



**QANTAS AIRWAYS LIMITED AND ITS CONTROLLED ENTITIES**

**PRELIMINARY FINAL REPORT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

**ABN: 16 009 661 901**

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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 2014 \$M	June 2013 Restated <sup>1</sup> \$M	Change \$M	Change %
Revenue and other income	15,352	15,902	(550)	(3)
Statutory (loss)/profit after tax	(2,843)	2	(2,845)	>(100)
Statutory (loss)/profit after tax attributable to members of Qantas	(2,843)	1	(2,844)	>(100)
Underlying profit before tax	(646)	186	(832)	>(100)

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

## DIVIDENDS

No interim dividend was paid in relation to the year ended 30 June 2014.  
No final dividend will be paid in relation to the year ended 30 June 2014.

## EXPLANATION OF RESULTS

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

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

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

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

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

<sup>1</sup> Underlying Profit Before Tax (PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying Earnings Before Net Finance Costs and Tax (EBIT) as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT. Refer to Note 2 for a reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax.

<sup>2</sup> Excluding the impact of inflation.

## **EXPLANATION OF RESULTS** (continued)

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

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

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

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

Performance highlights in the year include:

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

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

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

<sup>3</sup> 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.

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

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

**EXPLANATION OF RESULTS** (continued)

**Underlying PBT**

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

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

  

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

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

<sup>7</sup> The 2012/2013 Group Underlying Income Statement has been restated as a result of the application of new or revised accounting standards. Refer to Note 10.

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

<sup>9</sup> Underlying operating expenses (excluding fuel and Share of net loss of investments accounted for under the equity method), fuel and net finance costs differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 139 which relate to other reporting periods and other items identified by Management. Refer to Note 2 for a reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax.

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

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

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

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

**EXPLANATION OF RESULTS** (continued)

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

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

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

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

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

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

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

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

Qantas Domestic reported full-year Underlying EBIT of \$30 million, a pronounced deterioration from the prior year with a three per cent improvement in comparable unit cost offset by weaker yield and passenger loads. Intense market competition continued, with the negative impact of market capacity additions exacerbated by weak underlying demand.

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

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

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

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

## **EXPLANATION OF RESULTS (continued)**

Qantas Domestic maintained its leading network and frequency advantage in the market, supporting the retention of over 80 per cent of corporate account revenue<sup>18</sup>.

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

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

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

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

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

### **Qantas' guiding strategic principles remain consistent**

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

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

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

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

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

## **EXPLANATION OF RESULTS** (continued)

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

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

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

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

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

The pillars that underpin the Group's transformation are:

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

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

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

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

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



## **EXPLANATION OF RESULTS** (continued)

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

- \$204 million of benefits realised, \$900 million worth of initiatives in implementation phase
- Accelerating comparable unit cost<sup>6</sup> reduction: two per cent in first half, four per cent in second half of 2013/2014
- 2,200 of targeted 5,000 FTE reduction exited as at 30 June 2014. Redundancy, restructuring and other transformation costs of \$428 million<sup>23</sup> recognised in financial year 2013/2014
- Avalon heavy maintenance facility closed
- Line Maintenance Operations changes enacted
- Right-sizing fleet and network at a cost of \$394 million<sup>23</sup> in financial year 2013/2014
  - Qantas International network optimisation under way; exit Perth-Singapore, down-gauge aircraft to A330s on Sydney-Singapore and Brisbane-Singapore, re-time of QF 9/10 and maintenance changes to up-gauge Sydney-Dallas/Fort Worth to A380-800
  - Qantas Domestic fleet simplification under way; exit of B737-400 aircraft and completion of B767-300 retirement
  - Over 50 aircraft deferred or sold, accelerated B747-400 and B767-300 retirement in Group fleet restructure
- Jetstar 'Lowest Seat Cost' program lowering unit costs with a two per cent improvement in 2013/2014
- \$1.3 billion reduction<sup>24</sup> in planned capital investment in financial years 2014/2015 and 2015/2016
- Net debt<sup>4</sup> reduced by \$96 million

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

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

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

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

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

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

## **Unlocking value through a structural review**

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

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

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

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

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

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

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

## **EXPLANATION OF RESULTS** (continued)

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

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

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

## **Material business risks**

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

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

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

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

## EXPLANATION OF RESULTS (continued)

- **Credit rating:** Qantas' credit rating is Ba2 negative outlook and BB+ negative outlook by Moody's and Standard and Poor's respectively. Compared to an investment grade credit rating, the price of new debt funding may increase and/or the Group's access to some sources of unsecured credit could reduce over time. To mitigate the risk, Qantas maintains strong liquidity and has a flexible fleet plan to enable it to reduce Capital Expenditure to ensure debt remains within an acceptable range.
- **Key business partners:** The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework<sup>25</sup>.

## Securing the future with financial discipline

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

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

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

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

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

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

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

<sup>26</sup> Net free cash flow – Operating cash flows less investing cash flows. Net free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.

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

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

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

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

## EXPLANATION OF RESULTS (continued)

### Fleet

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

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

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

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

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

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

### Qantas Domestic

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

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

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

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

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

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

## EXPLANATION OF RESULTS (continued)

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

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

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

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

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

### Qantas International

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

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

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

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

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

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

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

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

## EXPLANATION OF RESULTS (continued)

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

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

### Jetstar

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

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

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

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

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

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

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

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

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

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

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

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

## EXPLANATION OF RESULTS (continued)

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

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

### Qantas Loyalty

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

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

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

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

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

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

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

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

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

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

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

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

**EXPLANATION OF RESULTS** (continued)

**Qantas Freight**

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

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

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

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

**Reconciliation of Underlying PBT to Statutory PBT**

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

**Underlying PBT**

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

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

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

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

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



**EXPLANATION OF RESULTS** (continued)

***AASB 139 mark-to-market movements relating to other reporting periods***

All derivative transactions undertaken by the Qantas Group represent economic hedges of underlying risk and exposures. The Qantas Group does not enter into speculative derivative transactions. Notwithstanding this, AASB 139 requires certain mark-to-market movements in derivatives which are classified as 'ineffective' to be recognised immediately in the Consolidated Income Statement. The recognition of derivative valuation movements in reporting periods which differ from the designated transaction causes volatility in statutory profit that does not reflect the hedging nature of these derivatives.

Underlying PBT reports all hedge derivative gains and losses in the same reporting period as the underlying transaction by adjusting the reporting period's statutory profit for derivative mark-to-market movements that relate to underlying exposures in other reporting periods.

All derivative mark-to-market movements which have been excluded from Underlying PBT will be recognised through Underlying PBT in future periods when the underlying transaction occurs.

***Other items not included in Underlying PBT***

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

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

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

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

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

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

## OTHER INFORMATION

	<b>June 2014</b> \$	<b>June 2013</b> Restated <sup>1</sup> \$
Net Assets per ordinary share	1.31	2.60
Net Tangible Assets per ordinary share	0.72	2.29

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

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

### Entities over which control or joint control was gained or lost during the period

The Qantas Group incorporated/disposed of the following entities during the period:

- QF EXIM B787 No. 1 Pty Limited (incorporated in Australia on 15 November 2013)
- QF EXIM B787 No. 2 Pty Limited (incorporated in Australia on 15 November 2013)
- Qantas Defence Services Pty Limited (disposed of on 28 February 2014)
- QF A320 2014 No. 1 Pty Limited (incorporated in Australia on 13 June 2014)
- QF A320 2014 No. 2 Pty Limited (incorporated in Australia on 13 June 2014)
- QF A320 2014 No. 3 Pty Limited (incorporated in Australia on 13 June 2014)
- QF A320 2014 No. 4 Pty Limited (incorporated in Australia on 13 June 2014)

<b>Ownership interest in investments accounted for under the equity method</b>	<b>June 2014</b> %	<b>June 2013</b> %
– 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 Limited	29	29
– Jetstar Hong Kong Airways Limited	25	33
– Jetstar Japan Co., Ltd.	33	33
– Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
– PT Holidays Tours & Travel	37	37
– Tour East (T.E.T) Ltd	37	37

## ASIC GUIDANCE

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 December 2011, ASIC issued Regulatory Guide 230. To comply with this Guide, 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.

In line with previous years and in accordance with the Corporations Act 2001, the Explanation of Results is unaudited. The Explanation of Results contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2014, which is being audited and is expected to be made available in September 2014.

**CONSOLIDATED INCOME STATEMENT**

For the year ended 30 June 2014

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

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

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

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

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

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

**CONSOLIDATED BALANCE SHEET**

As at 30 June 2014

	<b>Note</b>	<b>June 2014 \$M</b>	<b>June 2013 Restated<sup>1</sup> \$M</b>	<b>June 2012 Restated<sup>1</sup> \$M</b>
<b>Current assets</b>				
Cash and cash equivalents		3,001	2,829	3,398
Receivables		1,196	1,436	1,111
Other financial assets		172	180	88
Inventories		317	364	376
Assets classified as held for sale		134	42	73
Other		112	110	121
<b>Total current assets</b>		<b>4,932</b>	<b>4,961</b>	<b>5,167</b>
<b>Non-current assets</b>				
Receivables		158	174	472
Other financial assets		34	27	17
Investments accounted for under the equity method		143	190	457
Property, plant and equipment		10,500	13,827	14,139
Intangible assets		741	714	610
Deferred tax assets		548	—	—
Other		262	139	23
<b>Total non-current assets</b>		<b>12,386</b>	<b>15,071</b>	<b>15,718</b>
<b>Total assets</b>		<b>17,318</b>	<b>20,032</b>	<b>20,885</b>
<b>Current liabilities</b>				
Payables		1,851	1,844	1,865
Revenue received in advance		3,406	3,047	3,183
Interest-bearing liabilities	8	1,210	835	1,119
Other financial liabilities		182	86	369
Provisions		876	835	879
Liabilities classified as held for sale		—	—	12
<b>Total current liabilities</b>		<b>7,525</b>	<b>6,647</b>	<b>7,427</b>
<b>Non-current liabilities</b>				
Revenue received in advance		1,183	1,186	1,136
Interest-bearing liabilities	8	5,273	5,245	5,430
Other financial liabilities		66	54	224
Provisions		405	435	736
Deferred tax liabilities		—	625	464
<b>Total non-current liabilities</b>		<b>6,927</b>	<b>7,545</b>	<b>7,990</b>
<b>Total liabilities</b>		<b>14,452</b>	<b>14,192</b>	<b>15,417</b>
<b>Net assets</b>		<b>2,866</b>	<b>5,840</b>	<b>5,468</b>
<b>Equity</b>				
Issued capital		4,630	4,693	4,729
Treasury shares		(16)	(43)	(42)
Reserves		(81)	128	36
Retained earnings		(1,671)	1,057	741
<b>Equity attributable to the members of Qantas</b>		<b>2,862</b>	<b>5,835</b>	<b>5,464</b>
Non-controlling interests		4	5	4
<b>Total equity</b>		<b>2,866</b>	<b>5,840</b>	<b>5,468</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 June 2014

June 2014 \$M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Non-controlling Interests	Total Equity
<b>Balance as at 1 July 2013 (restated<sup>1</sup>)</b>	<b>4,693</b>	<b>(43)</b>	<b>49</b>	<b>123</b>	<b>(44)</b>	<b>1,057</b>	<b>5</b>	<b>5,840</b>
<b>Total comprehensive (loss)/income for the year</b>								
Statutory loss for the year	—	—	—	—	—	(2,843)	—	(2,843)
<b>Other comprehensive (loss)/income</b>								
- Effective portion of changes in fair value of 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
<b>Total other comprehensive (loss)/income</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(195)</b>	<b>3</b>	<b>113</b>	<b>—</b>	<b>(79)</b>
<b>Total comprehensive (loss)/ income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(195)</b>	<b>3</b>	<b>(2,730)</b>	<b>—</b>	<b>(2,922)</b>
<b>Transactions with owners recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
- Shares bought back <sup>2</sup>	(63)	—	—	—	—	—	—	(63)
- Share-based payments	—	—	12	—	—	—	—	12
- Shares vested and transferred to employees	—	27	(23)	—	—	(4)	—	—
- Share-based payments unvested and lapsed	—	—	(6)	—	—	6	—	—
- Dividends paid	—	—	—	—	—	—	(1)	(1)
<b>Total contributions by and distributions to owners</b>	<b>(63)</b>	<b>27</b>	<b>(17)</b>	<b>—</b>	<b>—</b>	<b>2</b>	<b>(1)</b>	<b>(52)</b>
<b>Total transactions with owners</b>	<b>(63)</b>	<b>27</b>	<b>(17)</b>	<b>—</b>	<b>—</b>	<b>2</b>	<b>(1)</b>	<b>(52)</b>
<b>Balance as at 30 June 2014</b>	<b>4,630</b>	<b>(16)</b>	<b>32</b>	<b>(72)</b>	<b>(41)</b>	<b>(1,671)</b>	<b>4</b>	<b>2,866</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 June 2014

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

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

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

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

## **CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 30 June 2014

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

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

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

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



## **NOTES TO THE PRELIMINARY FINAL REPORT**

For the year ended 30 June 2014

### **Note 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 Annual Financial 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 in September 2014. 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.

#### **(b) Significant Accounting Policies**

Except as described below, 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 Consolidated Annual Financial Report for the year ended 30 June 2013.

The Group has mandatorily applied the following new Australian Accounting Standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits (2011)

The nature and the effect of the changes are explained in Note 10 - Application of New or Revised Accounting Standards

#### **(c) Comparatives**

Where applicable, various comparative balances have been reclassified to align with current period presentation. A provision for long service leave which is expected to be settled beyond the next 12 months is measured as the present value of expected future payments to be made in respect of services provided by employees up to period end. Notwithstanding this pattern of expected future payments, for 30 June 2014, the provision is presented as a current liability in the Balance Sheet if the employees' entitlements have vested (i.e. the employee has reached the minimum period of service required to become entitled to long service leave). For comparability, current provisions for 30 June 2013 and 30 June 2012 have been reclassified on a consistent basis resulting in an increase in current provisions of \$277 million and \$309 million, respectively with a corresponding decrease in non-current provisions.

#### **(d) Estimates**

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

## **NOTES TO THE PRELIMINARY FINAL REPORT**

For the year ended 30 June 2014

### **Note 1. Statement of Significant Accounting Policies (continued)**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Judgements made by management in the application of AASBs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in future periods are included in Note 3 – Impairment.

#### **(e) Carrying Amount of Non-Financial Assets**

##### **(i) Cash generating units**

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

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

Identification of an asset's CGU requires judgement, as it requires identification of the lowest aggregation of assets that generate largely independent cash inflows. As a result of the outcome of the Structural Review the Group's identified CGUs has changed for the year ended 30 June 2014. In Management's judgement, 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) Assets held for sale**

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

For the year ended 30 June 2014

### **Note 2. Underlying PBT and Operating Segments**

#### **(a) Underlying PBT**

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

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

Refer to Note 2(d) for a Description of Underlying PBT and Reconciliation from Statutory PBT.

#### **(b) Operating Segments**

The Qantas Group comprises the following operating segments:

##### **Qantas Brands**

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

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

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

##### **Jetstar Group**

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

##### **Corporate/Unallocated**

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

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 2. Underlying PBT and Operating Segments (continued)

#### (c) Analysis by Operating Segment<sup>1</sup>

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

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

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

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

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 2. Underlying PBT and Operating Segments (continued)

#### (c) Analysis by Operating Segment<sup>1</sup> (continued)

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

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

<sup>2</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

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

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

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

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

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

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 2. Underlying PBT and Operating Segments (continued)

#### (c) Analysis by Operating Segment (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 which have been consistently applied to all periods presented in the Consolidated Financial Statements.

Segment performance measure	Basis of preparation
External segment revenue	<p>External segment revenue is reported by operating segments as follows:</p> <ul style="list-style-type: none"> <li>- Net passenger revenue is reported by the operating segment which operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process.</li> <li>- Net freight revenue includes air cargo and express freight revenue and is reported by the Qantas Freight operating segment.</li> <li>- Frequent Flyer redemption revenue, marketing revenue, membership fees and other related revenue is reported by the Qantas Loyalty operating segment.</li> <li>- Other revenue is reported by the operating segment that earned the revenue.</li> </ul>
Inter-segment revenue	<p>Inter-segment revenue for Qantas Domestic, Qantas International and Jetstar Group operating segments primarily represents:</p> <ul style="list-style-type: none"> <li>- Net passenger revenue arising from the redemption of frequent flyer points for Qantas Group flights by Qantas Loyalty; and</li> <li>- Net Freight revenue from the utilisation of Qantas Brands and Jetstar Group's aircraft bellyspace by Qantas Freight.</li> </ul> <p>Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of frequent flyer points to Qantas Domestic, Qantas International and Jetstar Group.</p> <p>Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices.</p> <p>Qantas Loyalty does not derive net profit from inter-segment transactions relating to frequent flyer point issuances and redemptions.</p>
Share of net (loss)/profit of investments accounted for under the equity method	<p>Share of net (loss)/profit of investments accounted for under the equity method is reported by the operating segment which is accountable for the management of the investment. The share of net (loss)/profit of investments accounted for under the equity method for Qantas Airlines' investments has been equally shared between Qantas Domestic and Qantas International.</p>

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 2. Underlying PBT and Operating Segments (continued)

#### (c) Analysis by Operating Segment (continued)

Segment performance measure	Basis of preparation
Underlying EBITDAR	<p>The significant expenses impacting Underlying EBITDAR are as follows:</p> <ul style="list-style-type: none"> <li>- Manpower and staff related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by Qantas Domestic and Qantas International using an appropriate allocation methodology.</li> <li>- Fuel expenditure is reported by the segment that consumes the fuel in its operations.</li> <li>- Aircraft operating variable costs are reported by the segment that incurs these costs.</li> <li>- All other expenditure is reported by the operating segment to which they are directly attributable or in the case of Qantas Airlines between Qantas Domestic and Qantas International using an appropriate allocation methodology. To apply this accounting policy, where necessary expenditure is recharged between operating segments as a cost recovery.</li> </ul>
Depreciation and amortisation	<p>Qantas Domestic, Qantas International and Jetstar Group report depreciation expense for passenger aircraft owned by the Qantas Group and flown by the segment.</p> <p>Qantas Freight reports depreciation expense for freight aircraft owned by the Qantas Group.</p> <p>Other depreciation and amortisation is reported by the segment that uses the related asset.</p>
Non-cancellable aircraft operating lease rentals	<p>Qantas Domestic, Qantas International and Jetstar Group report non-cancellable aircraft operating lease rentals for passenger aircraft externally leased by the Qantas Group and flown by the segment.</p> <p>Qantas Freight reports non-cancellable aircraft operating lease rentals for freighter aircraft externally leased by the Qantas Group.</p>

#### (d) Description of Underlying PBT and Reconciliation from Statutory (Loss)/Profit Before Tax

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

Underlying PBT is derived by adjusting statutory (loss)/profit before tax for the impacts of AASB 139: Financial Instruments: Recognition and Measurement (AASB 139) which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT.

##### (i) Adjusting for impacts of AASB 139 which relate to other reporting periods

All derivative transactions undertaken by the Qantas Group represent economic hedges of underlying risk and exposures. The Qantas Group does not enter into speculative derivative transactions. Notwithstanding this, AASB 139 requires certain mark-to-market movements in derivatives which are classified as "ineffective" to be recognised immediately in the Consolidated Income Statement. The recognition of derivative valuation movements in reporting periods which differ from the designated transaction causes volatility in statutory profit that does not reflect the hedging nature of these derivatives.

## **NOTES TO THE PRELIMINARY FINAL REPORT**

For the year ended 30 June 2014

### **Note 2. Underlying PBT and Operating Segments (continued)**

#### **(d) Description of Underlying PBT and Reconciliation from Statutory (Loss)/Profit Before Tax (continued)**

Underlying PBT reports all hedge derivative gains and losses in the same reporting period as the underlying transaction by adjusting the reporting period's statutory profit for derivative mark-to-market movements that relate to underlying exposures in other reporting periods.

This adjustment is calculated as follows:

- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with current period exposures remain included in Underlying PBT
- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with underlying exposures which will occur in future reporting periods are excluded from Underlying PBT
- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with capital expenditure are excluded from Underlying PBT and subsequently included in Underlying PBT as an implied adjustment to depreciation expense for the related assets commencing when the assets are available for use
- Derivative mark-to-market movements recognised in previous reporting period's statutory profit that are associated with underlying exposures which occurred in the current period are included in Underlying PBT
- Ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs are excluded from Underlying PBT

All derivative mark-to-market movements which have been excluded from Underlying PBT will be recognised through Underlying PBT in future periods when the underlying transaction occurs.

#### **(ii) Other items not included in Underlying PBT**

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

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

#### **(iii) Underlying EBIT**

Underlying EBIT is calculated using a consistent methodology as outlined 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.



## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 2. Underlying PBT and Operating Segments (continued)

#### (d) Description of Underlying PBT and Reconciliation from Statutory (Loss)/Profit Before Tax (continued)

The reconciliation of Underlying PBT from Statutory PBT is detailed in the table below.

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

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

<sup>2</sup> Fleet restructuring costs include impairment of aircraft, together with other aircraft associated property, plant and equipment, inventory and other related costs.

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 2. Underlying PBT and Operating Segments (continued)

#### (e) Underlying PBT per Share

	June 2014 Cents	June 2013 Restated <sup>1</sup> Cents
Basic/diluted Underlying PBT per share	(29.2)	8.3

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

#### (f) Analysis by Geographical Areas

##### Revenue and other income by geographic areas

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

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

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

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

### Note 3. Impairment

	June 2014 \$M	June 2013 \$M
<b>Impairment of specific assets</b>		
Impairment of property, plant and equipment	328	93
Impairment of intangible assets	9	24
Impairment of investments	50	(2)
	<b>387</b>	<b>115</b>
<b>Impairment of cash generating unit</b>		
Impairment of property, plant and equipment	<b>2,560</b>	–

## **NOTES TO THE PRELIMINARY FINAL REPORT**

For the year ended 30 June 2014

### **Note 3. Impairment (continued)**

#### **Impairment of specific assets**

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

#### **Impairment of Cash Generating Units (CGUs)**

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

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

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

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

<b>Assumption</b>	<b>How determined</b>
Cash Flows	<p>Cash flows were projected based on the Financial Plan covering a three-year period. Cash flows to determine a terminal value were extrapolated using a constant growth rate of 2.5 per cent per annum, which does not exceed the long-term average growth rate for the industry.</p> <p>Cash outflows include capital expenditure for the purchase of aircraft and other property, plant and equipment. These do not include capital expenditure that enhances the current performance of assets and related cash flows have been treated consistently.</p>
Discount Rate	<p>A pre-tax discount rate of 10.5 per cent per annum has been used in discounting the projected cash flows of the CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2013: 10.5 per cent per annum). The discount rates are based on the risk-free rate for the ten-year Australian Government Bonds adjusted for a risk premium to reflect both the increased risk of investing in equities and the risk of the specific CGU.</p>
Fuel	<p>The fuel into-plane price is assumed to be US\$128 per barrel (2013: US\$127) and was set with regard to the forward fuel curve and commodity analyst expectations.</p>
Currency	<p>The US\$:A\$ exchange rate is assumed to be \$0.92 (2013: \$0.96).</p>

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 4. Other Revenue/Income and Other Expenditure

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

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

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

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 5. Income Tax Expense

**Reconciliation between income tax (benefit)/expense and Statutory (loss)/profit before income tax (benefit)/expense**

	June 2014 \$M	June 2013 Restated <sup>1</sup> \$M
Statutory (loss)/profit before income tax (benefit)/expense	(3,976)	11
Income tax (benefit)/expense using the domestic corporate tax rate of 30 per cent	(1,193)	3
Add/(less) adjustments for:		
- Non-deductible share of net loss for investments accounted for under the equity method	20	14
- Non-deductible foreign branch losses	—	4
- Non-deductible losses and derecognition of previously recognised losses	15	—
- Utilisation and recognition of previously unrecognised capital losses	—	(5)
- Write-down of investments	15	—
- Recognition of previously unrecognised deferred tax liability on investments	11	—
- Other net non-deductible/(non-assessable) items	8	(4)
- Prior period differences	(9)	(3)
<b>Income tax (benefit)/expense</b>	<b>(1,133)</b>	<b>9</b>

<sup>1</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.

### Note 6. Dividends

No interim dividend was paid in relation to the year ended 30 June 2014.

No final dividend will be paid in relation to the year ended 30 June 2014.

### Note 7. Commitments

#### (a) Capital Expenditure Commitments

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

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

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 7. Commitments (continued)

#### (b) Operating Lease Commitments as Lessee

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

### Note 8. Interest-bearing Liabilities

	June 2014 \$M	June 2013 \$M
<b>Current</b>		
Bank loans – secured	459	545
Bank loans – unsecured	450	–
Other loans – unsecured	69	47
Lease and hire purchase liabilities – secured	232	243
	<b>1,210</b>	<b>835</b>
<b>Non-current</b>		
Bank loans – secured	2,313	2,740
Bank loans – unsecured	546	992
Other loans – unsecured	1,336	880
Lease and hire purchase liabilities – secured	1,078	633
	<b>5,273</b>	<b>5,245</b>

During the year there were non-cash financing activities of \$130 million (June 2013: \$115 million).

## **NOTES TO THE PRELIMINARY FINAL REPORT**

For the year ended 30 June 2014

### **Note 9. Entities over which control was gained or lost during the year**

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

### **Note 10. Application of New or Revised Accounting Standards**

The nature and the effect of changes from new standards and amendments identified in Note 1(b) are explained below.

#### AASB 10 - Consolidated Financial Statements

AASB 10 introduced a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The application of AASB 10 had no impact on the Qantas Group.

#### AASB 11 - Joint Arrangements

Under AASB 11, the classification as either joint operations or joint ventures depends on the rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances. The application of AASB 11 had no impact on the Qantas Group.

#### AASB 13 - Fair Value Measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 Financial Instruments: Disclosures. The application of AASB 13 has no significant impact on the measurements of the Group's carrying value of assets and liabilities.

#### AASB 119 - Employee Benefits (2011)

As a result of the mandatory application of AASB 119 (2011), the Group has changed its accounting policy with respect to the basis of accounting for defined benefit superannuation plans.

The revised standard eliminated the use of the 'corridor approach' and instead mandates immediate recognition of all re-measurements of a defined benefit liability and defined benefit assets (including actuarial gains or losses) in other comprehensive income. In addition, it changes the measurement principles for the expected return on planned assets and the basis for determining the income or expense relating to defined benefits.

The Qantas Group's previous accounting policy for defined benefit superannuation plans utilised the 'corridor approach' to account for actuarial gains/losses. Under that policy, accumulated actuarial gains/losses were carried off-balance sheet unless they exceeded 10 per cent of the defined benefit assets or obligations in which case they were recognised through the income statement over the average life of the plan.

Under the revised AASB 119 (2011), these accumulated actuarial gains or losses are recognised on-balance sheet. Subsequent actuarial gains or losses are recognised on-balance sheet through other comprehensive income.

Upon application of the amended AASB 119 (2011), the Group has applied the transition provisions in the Standard requiring retrospective application and as a result the following have been restated:

- Consolidated Balance Sheet as at 30 June 2012 (Condensed Opening Balance Sheet);
- Consolidated Balance Sheet as at 30 June 2013 (Condensed Comparative Balance Sheet);
- Consolidated Income Statement (Condensed) for the year ended 30 June 2013; and
- Consolidated Statement of Comprehensive Income (Condensed) for the year ended 30 June 2013.

For the restated Comparative Results refer to Note 10A - Restatement of Comparative Results.

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 10. Application of New or Revised Accounting Standards (continued)

The impact of the revised standard on the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year ended 30 June 2014 have been presented in Note 10B - Impact of Revised Standard on the Current Reporting Period's Results.

#### A. Restatement of Comparative Results

##### (i) Restatement of Consolidated Balance Sheet as at 30 June 2012 (Condensed Opening Balance Sheet)

	30 June 2012 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2012 (Restated) \$M
<b>Current assets</b>			
Cash and cash equivalents	3,398	—	3,398
Receivables	1,111	—	1,111
Other financial assets	88	—	88
Inventories	376	—	376
Assets classified as held for sale	73	—	73
Other	414	(293)	121
<b>Non-current assets</b>			
Receivables	472	—	472
Other financial assets	17	—	17
Investments accounted for under the equity method	457	—	457
Property, plant and equipment	14,139	—	14,139
Intangible assets	610	—	610
Other	23	—	23
<b>Total assets</b>	<b>21,178</b>	<b>(293)</b>	<b>20,885</b>
<b>Current liabilities</b>			
Payables	1,865	—	1,865
Revenue received in advance	3,183	—	3,183
Interest-bearing liabilities	1,119	—	1,119
Other financial liabilities	369	—	369
Provisions	879	—	879
Liabilities classified as held for sale	12	—	12
<b>Non-current liabilities</b>			
Revenue received in advance	1,136	—	1,136
Interest-bearing liabilities	5,430	—	5,430
Other financial liabilities	224	—	224
Provisions	428	308	736
Deferred tax liabilities	644	(180)	464
<b>Total liabilities</b>	<b>15,289</b>	<b>128</b>	<b>15,417</b>
<b>Net assets</b>	<b>5,889</b>	<b>(421)</b>	<b>5,468</b>
Issued capital	4,729	—	4,729
Treasury shares	(42)	—	(42)
Reserves	36	—	36
Retained earnings	1,162	(421)	741
Non-controlling interests	4	—	4
<b>Total equity</b>	<b>5,889</b>	<b>(421)</b>	<b>5,468</b>

<sup>1</sup> Refer to Note 1(c)



**NOTES TO THE PRELIMINARY FINAL REPORT**

For the year ended 30 June 2014

**Note 10. Application of New or Revised Accounting Standards (continued)**

**(ii) Restatement of Consolidated Balance Sheet as at 30 June 2013 (Condensed Comparative Balance Sheet)**

	30 June 2013 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2013 (Restated) \$M
<b>Current assets</b>			
Cash and cash equivalents	2,829	—	2,829
Receivables	1,436	—	1,436
Other financial assets	180	—	180
Inventories	364	—	364
Assets classified as held for sale	42	—	42
Other	394	(284)	110
<b>Non-current assets</b>			
Receivables	174	—	174
Other financial assets	27	—	27
Investments accounted for under the equity method	190	—	190
Property, plant and equipment	13,827	—	13,827
Intangible assets	714	—	714
Other	23	116	139
<b>Total assets</b>	<b>20,200</b>	<b>(168)</b>	<b>20,032</b>
<b>Current liabilities</b>			
Payables	1,844	—	1,844
Revenue received in advance	3,047	—	3,047
Interest-bearing liabilities	835	—	835
Other financial liabilities	86	—	86
Provisions	835	—	835
<b>Non-current liabilities</b>			
Revenue received in advance	1,186	—	1,186
Interest-bearing liabilities	5,245	—	5,245
Other financial liabilities	54	—	54
Provisions	441	(6)	435
Deferred tax liabilities	673	(48)	625
<b>Total liabilities</b>	<b>14,246</b>	<b>(54)</b>	<b>14,192</b>
<b>Net assets</b>	<b>5,954</b>	<b>(114)</b>	<b>5,840</b>
Issued capital	4,693	—	4,693
Treasury shares	(43)	—	(43)
Reserves	128	—	128
Retained earnings	1,171	(114)	1,057
Non-controlling interests	5	—	5
<b>Total equity</b>	<b>5,954</b>	<b>(114)</b>	<b>5,840</b>

<sup>1</sup> Refer to Note 1(c)

## NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2014

### Note 10. Application of New or Revised Accounting Standards (continued)

#### (iii) Restatement of Consolidated Income Statement (Condensed) for the year ended 30 June 2013

Condensed Consolidated Income Statement	30 June 2013 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2013 (Restated) \$M
<b>Revenue and other income</b>	<b>15,902</b>	–	<b>15,902</b>
<b>Expenditure</b>			
Manpower and staff related	3,840	6	3,846
Other	11,858	–	11,858
<b>Statutory profit before income tax expense and net finance costs</b>	<b>204</b>	<b>(6)</b>	<b>198</b>
Net finance costs	(187)	–	(187)
<b>Statutory profit before income tax expense</b>	<b>17</b>	<b>(6)</b>	<b>11</b>
Income tax expense	(11)	2	(9)
<b>Statutory profit after income tax expense</b>	<b>6</b>	<b>(4)</b>	<b>2</b>

<sup>1</sup> Refer to Note 1(c)

#### (iv) Restatement of Consolidated Statement of Comprehensive Income (Condensed) for the year ended 30 June 2013

	30 June 2013 (as previously reported) <sup>1</sup> \$M	AASB 119 Employee Benefits \$M	30 June 2013 (Restated) \$M
<b>Statutory profit for the period</b>	<b>6</b>	<b>(4)</b>	<b>2</b>
<b>Items that are or may subsequently be reclassified to profit or loss</b>			
Effective portion of changes in fair value of cash flow hedges, net of tax	111	–	111
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	(50)	–	(50)
Recognition of effective cash flow hedges on capitalised assets, net of tax	21	–	21
Foreign currency translation of controlled entities	10	–	10
Foreign currency translation of investments accounted for under the equity method	(1)	–	(1)
<b>Items that will not subsequently be reclassified to profit or loss</b>			
Defined benefit actuarial gains, net of tax	–	311	311
<b>Other comprehensive income for the year</b>	<b>91</b>	<b>311</b>	<b>402</b>
<b>Total comprehensive income for the year</b>	<b>97</b>	<b>307</b>	<b>404</b>

<sup>1</sup> Refer to Note 1(c)

## **NOTES TO THE PRELIMINARY FINAL REPORT**

For the year ended 30 June 2014

### **Note 10. Application of New or Revised Accounting Standards (continued)**

#### **B. Impact of Revised Standard on the Current Reporting Period's Results**

The impact of the revised standard on the current reporting period's results is as follows:

The Consolidated Income Statement for the year ended 30 June 2014 included an increase in manpower and staff related expenses of \$56 million and an increase in income tax benefit of \$17 million resulting in an increase in statutory loss for the period of \$39 million.

In addition, the Consolidated Statement of Comprehensive Income for the year ended 30 June 2014 included an increase in other comprehensive income of \$113 million for the recognition of defined benefit actuarial gains, net of tax. These adjustments resulted in a net increase in total other comprehensive income of \$74 million.

The Consolidated Balance Sheet as at 30 June 2014 included a decrease in other non-current assets of \$58 million, a decrease in deferred tax liabilities of \$17 million and a decrease in retained earnings of \$41 million.

### **Note 11. Post Balance Date Events**

On 28 August 2014, the Board approved the outcome of the Structural Review that was ongoing as at 30 June 2014.

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

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

The outcome of the Structural Review resulted in the reassessment of the Group's identified CGUs. Consequently the Qantas Brands CGU was separated into individual CGUs for each of Qantas Domestic, Qantas International, Qantas Freight and Qantas Loyalty. As such the 30 June 2014 impairment test was updated and undertaken on the basis of the newly identified CGUs.

While there are significant surpluses in Qantas Loyalty, Qantas Domestic and Qantas Freight CGUs, impairment of \$2,560 million arose in the stand-alone Qantas International CGU in respect of aircraft and engines. This non-cash impairment charge has been reflected in the Consolidated Financial statements for the year ended 30 June 2014 as an adjusting subsequent event.

Other than as disclosed above, there has not arisen in the interval between 30 June 2014 and the date of this Report any other event that would have had a material effect on the Consolidated Financial Statements as at 30 June 2014.

## OPERATIONAL STATISTICS

For the year ended 30 June 2014

<b>(unaudited)</b>		<b>June 2014</b>	<b>June 2013</b>	<b>Change</b>
<b>QANTAS DOMESTIC (INCLUDING QANTASLINK) - SCHEDULED SERVICES</b>				
Passengers carried	000	21,818	22,116	(1.3)%
Revenue passenger kilometres (RPK)	M	27,715	28,352	(2.2)%
Available seat kilometres (ASK)	M	37,824	37,354	1.3%
Revenue seat factor	%	73.3	75.9	(2.6)pts
<b>QANTAS DOMESTIC - SCHEDULED SERVICES</b>				
Passengers carried	000	16,280	16,813	(3.2)%
Revenue passenger kilometres (RPK)	M	24,158	24,938	(3.1)%
Available seat kilometres (ASK)	M	32,097	32,119	(0.1)%
Revenue seat factor	%	75.3	77.6	(2.3)pts
<b>QANTASLINK - SCHEDULED SERVICES</b>				
Passengers carried	000	5,538	5,303	4.4%
Revenue passenger kilometres (RPK)	M	3,557	3,414	4.2%
Available seat kilometres (ASK)	M	5,727	5,235	9.4%
Revenue seat factor	%	62.1	65.2	(3.1)pts
<b>JETSTAR DOMESTIC - SCHEDULED SERVICES</b>				
Passengers carried	000	12,296	11,610	5.9%
Revenue passenger kilometres (RPK)	M	14,584	13,958	4.5%
Available seat kilometres (ASK)	M	17,885	17,055	4.9%
Revenue seat factor	%	81.5	81.8	(0.3)pts
<b>QANTAS INTERNATIONAL - SCHEDULED SERVICES</b>				
Passengers carried	000	5,837	5,765	1.2%
Revenue passenger kilometres (RPK)	M	47,112	47,983	(1.8)%
Available seat kilometres (ASK)	M	59,173	58,825	0.6%
Revenue seat factor	%	79.6	81.6	(2.0)pts
<b>JETSTAR INTERNATIONAL - SCHEDULED SERVICES</b>				
Passengers carried	000	4,850	5,146	(5.8)%
Revenue passenger kilometres (RPK)	M	14,060	14,715	(4.5)%
Available seat kilometres (ASK)	M	18,939	19,207	(1.4)%
Revenue seat factor	%	74.2	76.6	(2.4)pts
<b>JETSTAR ASIA</b>				
Passengers carried	000	3,975	3,639	9.2%
Revenue passenger kilometres (RPK)	M	6,188	5,897	4.9%
Available seat kilometres (ASK)	M	7,894	7,468	5.7%
Revenue seat factor	%	78.4	79.0	(0.6)pts
<b>QANTAS GROUP OPERATIONS</b>				
Passengers carried	000	48,776	48,276	1.0%
Revenue passenger kilometres (RPK)	M	109,659	110,905	(1.1)%
Available seat kilometres (ASK)	M	141,715	139,909	1.3%
Revenue seat factor	%	77.4	79.3	(1.9)pts
Aircraft at end of year	#	308	312	-4 aircraft
<b>QANTAS FREQUENT FLYER</b>				
Awards redeemed	M	6.2	5.6	11.3%
Total members	M	10.1	9.4	7.8%
<b>FINANCIAL</b>				
Yield (passenger revenue per RPK) <sup>1</sup>	c	10.02	10.29	(2.6)%
<b>EMPLOYEES</b>				
Full-time equivalent employees at end of year (FTE)	#	30,751	33,265	(7.6)%
RPK per FTE at year-end	000	3,566	3,334	7.0%
ASK per FTE at year-end	000	4,608	4,206	9.6%

<sup>1</sup> Yield (both current year and prior year) is calculated using prior year exchange rates.

**GEARING RATIO<sup>1</sup>**

As at 30 June 2014

<b>(unaudited)</b>	<b>June 2014 \$M</b>	<b>June 2013 Restated<sup>4</sup> \$M</b>
Equity	2,866	5,840
Exclude hedge reserve	72	(123)
<b>Adjusted Equity</b>	<b>2,938</b>	<b>5,717</b>
<b>On balance sheet debt</b>		
Current interest-bearing liabilities	1,210	835
Non-current interest-bearing liabilities	5,273	5,245
Cash and cash equivalents	(3,001)	(2,829)
Aircraft security deposits	(34)	(21)
Fair value of hedges relating to debt <sup>2</sup>	7	(4)
<b>Net on balance sheet debt</b>	<b>3,455</b>	<b>3,226</b>
Operating lease liability <sup>3</sup>	1,296	1,621
<b>Net debt including operating lease liability</b>	<b>4,751</b>	<b>4,847</b>
<b>On balance sheet debt ratio</b>		
Net debt on balance sheet to net debt on balance sheet and equity (excluding hedge reserve)	54:46	36: 64
<b>Gearing ratio</b>		
Net debt including operating lease liability to net debt including operating lease liability and adjusted equity (excluding hedge reserve)	62:38	46: 54

<sup>1</sup> Gearing ratio is net debt including operating lease liability to net debt including operating lease liability and equity (excluding hedge reserve). The gearing ratio is used by Management to represent the Qantas Group's debt obligation including obligations under operating leases.

<sup>2</sup> Fair value of hedges relating to debt are included in Other Financial Assets and Other Financial Liabilities on the Consolidated Balance Sheet in accordance with AASB 139: Financial Instruments: Recognition and Measurement.

<sup>3</sup> Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. This operating lease liability has been calculated in accordance with Standard and Poor's methodology using an assumed interest rate of seven per cent.

<sup>4</sup> Restatement for the impact of revised AASB 119 relating to defined benefit superannuation plans. Refer to Note 10.