final Report continued

For the year ended 30 June 2018

10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

Topic	Impact
AASB 16 – *Leases* AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group will adopt AASB 16 from 1 July 2019.	AASB 16 will replace AASB 117 *Leases*, Interpretation 4 *Determining whether an arrangement contains a lease*, Interpretation *115 Operating Leases – Incentives* and Interpretation 127 *Transactions Involving the Legal Form of a Lease*. Currently operating leases (primarily aircraft and property) are not recognised on the balance sheet under AASB 117. AASB 16 removes the distinction between operating leases and finance leases for lessees and requires, where the Group is a lessee, the recognition of all leases on balance sheet as a right of use asset and an associated lease liability. The Group expects to apply AASB 16 retrospectively. Overview of Changes on Adoption of AASB 16 The Group has initiated a project to lead the implementation of the new leases standard. The Group is in the process of reviewing existing lease contracts, reviewing other arrangements against the AASB 16 definition of a lease, identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls. The expected areas of impact on the Group upon adoption of the new leases standard are set out below: — Recognition of a right of use asset and a lease liability for operating leases on the Consolidated Balance Sheet — In most cases, the lease liability and right of use asset are initially recognised as the present value of future lease payments, discounted using the interest rate implicit in the lease where available, or if not available, the Group's incremental borrowing rate. Retrospective application will result in a difference between the right of use asset and lease liability recognised on transition. Non-cancellable operating lease commitments are disclosed in Note 8 — Recognition of depreciation and interest expense instead of operating lease rental expense in the Consolidated Income Statement — The repayment of the principal portion of lease payments will be classified as financing activities in the Consolidated Cash Flow Statement. The interest portion will be classified as operating activities. Under the existing standard, Operating lease rentals are disclosed as operating activities — The Group's aircraft lease rental payments are predominantly USD denominated. The Group manages its exposure to foreign exchange rate fluctuations as part of the overall Group Treasury Risk Management Policy. While the Group's foreign currency cash flow risk for lease rental payments are unchanged, the adoption of AASB 16 will result in foreign currency denominated lease liabilities recognised on balance sheet revaluing in response to exchange rate fluctuations in the USD/AUD exchange rate. Application to the Qantas Group The impact of AASB 16 will first be presented in the half-year ending 31 December 2019, along with a restatement of the comparatives for the half-year ending 31 December 2018 and an opening balance sheet on 1 July 2018. The first full-year annual report impacted by AASB 16 will be the year ended 30 June 2020, along with a restatement of the comparatives for the year ended 30 June 2019 and an opening balance sheet on 1 July 2018.

Operational Statistics

For the year ended 30 June 2018

(unaudited)		June 2018	June 2017	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC				
Passengers carried	000	22,143	22,199	(0.3%)
Revenue passenger kilometres (RPK)	M	26,743	26,930	(0.7%)
Available seat kilometres (ASK)	M	34,385	35,231	(2.4%)
Revenue seat factor	%	77.8	76.4	1.4 pts
JETSTAR DOMESTIC				
Passengers carried	000	13,839	13,348	3.7%
Revenue passenger kilometres (RPK)	M	15,986	15,535	2.9%
Available seat kilometres (ASK)	M	18,591	18,694	(0.6%)
Revenue seat factor	%	86.0	83.1	2.9 pts
GROUP DOMESTIC				
Group Domestic Available Seat Kilometres	M	52,976	53,925	(1.8%)
Group Domestic Unit Revenue				6.8%
QANTAS INTERNATIONAL				
Passengers carried	000	8,377	7,551	10.9%
Revenue passenger kilometres (RPK)	M	58,314	53,765	8.5%
Available seat kilometres (ASK)	M	69,280	66,389	4.4%
Revenue seat factor	%	84.2	81.0	3.2 pts
JETSTAR INTERNATIONAL				
Passengers carried	000	6,443	6,241	3.2%
Revenue passenger kilometres (RPK)	M	19,090	18,320	4.2%
Available seat kilometres (ASK)	M	22,215	21,929	1.3%
Revenue seat factor	%	85.9	83.5	2.4 pts
JETSTAR ASIA				
Passengers carried	000	4,471	4,320	3.5%
Revenue passenger kilometres (RPK)	M	6,681	6,628	0.8%
Available seat kilometres (ASK)	M	7,957	8,080	(1.5%)
Revenue seat factor	%	84.0	82.0	2.0 pts
GROUP INTERNATIONAL				
Group International Available Seat Kilometres	M	99,452	96,398	3.2%
Group International Unit Revenue				2.6%
QANTAS GROUP OPERATIONS				
Passengers carried	000	55,273	53,659	3.0%
Revenue passenger kilometres (RPK)	M	126,814	121,178	4.7%
Available seat kilometres (ASK)	M	152,428	150,323	1.4%
Revenue seat factor	%	83.2	80.6	2.6 pts
Group Unit Revenue	c/ASK	8.31	8.00	3.9%
Aircraft in service at end of period	#	313	309	4 aircraft
EMPLOYEES				
Full-time equivalent employees at end of year (FTE)	#	30,248	29,596	652