26 August 2021

ASX Market Announcements Office
Australian Securities Exchange Limited

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Qantas Group FY21 Appendix 4E and Preliminary Final Report

Qantas Airways Limited attaches the following documents relating to its results for the full-year ended 30 June 2021:

- Appendix 4E; and
- Preliminary Final Report.

Yours faithfully,

Andrew Finch
Group General Counsel and Company Secretary

Media Enquiries: Qantas Media +61 418 210 005 qantasmedia@qantas.com.au
Investor Relations Enquiries: +61 0416 058 178 filipkidon@qantas.com.au

Authorised for release by Qantas' Board of Directors

QANTAS AIRWAYS LIMITED
AND ITS CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

ABN: 16 009 661 901

ASX CODE: QAN

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Results for Announcement to the Market

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

	June 2021 $M	June 2020 $M	Change $M	Change %
Revenue and other income	5,934	14,257	(8,323)	(58.4)
Statutory loss after tax	(1,728)	(1,964)	236	12.0
Statutory loss after tax attributable to members of Qantas	(1,728)	(1,964)	236	12.0
Underlying (loss)/profit before tax	(1,826)	124	(1,950)	(>100)

DIVIDENDS

No dividend will be paid in relation to the year ended 30 June 2021.

EXPLANATION OF RESULTS

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

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

Other Information

		June 2021	June 2020
Net assets per ordinary share[1]	$	0.27	0.82
Net tangible assets per ordinary share[1,2]	$	(0.18)	0.26
Basic loss per share (Statutory Earnings Per Share)[3]	cents	(91.8)	(129.6)
Diluted loss per share[4]	cents	(91.8)	(129.6)
Underlying (loss)/Earnings Per Share[5]	cents	(71.3)	5.9

1 The issued shares at 30 June 2020 includes the capital raising completed in June 2020 and shares issued on 1 July 2020.
2 Net tangible assets is calculated as net assets adjusted for intangible assets.
3 Based on the weighted average number of shares outstanding during the year excluding unallocated treasury shares.
4 Weighted average number of shares used in basic and diluted Earnings Per Share calculation is the same for the years ended 30 June 2021 and 30 June 2020 as the effect of share rights expected to vest are anti-dilutive and excluded from the calculation.
5 Underlying Earnings Per Share is calculated as Underlying (Loss)/Profit Before Tax less tax benefit/expense (based on the Group's effective tax rate of (26.5) per cent (30 June 2020: (27.5) per cent)) divided by the weighted average number of shares outstanding during the year excluding unallocated treasury shares.

Other Information continued

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

The Group gained control of the following entities during the year:

National Jet Systems Pty Ltd (acquired on 31 July 2020)

National Jet Operations Services Pty Ltd (acquired on 31 July 2020)

OWNERSHIP INTEREST IN INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	June 2021	June 2020
	%	%
Fiji Resorts Limited	21	21
Hallmark Aviation Services L.P.	49	49
HT & T Travel Philippines, Inc.	28	28
Holiday Tours and Travel (Thailand) Ltd.	37	37
Holiday Tours and Travel Vietnam Co. Ltd.	37	37
Holiday Tours and Travel (GSA) Ltd.	37	37
Helloworld Travel Limited[1]	12	15
Jetstar Japan Co. Ltd.	33	33
Pacific Airlines[2]	30	30
PT Holidays Tours & Travel	37	37

ASIC GUIDANCE

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

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. In line with previous years and in accordance with the Corporations Act 2001, the Preliminary Final Report is unaudited and contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2021. The Annual Financial Report is being audited and is expected to be made available on 17 September 2021.

2021 ANNUAL GENERAL MEETING

Qantas advises under ASX Listing Rule 3.13.1 that it will hold its 2021 Annual General Meeting (AGM) on Friday 5 November 2021, commencing at 11:00am (AEDT), as a virtual meeting, which will permit all shareholders to participate and attend the meeting online.

Shareholders will be provided further details regarding the AGM in the 2021 Notice of Meeting, which is expected to be made available on 17 September 2021. The Notice of Meeting will be available on the ASX Company Announcements Platform and Qantas' Investor website at https://investor.qantas.com/investors/?page=annual-general-meeting.

The closing date for receipt of nominations from persons wishing to be considered for election as directors under ASX Listing Rule 14.3 is Friday, 17 September 2021.

1 Investment in Helloworld Travel Limited has reduced from 15% to 12% due to issue of new shares by Helloworld Travel Limited pursuant to its equity raising.
2 Jetstar Pacific Airline Aviation Joint Stock Company has been rebranded to Pacific Airlines. The Group has discontinued equity accounting for its interest and the investment is recognised as Held for Sale.

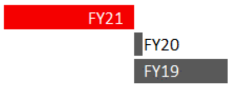
Review of Operations

For the year ended 30 June 2021

RESULTS HIGHLIGHTS

Underlying (Loss)/Profit Before Tax

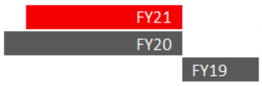
(1,826) $M



FY21	**(1,826)**
FY20	124
FY19	1,326

Statutory (Loss)/Profit After Tax

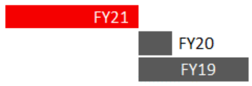
(1,728) $M



FY21	**(1,728)**
FY20	(1,964)
FY19	840

Return on Invested Capital

(23.3) %



FY21	**(23.3%)**
FY20	5.8%
FY19	19.2%

The performance of the Group and individual segments will be compared to the corresponding prior period (financial year 2019/20) and the financial year 2018/19, which represents a proxy for 'pre-COVID' operations. It indicates the degree to which the Group's performance is recovering to pre-COVID levels as the 2018/19 financial year represents the most recent complete financial period not affected by the pandemic.

In the financial year 2020/21, the operations of the Qantas Group continued to be severely impacted by the actions taken by governments to address the health impacts of the COVID-19 global pandemic. This included ongoing travel restrictions and international and domestic border closures which have significantly disrupted air travel. This has led to the Qantas Group losing approximately $16 billion in revenue cumulatively since the start of the pandemic.

The first half of financial year 2020/21 was heavily impacted by the second wave in Victoria, which resulted in a protracted lockdown and nationwide domestic border closures. As the situation in Victoria improved, travel and border restrictions progressively eased, which led to a surge in domestic travel. Towards the end of the first half, a third wave struck Sydney's Northern Beaches and Brisbane, initiating another round of border closures. Once these outbreaks were contained and borders were once again reopened, the Group saw a significant increase in domestic travel which peaked in the early months of quarter four of financial year 2020/21. During the second half, domestic capacity reached a high of 92 per cent of pre-COVID levels, generating Net Free Cash Flow to commence balance sheet repair. This period demonstrated the speed at which balance sheet repair can take place when domestic borders are open. Unfortunately, since June 2021, Australia has been impacted by a series of further COVID-19 outbreaks across the country, which again has seen the majority of domestic borders closed. The Group's focus on preserving liquidity, restructuring its cost base and protecting its balance sheet has positioned it well to weather ongoing disruptions to travel demand during the recovery period.

The Qantas Group reported an Underlying Loss Before Tax [1] (Underlying LBT) of ($1,826) million for the 12 months ended 30 June 2021, a decrease of $3,152 million compared to 2018/19 pre-COVID (down $1,950 million compared to 2019/20). The Group's Statutory Loss Before Tax of ($2,351) million was adverse $3,543 million from 2018/19 pre-COVID (improved $357 million compared to 2019/20). The Statutory Loss Before Tax for 2020/21 financial year included a net $525 million of costs, mostly non-cash impairments and redundancy expenses, which were not included in the Underlying result. Items outside of Underlying LBT included redundancies and restructuring costs associated with the Recovery Plan, asset impairments including to the A380 fleet, partially offset by the gain on sale of assets and net de-designation of fuel and foreign exchange hedges.

Group total revenue was $5,934 million, down $12.0 billion or 67 per cent compared with 2018/19 pre-COVID (down $8.3 billion or 58 per cent compared to 2019/20). Swift action was taken to reduce the Group's costs to respond to the significant decline in revenue. Net operating expenses, [2] a good proxy for the Group's operating cash costs, reduced by 62 per cent compared with 2018/19 pre-COVID. As activity declined, there was a commensurate reduction in fuel consumption, aircraft operating variable expenses and manpower costs as a significant number of employees were stood down. Recovery Plan restructuring benefits of $650 million were delivered during financial year 2020/21 and also contributed to the reduction in the Group's cost base. The total savings from activity-based reductions, rightsizing and restructuring totalled $8.9 billion compared to 2018/19 pre-COVID. Depreciation, amortisation and underlying impairment non-cash charges continued to impact the Group's profitability resulting in an Underlying EBIT loss of ($1,525) million for the financial year 2020/21. Despite a disrupted recovery, the Group's focus on reducing and variabilising its cost base has delivered a profit at an Underlying EBITDA [3] level of $410 million, a decrease of $3,134 million compared to 2018/19 pre-COVID and $2,027 million to the prior year.

During the period, the Group's Domestic airlines flew approximately 51 per cent of their pre-COVID network but remained profitable, contributing $304 million Underlying EBITDA. The Group's International operations fell into losses, contributing an Underlying EBITDA loss of ($157) million, as the Group's International passenger operations were largely grounded. Qantas Freight delivered a record Underlying EBITDA, providing a natural hedge to the impact of the grounding of the passenger business and thereby limiting the losses from Group International. The resilience of the Qantas Loyalty business was again demonstrated as it generated a significant positive cash flow contribution for the Group and Underlying EBITDA of $333 million (Underlying EBIT of $272 million). This reinforces the benefit of the diversification of earnings it provides.

1 Underlying Loss/Profit Before Tax (Underlying LBT/PBT) is the primary reporting measure used by the Qantas Group's Chief Operating Decision-Making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas Domestic, Qantas International, Jetstar Group and Qantas Loyalty operating segments is Underlying Earnings Before Net Finance Costs and Income Tax Expense (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying LBT/ PBT to Statutory (Loss)/Profit Before Tax on Page 15.

2 Group gross expenditure excluding depreciation and amortisation, impairment/(reversal of impairment) of assets and related costs, share of net loss/(profit) of investments accounted for under the equity method and discount rate changes impact on provisions.

3 Earnings before interest, tax, depreciation, amortisation and impairments (EBITDA).

Review of Operations continued

For the year ended 30 June 2021

RESULTS HIGHLIGHTS (CONTINUED)

The financial metrics for 2020/21 financial year are:

- Statutory Earnings Per Share was a loss of 91.8 cents per share, reflecting the statutory loss and the increase in average shares on issue from the Institutional Placement in late June 2020 and the associated retail Share Purchase Plan completed in August 2020
- Operating cash outflow of ($386) million including one-off outflows for restructuring, redundancies, refunds and deferred payables. The underlying operations generated positive cash flow, which was offset by these significant one-off cash outflows on a full year basis
- Net capital expenditure [4] of $0.7 billion was invested in the business
- The Group delivered positive Statutory Net Free Cash Flow [5] in the second half of 2020/21 financial year, enabling debt reduction to commence.

The Australian Government implemented various programs to support businesses and employees severely affected by the pandemic. Programs which provided direct support to employees or offset costs of the Group included:

- The JobKeeper Payment (JobKeeper)
- International Aviation Support (IAS) Package, including the International Readiness Payment (IRP) provided as support to employees
- The Australian Aviation Financial Relief Package (AAFRP).

Details on these Australian Government programs can be found in Note 15 of the Preliminary Final Report.

In addition, the Australian Government commissioned Qantas Airways to conduct various charter repatriation flights in order to return Australians home. Along with other Australian domestic airlines, the Group performed several domestic and regional flights as part of the Regional Airline Network Support (RANS) and Domestic Aviation Network Support (DANS) programs intended to maintain vital air transport links as well as participated in the Tourism Aviation Network Support (TANS) scheme, which offers discounted fares to 15 key tourist regions in Australia to support domestic tourism. Qantas Freight was contracted to conduct freight services under the International Freight Assistance Mechanism (IFAM) to ensure import and export freight routes remained open.

The Group's conservative approach to securing additional liquidity was a prudent measure given the extended border closures in response to localised outbreaks. During the year, $937 million new debt funding was raised, $759 million of debt was repaid and $58 million in net proceeds was recognised from the retail Share Purchase Plan. The Group also secured a further $0.6 billion in committed undrawn funding, increasing the undrawn facility to $1.6 billion.

At 30 June 2021, cash and cash equivalents totalled $2.2 billion with total liquidity at $3.8 billion including $1.6 billion in committed undrawn facilities. The Group also maintains an unencumbered asset base of more than $2.5 billion. This ensures that the Group has significant financial flexibility to manage through the recovery phase.

At the end of financial year 2020/21, Net Debt [6] was $5.9 billion, above the Net Debt target range of $4.5 billion to $5.6 billion, however, it was lower than the closing Net Debt at 31 December 2020 of $6.05 billion. The reduction in the second half of 2020/21 was a product of increased domestic operations generating positive Net Free Cash Flow and the prioritisation of debt reduction. Importantly, the Group maintained its investment grade credit rating of Baa2 from Moody's Investor Services.

Giving consideration to the requirement to protect the strength of the balance sheet, maintain a minimum level of liquidity and the uncertainty of the near-term outlook for the business, the Board has decided not to make further shareholder distributions until the Group's earnings and balance sheet have fully recovered in accordance with the Financial Framework.

4 Net capital expenditure is equal to net investing cash flows in the Consolidated Cash Flow Statement and the impact to Invested Capital from the disposals/acquisitions of leased aircraft.
5 Net cash from operating activities less net cash used in investing activities.
6 Net Debt under the Group's Financial Framework includes net on balance sheet debt and capitalised aircraft lease liabilities.

Review of Operations continued

For the year ended 30 June 2021

THREE-YEAR RECOVERY PLAN

The Recovery Plan delivered $650 million in savings in financial year 2020/21 ahead of its $600 million target. The program is on track to deliver $850 million by the end of financial year 2021/22 and greater than $1 billion in ongoing savings by the end of financial year 2022/23. Initiatives to achieve the 2022/23 targets are greater than 90 per cent complete or initiated.

	Target		
Key Area of Focus	**Metrics**	**Timeframe**	**As at end of June 2021**
Cost savings	Restructuring cost benefits of $0.6b in FY21, $0.8b by FY22, $1.0b by FY23	FY23	**Achieved $650m of cost benefits in FY21; Targeting $850m by FY22**
	Increased target to at least 8,500 exits	FY21	**~9,400 exits completed**
	Group Unit Cost (ex-fuel and depreciation) 10% less than FY20	FY23	**Restructuring in progress**
Deleverage the balance sheet	Gross debt reduction of $1.75b	FY23	**Debt reduction commenced in 4Q21**
	Net Debt/EBITDA <2.5 times	FY22	**Debt reduction commenced in 4Q21; Restructuring in progress; Net Debt/EBITDA <2.5 times now expected by end of CY22**
Cash flow	Sustainable positive Net Free Cash Flow	FY22 onwards	**Statutory Net Free Cash Flow positive achieved in 2H21**
	Flying activity is contribution positive (RASK-Variable cost/ASK >0)	From FY21	**95% of Domestic flights cash flow positive Domestic airlines generated positive underlying operating cash flow in FY21**
	Capex [7] for FY21 ~$0.75b	FY21	**FY21 spend of $693m**
Fleet management	Defer deliveries of A321neos and 787-9 aircraft	June 2020	**Complete**
	Retire 6 x 747s; 12 x A380s in long-term storage	December 2020	**Complete**
Customer and brand	Maintain Customer Advocacy (NPS) premium to domestic competitor	Ongoing	**On track, NPS at historical highs across Qantas, Jetstar and Loyalty**
	Maintain brand and reputation	Ongoing	**On track, Qantas remains most trusted airline in region**
Qantas Loyalty	Return to double digit growth	FY22	**Returned to growth in 2H21 Double digit growth now expected by end of CY22**
Employee engagement	Employee sentiment	Ongoing	**Impacted by stand downs and restructuring but expected to continue to improve, aligned to Group recovery and international borders reopening**

7 Equal to net investing cash flows included in the Consolidated Cash Flow Statement and the impact to Invested Capital from the disposals/acquisitions of leased aircraft.

Review of Operations continued

For the year ended 30 June 2021

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

Qantas' Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings Per Share (EPS) growth over the cycle, which in turn should generate Total Shareholder Returns (TSR) in the top quartile of the ASX100 and a basket of global airlines, [8] the Financial Framework has three clear priorities and associated long-term targets:

1. Maintaining an Optimal Capital Structure	2. ROIC > WACC [10] Through the Cycle	3. Disciplined Allocation of Capital
Minimise cost of capital by targeting a Net Debt range of $4.5 billion to $5.6 billion [9]	Deliver ROIC > 10 per cent [11] through the cycle	Grow Invested Capital with disciplined investment, return surplus capital

MAINTAINABLE EPS [12] GROWTH OVER THE CYCLE

TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE

Maintaining an Optimal Capital Structure

- The Group's Financial Framework targets an optimal capital structure to achieve the lowest cost of capital. This results in a Net Debt target range of $4.5 billion to $5.6 billion, based conservatively on the Invested Capital as at 30 June 2020 of approximately $6 billion. It is defined as Net Debt/ROIC EBITDA range of 2.0-2.5 times where ROIC is fixed at 10 per cent. This capital structure optimises the Group's cost of capital and preserves financial strength with the objective of enhancing long-term shareholder value. The Group's optimal capital structure is consistent with investment grade credit metrics. The Group is rated Baa2 with Moody's Investor Services.
- At 30 June 2021, Net Debt was $5.9 billion, which is above the Net Debt target range, with debt reduction a priority as recovery progresses. Net Debt of $5.9 billion is however, lower than 31 December 2020 of $6.05 billion due to the positive Net Free Cash Flow generated in the second half of 2020/21 financial year.

ROIC > WACC Through the Cycle

Return on Invested Capital (ROIC) for the 12 months to 30 June 2021 was less than zero, below the Group's target for value creation of 10 per cent. This was due primarily to the impact of government-imposed travel restrictions and border closures on earnings.

Disciplined Allocation of Capital

The Qantas Group takes a disciplined approach to allocating capital with the aim to grow Invested Capital and return surplus capital to shareholders where earnings permit. Giving consideration to the requirement to protect the strength of the balance sheet, maintain a minimum level of liquidity and the uncertainty of the near-term outlook for the business, the Board has decided not to make further shareholder distributions until the Group's earnings and balance sheet have fully recovered in accordance with the Financial Framework.

Maintainable EPS Growth Over the Cycle

Statutory Earnings Per Share was a loss of (91.8) cents per share due to the significant Statutory Loss After Tax and increase in average shares from the Institutional Placement in late June 2020 and the associated retail Share Purchase Plan completed in August 2020.

8 Target Total Shareholder Returns within the top quartile of the ASX100 and the global listed airline peer group as stated in the 2020 Annual Report, with reference to the 2020-2022 Long Term Incentive Plan (LTIP).
9 Based on the Invested Capital of approximately $6 billion as at 30 June 2020.
10 Weighted Average Cost of Capital, calculated on a pre-tax basis.
11 Target of greater than 10 per cent ROIC allows ROIC to be greater than pre-tax WACC through the cycle.
12 Earnings Per Share.

Review of Operations continued
For the year ended 30 June 2021

GROUP PERFORMANCE

The Underlying Profit Before Tax for 2020/21 financial year was a loss of ($1,826) million, including the impact of government-imposed travel restrictions and border closures due to the COVID-19 pandemic. This compares with Underlying Profit Before Tax of $1,326 million for 2018/19 pre-COVID and $124 million in 2019/20. Net passenger revenue declined by 76 per cent compared to 2018/19 pre-COVID levels as the domestic airlines operated only 51 per cent of pre-COVID flying and the international scheduled passenger businesses remained largely grounded. Net freight revenue increased due to a surge in e-commerce and a significant reduction in available passenger aircraft belly space. Other revenue declined primarily due to the decrease in third-party service revenues and the reduced revenue earned by Qantas Loyalty. Actions taken to reduce and variabilise costs decreased total underlying expenditure by $8.9 billion compared to 2018/19 pre-COVID, which helped to partially offset the steep decline in revenue.

Group Underlying Income Statement Summary [13]	June 2021 $M	June 2020 $M	June 2019 $M
Net passenger revenue	3,766	12,183	15,696
Net freight revenue	1,316	1,045	971
Other revenue	852	1,029	1,299
Revenue and other income	**5,934**	**14,257**	**17,966**
Operating expenses (excluding fuel)[13]	(4,560)	(8,872)	(10,599)
Fuel	(835)	(2,895)	(3,846)
Impairment[13]	(13)	(21)	-
Depreciation and amortisation[13]	(1,922)	(2,021)	(1,936)
Share of net (loss)/profit of investments accounted for under the equity method	(129)	(53)	23
Total underlying expenditure	**(7,459)**	**(13,862)**	**(16,358)**
Underlying EBIT	**(1,525)**	**395**	**1,608**
Net finance costs	(301)	(271)	(282)
Underlying PBT	**(1,826)**	**124**	**1,326**

Operating Statistics		June 2021	June 2020	June 2019
Available Seat Kilometres (ASK) [14]	M	29,374	111,870	151,430
Revenue Passenger Kilometres (RPK) [15]	M	18,557	92,027	127,492
Passengers carried	000	15,866	40,475	55,813
Revenue Seat Factor [16]	%	63.2	82.3	84.2
Operating Margin [17]	%	(25.7)	2.8	9.0
Unit Revenue (RASK) [18]	c/ASK	9.72	8.99	8.85
Total Unit Cost [19]	c/ASK	(15.94)	(8.87)	(7.97)

Group capacity (ASK) decreased by 81 per cent compared to 2018/19 pre-COVID, mainly due to the international passenger businesses being largely grounded and the slow recovery of domestic capacity to 51 per cent of pre-COVID levels for the financial year. Revenue Passenger Kilometres decreased by 85 per cent compared to 2018/19 pre-COVID as the Group's Revenue Seat Factor fell to 63 per cent. Group Unit Revenue increased to 9.72 c/ASK, due to the increased mix of domestic revenue to international revenue compared to pre-COVID. The Group's Total Unit Cost increased to 15.94 c/ASK as a result of the significant decline in ASKs and the Group's fixed cost base including depreciation and amortisation charges.

13 Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT such as those items identified by Management as not representing the underlying performance of the business. Refer to the reconciliation on page 15.
14 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
15 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
16 Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.
17 Operating Margin is Group Underlying EBIT divided by Group total revenue.
18 Unit Revenue (RASK) is calculated as ticketed passenger revenue divided by Available Seat Kilometres (ASK).
19 Total Unit Cost is Underlying PBT less ticketed passenger revenue per ASK.

Review of Operations continued
For the year ended 30 June 2021

CASH GENERATION

Cash Flow Summary	June 2021 $M	June 2020 $M	Change $M	Change %
Operating cash flows	(386)	1,083	(1,469)	(136)
Investing cash flows	(722)	(1,571)	849	54
Net Free Cash Flow	**(1,108)**	**(488)**	**(620)**	**(127)**
Financing cash flows	(181)	1,853	(2,034)	(110)
Cash at beginning of year	3,520	2,157	1,363	63
Effect of foreign exchange on cash	(10)	(2)	(8)	(>100)
Cash at end of year	**2,221**	**3,520**	**(1,299)**	**(37)**

Debt Analysis		June 2021 $M	June 2020 $M	Change $M	Change %
Net on balance sheet debt [20]	$M	(4,609)	(3,173)	(1,436)	(45)
Capitalised aircraft lease liabilities [21]	$M	(1,281)	(1,561)	280	18
Net Debt [22]		**(5,890)**	**(4,734)**	**(1,156)**	**(24)**

Operating cash outflows for 2020/21 were $386 million, with positive cash flow generated impacted by one-off outflows for restructuring, redundancies, refunds and deferred payables.

Investing cash outflows for 2020/21 of $722 million. Net capital expenditure [23] was $693 million including the impact of lease returns on capitalised aircraft leases. Capital expenditure was primarily directed to capitalised maintenance and the delivery of an A321P2F freighter.

Net financing cash outflows of ($181) million included a $937 million draw down of debt and $58 million in net proceeds from the retail Share Purchase Plan, offset by scheduled debt repayments of $759 million and $417 million in net aircraft and non-aircraft lease repayments.

At 30 June 2021, the Group's unencumbered asset base was greater than $2.5 billion, [24] including 41 per cent of the Group's fleet, [25] land, spare engines and other assets.

Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changes in market conditions and earnings scenarios.

20 Net on balance sheet debt includes interest-bearing liabilities reduced by cash and cash equivalents.
21 Capitalised aircraft lease liabilities are a non-statutory measure. It is measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis. Residual value of capitalised aircraft lease liability denominated in foreign currency is translated at a long-term exchange rate.
22 Net Debt is a non-statutory measure. It includes on balance sheet debt and capitalised aircraft lease liabilities under the Group's Financial Framework.
23 Net capital expenditure is equal to net investing cash flows in the Consolidated Cash Flow Statement and the impact to Invested Capital from the disposals/acquisitions of leased aircraft.
24 Aircraft valuations based on the average of AVAC and AVITAS market values as at 30 June 2021.
25 Based on number of aircraft as at 30 June 2021. The Group's fleet totalled 311 aircraft including Jetstar Asia (Singapore) owned fleet and excludes Pacific Airlines (formerly Jetstar Pacific) and Jetstar Japan.

Review of Operations continued

For the year ended 30 June 2021

FLEET

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

At all times, the Group retains significant flexibility to respond to changes in market conditions and the competitive landscape by deploying several strategies including fleet redeployment, refurbishment, renewal and retirement. Reduced flying due to COVID-19 enables deferral of the Group's fleet replacement program.

In financial year 2020/21, four 747-400ERs were disposed (completing the retirement of the 747 fleet), six A320-200s were transferred from Jetstar to QantasLink, one A320-200 has exited Jetstar for lease return to Pacific Airlines and the Group took delivery of an A321-200P2F for Qantas Freight as well as a F100 for Network Aviation. Two Jetstar A321-200s are currently undergoing conversion to freighters with expected completion in the first half of 2021/22 financial year. In addition, the Group made the decision that two A380s that were in storage would not be returned to operations.

At 30 June 2021, the Qantas Group fleet [26] totalled 311 aircraft.

Fleet Summary (Number of Aircraft)	June 2021	June 2020
A380 [27]	12	12
747-400/400ER	-	4
A330-200/300	28	28
737-800	75	75
787-9	11	11
717-200	20	20
Q200/300/400	50	50
F100	18	17
A320-200	10	4
Total Qantas (including QantasLink and Network Aviation)	**224**	**221**
A320/A321-200	67	76
787-8	11	11
Total Jetstar Group	**78**	**87**
737-300/400F	5	5
767-300F	1	1
A321-200P2F	1	-
A321-200	2	-
Total Freight	**9**	**6**
Total Group	**311**	**314**

Through the 2020/21 financial year, the Group's fleet strategy adjusted to the new demand environment. The Group completed the disposal of the 747-400ERs after accelerating retirement as part of the Recovery Plan. The A380 fleet remained in storage with 10 of the 12 aircraft expected to return to service progressively from financial year 2022/23. Jetstar Asia's fleet reduced from 18 to 13 through a mixture of lease returns and aircraft redeployment to Australia. Jetstar Group A320ceos/A321ceos continued to be transferred to QantasLink for redeployment into the growing resources sector market in Western Australia as well as being converted to freighter aircraft to be utilised in Qantas Freight. To ensure operational readiness, grounded passenger A330-300s were redeployed as freighters to support IFAM. Qantas' 787-9s were flown for repatriation flights and Jetstar's 787-8 fleet was being utilised by the domestic network.

26 Includes Qantas Airways, Jetstar Australia and New Zealand, Jetstar Asia (Singapore), Qantas Freight and Network Aviation and excludes aircraft operated by Jetstar Japan and Pacific Airlines (formerly Jetstar Pacific).
27 Total fleet of 12 A380s. At 30 June 2021, all aircraft were in storage. 10 aircraft are expected to be returned to service.

Review of Operations continued
For the year ended 30 June 2021

SEGMENT PERFORMANCE

Segment Performance Summary (EBIT)	June 2021 $M	June 2020 $M	June 2019 $M
Qantas Domestic	(590)	173	778
Qantas International	(575)	56	323
Jetstar Group	(550)	(26)	400
Qantas Loyalty	272	341	376
Corporate	(99)	(134)	(171)
Unallocated/Eliminations	17	(15)	(98)
Underlying EBIT	**(1,525)**	**395**	**1,608**
Net finance costs	(301)	(271)	(282)
Underlying PBT	**(1,826)**	**124**	**1,326**

QANTAS DOMESTIC

Revenue

2,745 $M

FY21	**2,745**
FY20	4,672
FY19	6,098

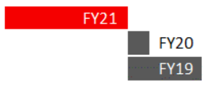
Underlying EBITDA

159 $M

FY21	**159**
FY20	907
FY19	1,503

Operating Margin

(21.5) %



FY21	**(21.5%)**
FY20	3.7%
FY19	12.8%

Metrics		June 2021	June 2020	June 2019
ASKs	M	16,951	25,773	33,866
Seat factor	%	58.3	75.9	77.8

Qantas Domestic remained profitable, reporting Underlying EBITDA of $159 million for financial year 2020/21 despite material impacts from border closures. This was achieved through agile network management and the delivery of substantial recovery program benefits as variabilisation of costs aided its ability to respond to border closures.

With the objective of generating cash and returning people back to work, Qantas Domestic launched 27 new routes in the financial year, growing capacity to 86 per cent of pre-COVID flying in May 2021. Flying included a mixture of commercial routes (including those supported by TANS) and routes where demand was insufficient to fly without the government-sponsored RANS and DANS. This combined network provided vital links to regional Australia and between capital cities with a significant amount of intra-state travel while borders were closed. Over the year, 95 per cent of flights were cash flow positive.

The corporate and SME markets recovered ahead of expectations, with 34 new accounts won over the financial year.

In response to the changing demand, Qantas Domestic has:

– Consolidated the 717 and Turboprop base on the East Coast
– Deployed 11 A320s into Western Australia to meet strong resource market demand
– Expanded the Alliance Aviation deal to up to 18 aircraft to capture emerging Central Australia and Northern Territory demand
– Maintained support of vital transport links and domestic tourism through government sponsored RANS, DANS and TANS
– Extended the 'Fly Flexible' program to February 2022, giving customers confidence to book and fly by providing more flexible booking terms and conditions
– Maintained high levels of customer Net Promoter Scores.

Through its multi-gauge fleet, the benefit of significant cost restructuring driving a margin advantage, and clear leadership in the corporate market, Qantas Domestic continues to extend its leading premium position in the market.

Review of Operations continued

For the year ended 30 June 2021

QANTAS INTERNATIONAL

Revenue

1,598 $M

FY21	**1,598**
FY20	6,077
FY19	7,420

Underlying EBITDA

117 $M

FY21	**117**
FY20	846
FY19	1,045

Operating Margin

(36.0) %

FY21	**(36.0%)**
FY20	0.9%
FY19	4.4%

Metrics		June 2021	June 2020	June 2019
ASKs	M	640	50,484	69,571
Seat factor	%	42.8	84.1	86.0

Qantas International's passenger business was largely grounded, except for the travel bubble with New Zealand and Australian Government-sponsored repatriation charter flights, bringing home thousands of Australians who were stranded overseas.

The restart of Trans-Tasman flying was impacted by directional demand and border closures resulted in an average of 40 per cent of pre-COVID flying in the fourth quarter of 2020/21.

The current freight and repatriation activities and utilisation of the traditionally international fleet in the domestic network are maintaining most of the fleet in operational readiness and a base level of technical and cabin crew recency. The A330 and 787 fleets operated 8 per cent of pre-COVID block hours for freight and repatriation activity in financial year 2020/21. This will assist with a low-cost restart of the commercial passenger network when international borders reopen.

The Freight business provided a valuable natural hedge to the performance of the Qantas International passenger business, helping to offset the cash holding costs. This resulted in an Underlying EBITDA profit of $117 million for the combined operations including the delivery of substantial recovery program benefits in financial year 2020/21.

As airlines globally responded to the pandemic by grounding and retiring aircraft, a shortage of international belly space emerged. This combined with surging e-commerce trends drove record profits for Qantas Freight. The Group supplemented lost belly space and helped to ensure international restart readiness by redeploying A330-300 passenger aircraft to freight activities, transporting vital medical supplies and other high priority freight. Qantas Freight also continued to support IFAM, assisting Australian businesses to reach their export markets and ensure import supply lines remained open.

Domestically, Qantas Freight maintained its leadership position in the market, gaining key new customers from its competitors. The Group also took delivery of the first of three A321-200P2F freighters and wet leased additional dedicated freighter capacity.

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

– Retirement of the remaining 747-400ER fleet in the 2020/21 financial year
– Deferred delivery of three 787-9 Dreamliners in line with the Group's requirements
– Took delivery of the first A321-200P2F freighter in October 2020 to meet demand for increased dedicated freighter capacity and wet leased additional capacity as required
– Two A380s are not expected to return to service, with the remaining 10 aircraft expected to return from financial year 2022/23.

Review of Operations continued
For the year ended 30 June 2021

JETSTAR GROUP

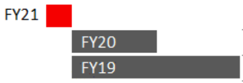
Revenue

1,140 $M

FY21	**1,140**
FY20	3,006
FY19	3,961

Underlying EBITDA

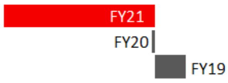
(129) $M



FY21	**(129)**
FY20	426
FY19	836

Operating Margin

(48.2) %



FY21	**(48.2%)**
FY20	(0.9%)
FY19	10.1%

Metrics		June 2021	June 2020	June 2019
ASKs	M	11,783	35,613	47,993
Seat factor	%	71.3	84.3	86.1

The Jetstar Group reported an Underlying EBITDA loss of ($129) million. When adjusted to exclude the share of losses of associates, the Jetstar Group reported an Underlying EBITDA profit of $2 million.

Jetstar's Australian Domestic business delivered an Underlying EBITDA profit of $145 million of which $102 million was delivered in the second half of 2020/21 financial year. The result was driven through an increase in flying activity compared to the first half of the 2020/21financial year as well as its highly variable cost base and restructuring program benefits. Jetstar's Australian Domestic low fares leadership, high customer satisfaction and flexible response drove leisure demand when borders opened. The business extended its domestic network advantage with seven new routes announced in the financial year, resulting in second half capacity growing to 102 per cent of pre-COVID levels in May 2021. Seat factor of 74 per cent was achieved in the domestic business and ancillary revenue per passenger grew 33 per cent compared to the 2018/19 financial year pre-COVID.

The Jetstar Australia, New Zealand and Jetstar Asia (Singapore) international operations have effectively been grounded and fell into losses due to costs for maintenance on stored aircraft, overheads and non-cash employee provisions. Together they added $143 million to Jetstar Group's EBITDA losses.

Jetstar Asia has been undergoing a restructuring program to respond to the impacts of the pandemic. Given its fully international operation, Jetstar Asia's fleet has reduced from 18 to 13 by transferring aircraft to Australia and through a lease return. Jetstar Asia has also announced the transfer of a further three aircraft temporarily to Australia and another expected lease return, reducing its fleet to nine aircraft.

Jetstar Japan is implementing its own restructuring program in response to the impacts of the pandemic but due to higher fixed costs, a fully leased fleet and multiple states of emergency in Japan, incurred losses in the 2020/21 financial year. Jetstar Group's result includes $131 million attributable to the share of statutory losses for Jetstar Japan. Jetstar Japan is temporarily transferring six aircraft to Australia to support domestic growth and reduce Jetstar Japan's fixed costs.

Through its highly variable cost base, the benefit of further cost restructuring through the recovery program and its clear leadership in the price sensitive leisure market, the Jetstar Group is uniquely positioned to capture and scale up for the leisure-led recovery in travel demand.

Review of Operations continued

For the year ended 30 June 2021

QANTAS LOYALTY

Revenue

984 $M

FY21	**984**
FY20	1,224
FY19	1,654

Underlying EBITDA

333 $M

FY21	**333**
FY20	390
FY19	414

Operating Margin

27.6 %

FY21	**27.6%**
FY20	27.9%
FY19	22.7%

Metrics		June 2021	June 2020	June 2019
QFF members	M	13.6	13.4	12.9

Qantas Loyalty provided an important source of diversified earnings and positive cash flow as the Group's international passenger airlines were largely grounded and domestic airlines were operating at significantly reduced capacity. Cash contribution to the Group was greater than $1 billion from gross sales to external parties. Earnings were $333 million at an Underlying EBITDA level and Underlying EBIT was $272 million as the strategy to diversify earnings lessened the impact of the significant decline in air travel.

Qantas Loyalty continued its leadership position in the total share of the credit card market with spend on Qantas Points-earning credit cards returning to pre-COVID levels in the fourth quarter of 2020/21 financial year. Retail partnerships continued to be strong with over 500,000 members earning Qantas Points with bp Australia since the partnership launched in April 2020.

Retail businesses such as Qantas Wine and Qantas Rewards Store saw redemptions at peak levels as members turned to online shopping and sought ways to burn points on the ground. The Qantas Insurance portfolio continues to perform well with continued growth in the financial year.

Travel-related products remain sensitive to border announcements. The underlying demand for the program and travel was evident in the second half of 2020/21 with record domestic flight redemptions in March 2021, as border restrictions eased.

Despite the significantly reduced flying of the Group's airlines, the program maintained its relevance with continued strength in member engagement supported by ongoing program generosity resulting in record Net Promoter Score. This included the status accelerator offer for Gold members of other loyalty programs, status tier extensions, new ways to earn on the ground (including status credits) and increased Classic Reward seat availability across popular Australian destinations.

Qantas Loyalty's earnings are expected to accelerate on resumption of consistent travel activity and Qantas Loyalty remains committed to achieving the target of $500-600 million Underlying EBIT by financial year 2023/24.

Review of Operations continued

For the year ended 30 June 2021

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Loss Before Tax of ($2,351) million for 2020/21 compares to a Statutory Loss Before Tax of ($2,708) million for 2019/20 and a Statutory Profit Before Tax of $1,192 million for 2018/19.

Underlying PBT

Underlying PBT is a non-statutory measure and is the primary reporting measure used by the Qantas Group's Chief Operating Decision-Making bodies (CODM) for the purpose of assessing the performance of the Group. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of each operating segment and the Qantas Group.

Underlying PBT includes the impact of COVID-19 on the operating performance of the Group. Group revenue for the year ended 30 June 2021, as recognised within Underlying PBT, is down $12.0 billion compared to the 2018/19 financial year pre-COVID (down $8.3 billion compared to the 2019/20 financial year), which is consistent with the reduction of revenue within the Group's Statutory Loss.

Likewise, the impact of the decisive actions taken by the Group to mitigate the impact of COVID-19, including a reduction in flight capacity domestically and internationally (including a reduction in costs from fuel and variable cost reductions), workforce stand downs and operational cost-out measures, have also been recognised in Underlying PBT. Government support to mitigate the impact of COVID-19 from travel restrictions and border closures including the AAFRP, JobKeeper, IAS, RANS, DANS, TANS, government repatriation flights and IFAM payments, together with costs to operate or payments to employees, are also recorded in Underlying PBT.

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

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

The impact of COVID-19 and the Group's Recovery Plan have resulted in items not included in Underlying PBT, including asset impairments, Recovery Plan restructuring costs (including redundancies) and de-designated hedging due to a significant decrease in flying activity.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY (LOSS)/PROFIT BEFORE TAX	June 2021 $M	June 2020 $M	June 2019 $M
Underlying PBT	**(1,826)**	**124**	**1,326**
Items not included in Underlying PBT			
- Transformation costs and discretionary bonuses for non-executive employees [28]	-	(191)	(260)
- Recovery Plan restructuring costs [29]	(319)	(642)	-
- (Impairment)/reversal of impairment of assets and related costs	(257)	(1,428)	39
- De-designation of fuel and foreign exchange hedges	33	(571)	-
- Net gain on disposal of assets	18	-	192
- Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair value hedging agenda decision	-	-	(105)
Total items not included in Underlying PBT	**(525)**	**(2,832)**	**(134)**
Statutory (Loss)/Profit Before Income Tax Expense	**(2,351)**	**(2,708)**	**1,192**

28 Costs incurred under the Transformation Program in previous years are reported under Transformation costs.
29 Costs incurred in relation to the Group's Recovery Plan are reported under Recovery Plan restructuring costs.

Review of Operations continued

For the year ended 30 June 2021

Underlying PBT (continued)

In the 2020/21 financial year, the items outside of Underlying PBT included:

Item Outside of Underlying PBT	Description
Recovery Plan restructuring costs	$319 million included people restructuring costs of $297 million and other restructuring costs of $22 million. People restructuring costs include redundancy costs related to announced restructuring initiatives. Other restructuring costs primarily resulted from changes to fleet strategy as a result of the Recovery Plan. Included in other restructuring costs is $7 million of non-cash accelerated depreciation.
Impairment of assets and related costs	Impairments of assets and related costs of $257 million includes: – $155 million impairment of the Group's A380 fleet resulting from changes in the recoverable amount or net realisable value of the assets including from changes in the market value of the aircraft, changes in the onerous contractual commitments and movement in foreign exchange rates since 30 June 2020 – $73 million impairment of property, plant and equipment and right of use assets relating to aircraft in the Jetstar Asia cash generating unit – $3 million impairment relating to the early retirement of the Group's 747 fleet driven by movement in foreign exchange rates since 30 June 2020 – $27 million impairment of property, plant and equipment, intangible assets and other assets from the implementation of restructuring initiatives in the Recovery Plan – ($1) million of net impairment reversal of assets in relation to the Group's associates. Refer to Note 7 for details on impairment of assets and related costs.
De-designation of fuel and foreign exchange hedges	The Group hedges fuel price risk in accordance with the Treasury Risk Management Policy. Hedge accounting is applied when the requirements of AASB 9 *Financial Instruments* are met. Where the forecast fuel purchase transaction is no longer expected to occur, then hedge accounting is discontinued prospectively and the amount accumulated in equity is reclassified to the Consolidated Income Statement. The significant decrease in flying activity compared to expectations at 30 June 2020 has resulted in hedge accounting being discontinued where forecast fuel purchases are no longer expected to occur. Where the underlying derivatives, while de-designated for hedge accounting purposes, had remained unrealised or unsettled, foreign exchange and mark-to-market movements have occurred. These movements have also been recognised as ineffectiveness in the Consolidated Income Statement. De-designation and ineffectiveness of fuel and foreign exchange hedges of $33 million has been recognised immediately in the Consolidated Income Statement. Refer to Note 14 for further details.
Net gain on disposal of assets	$18 million net gain on disposal primarily relates to a $15 million gain on sale of Qantas' interest in the Joint User Hydrant Installation.

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

Review of Operations continued
For the year ended 30 June 2021

MATERIAL BUSINESS RISKS

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

Material business risks arising from COVID-19, notably liquidity risks, are being critically managed to ensure the ongoing sustainability of the Group. The Recovery Plan delivered $650 million of cost restructuring benefits in financial year 2020/21 and is on track to deliver the targeted $1 billion of ongoing structural cost benefits by financial year 2022/23. As the impact of COVID-19 evolves, the Group continues to plan for a wide range of scenarios and risks to ensure the Group is well-positioned to achieve the required level of transformation to support target outcomes.

Other inherent risks that can impact the Group's operations include exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters or international conflicts.

COVID-19 outbreak management: Although Australia has recorded low levels of community transmission of COVID-19 when compared with other jurisdictions, outbreaks have occurred in most states, with the risk of future outbreaks ever present given the new virus variants and the status of the vaccine roll out in Australia. Through its 'Fly Well' and 'Work Well' programs, Qantas has introduced initiatives aimed at preventing the introduction and spread of COVID-19 in workplaces and aircraft for the protection of our people and our customers. COVID-19 community transmission case numbers are closely monitored by the Group with a layered response framework in place to ensure controls are rapidly deployed in line with the level of risk posed. These controls not only seek to protect health but also support business continuity.

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

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

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

The slower rate of vaccine roll out and the prolonged closure of the Australian border due to the COVID-19 crisis has necessitated the extended stand down of the majority of the Qantas and Jetstar International workforce. In addition, the domestic lockdowns and the knock-on impact of border closures by states and territories due to the Delta variant has resulted in the stand down of certain Domestic work groups. The Group recognises that this situation requires increased efforts to ensure that our people remain connected to the organisation, and their health and wellbeing is supported. Relevant information continues to be communicated to our people through a series of channels, including regular Town Hall meetings hosted by the Group Executive Committee, with several thousand employees remotely joining these sessions. Employee mental health continues to be a key area of focus, with enhanced services provided through our Employee Assistance Program as well as manager toolkits to assist with increasing awareness, identification, support and monitoring of employee mental health.

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

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

The significant financial and operational challenges posed by COVID-19, the impact of the pandemic on the travel industry, the opening and closing of domestic and international borders and the response of the Qantas Group to these challenges could also impact customer satisfaction and loyalty. In particular, a diminution of customer satisfaction due to the cancellation and refund policies of the Qantas Group in the context of COVID-19 may impact the Qantas Group's reputation and its ability to attract customers in the future, exacerbated by a potential decline in customer confidence in travelling due to border restrictions and health risks.

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

Climate change: The Qantas Group is subject to short-term and long-term climate-related physical and transition risks (including both increasing customer and investor climate change expectations and government climate change policy risks). These risks are an inherent part of the operations of an airline and are managed by undertaking scenario analysis, strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate policies) impact the proximity of climate-related risks. The Qantas Group has also set ambitious but achievable targets to reduce our emissions by capping emissions at 2019 levels and achieving net-zero emissions by 2050, while also investing in the development of sustainable aviation fuels. The Qantas Group is responding to increased demand for transparency on identification and management of climate-related risks by aligning our corporate disclosures with the Taskforce on Climate-Related Financial Disclosures (TCFD).

These disclosures are available at https://www.qantas.com/au/en/qantas-group/acting-responsibly/our-planet.html.

Review of Operations continued

For the year ended 30 June 2021

MATERIAL BUSINESS RISKS (CONTINUED)

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

Australia's aviation policies favour the creation of a more competitive environment, including more liberal rights of entry into Australian domestic and international markets. These policies have attracted offshore competitors (predominantly state-sponsored airlines) to the Australian international aviation market, which has further increased competition for passengers on international routes. Additionally, the Qantas Group ordinarily faces high levels of price competition in the markets in which it operates, which places significant pressure on the Qantas Group to price match by offering heavily discounted fares. Aggressive pricing by competitors seeking to gain market share can adversely affect the Qantas Group's revenues and yield performance. The financial impact of any discounting of fares as a result of competitive pressures is exacerbated by the high fixed costs and low profit margins that characterise the aviation industry. The combined effect of these factors may have a materially adverse effect on the revenue and financial condition of the Group.

Brand reputation: The Qantas brand carries significant commercial value, and the continued success of the Qantas Group relies on the maintenance of a positive reputation and brand recognition among customers, suppliers, strategic partners and governments. Any negative publicity (for example, due to a safety incident, labour dispute, regulatory investigation or public customer complaint) may damage Qantas' reputation and have a negative impact on its business operations and financial performance. The Customer Insights team constantly monitors customer satisfaction through post-flight surveys and regularly monitors trust in the Qantas Group brands alongside ongoing research and development of Qantas Group products to mitigate this risk.

Fuel and foreign exchange volatility: The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The continued focus on forecasting and the operational agility of our aviation operations are supporting the Group to manage the residual uncertainty. Accordingly, the size of the Group's fuel and foreign exchange risk will vary in line with operational changes. The Qantas Group manages fuel and foreign exchange risks through a comprehensive hedging program. Qantas will continue to hedge its fuel and foreign exchange risk in line with this program. The Group has a mix of collars and outright options in place to cover fuel price risk and is actively managed for changes in capacity due to border closures.

Cyber security and data governance: As cyber breaches and attacks surge globally and remote ways of working continue due to COVID-19, the Qantas Group remains focused on embedding cyber security, privacy and data governance into business processes, taking a security and privacy by design approach and creating a cybersafe and privacy orientated culture that builds on an established safety culture. The Group is also enhancing its Data Governance Framework to ensure ethical and commercial data risks are managed in addition to data protection and privacy. Qantas has a defined Risk and Control Framework, aligned with industry standards, which is designed to protect the confidentiality, integrity, availability and privacy of data and to maintain compliance with regulatory requirements. The Qantas Group's cyber security and data privacy-related controls operate to reduce the likelihood and severity of cyber security and data privacy related incidents and related impacts. The Group's cyber and data privacy risks are continuously monitored by the Group Cyber and Privacy Committee and are subject to independent assurance including for material third-party suppliers.

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

Key supplier risk: The Qantas Group is dependent on third-party providers for some principal business processes that are integral to its business. The failure of these providers to adequately perform their service obligations, or other unexpected interruptions of services, may cause significant disruption to the Group's operations and have an adverse impact on financial performance. Qantas uses its Business Continuity Plans to cover the risk of supply failures and has contingency plans in place to respond to key supplier interruption.

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

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

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

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

Consolidated Income Statement

For the year ended 30 June 2021

	Notes	2021 $M	2020 $M
REVENUE AND OTHER INCOME			
Net passenger revenue		3,766	12,183
Net freight revenue		1,316	1,045
Other revenue and income	4(B)	852	1,029
Revenue and other income		**5,934**	**14,257**
EXPENDITURE			
Manpower and staff-related		1,970	3,646
Aircraft operating variable		1,555	3,520
Fuel		835	2,895
Depreciation and amortisation	5	1,929	2,045
Share of net loss of investments accounted for under the equity method		129	53
Impairment of assets and related costs	7	270	1,456
De-designation and ineffectiveness of fuel and foreign exchange hedges	14	(33)	571
Redundancies and related costs		297	565
Net gain on disposal of assets		(26)	(7)
Other	6	1,058	1,950
Expenditure		**7,984**	**16,694**
Statutory loss before income tax expense and net finance costs		**(2,050)**	**(2,437)**
Finance income		20	33
Finance costs		(321)	(304)
Net finance costs		**(301)**	**(271)**
Statutory loss before income tax expense		**(2,351)**	**(2,708)**
Income tax benefit	8(A)	623	744
Statutory loss for the year		**(1,728)**	**(1,964)**
Attributable to:			
Members of Qantas		(1,728)	(1,964)
Non-controlling interests		-	-
Statutory loss for the year		**(1,728)**	**(1,964)**
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic loss per share (cents)	3	**(91.8)**	**(129.6)**
Diluted loss per share (cents)	3	**(91.8)**	**(129.6)**

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 2021

	2021 $M	2020 $M
Statutory loss for the year	**(1,728)**	**(1,964)**
Items that are or may be subsequently reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	201	(205)
Transfer of effective hedging losses/(gains) from hedge reserve to the Consolidated Income Statement, net of tax[1]	49	(123)
De-designation of fuel and foreign exchange hedges to the Consolidated Income Statement, net of tax	15	425
Recognition of effective cash flow hedges on capitalised assets, net of tax	4	(42)
Net changes in hedge reserve for time value of options, net of tax	42	(232)
Foreign currency translation of controlled entities	10	(9)
Foreign currency translation of investments accounted for under the equity method	12	11
Share of other comprehensive income of investments accounted for under the equity method	12	(6)
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial gains/(losses), net of tax	251	(40)
Fair value gains/(losses) on investments, net of tax	29	(16)
Other comprehensive income/(loss) for the year	**625**	**(237)**
Total comprehensive loss for the year	**(1,103)**	**(2,201)**

Attributable to:		
Members of Qantas	(1,103)	(2,201)
Non-controlling interests	-	-
Total comprehensive loss for the year	**(1,103)**	**(2,201)**

1 These amounts were allocated to revenue of nil (2020: $10 million), fuel expenditure of $67 million (2020: ($129) million), foreign exchange gains/(losses) of $3 million (2020: ($57) million) and income tax expense of ($21) million (2020: $53 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 2021

	Notes	2021 $M	2020 $M
CURRENT ASSETS			
Cash and cash equivalents	12(A)	2,221	3,520
Receivables		579	520
Lease receivables		5	2
Other financial assets		176	216
Inventories		279	306
Assets classified as held for sale		1	58
Income tax receivable		-	137
Other		169	193
Total current assets		**3,430**	**4,952**
NON-CURRENT ASSETS			
Receivables		54	101
Lease receivables		47	23
Other financial assets		185	139
Investments accounted for under the equity method		57	59
Property, plant and equipment		10,787	11,726
Right of use assets		1,109	1,440
Intangible assets		849	1,050
Deferred tax assets		675	167
Other		687	369
Total non-current assets		**14,450**	**15,074**
Total assets		**17,880**	**20,026**
CURRENT LIABILITIES			
Payables		1,813	2,351
Revenue received in advance	11	3,277	2,784
Interest-bearing liabilities	12(B)	969	868
Lease liabilities		383	524
Other financial liabilities		17	238
Provisions	13	1,136	1,539
Total current liabilities		**7,595**	**8,304**
NON-CURRENT LIABILITIES			
Payables		44	99
Revenue received in advance	11	2,154	2,256
Interest-bearing liabilities	12(B)	5,861	5,825
Lease liabilities		1,016	1,318
Other financial liabilities		5	47
Provisions	13	689	651
Total non-current liabilities		**9,769**	**10,196**
Total liabilities		**17,364**	**18,500**
Net assets		**516**	**1,526**
EQUITY			
Issued capital	10	3,186	3,104
Treasury shares		(18)	(51)
Reserves		432	(173)
Accumulated losses		(3,087)	(1,357)
Equity attributable to members of Qantas		**513**	**1,523**
Non-controlling interests		3	3
Total equity		**516**	**1,526**

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

30 June 2021 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other[1] Reserves	Accumulated Losses	Non-controlling Interests	Total Equity
Balance as at 1 July 2020	**3,104**	**(51)**	**54**	**(147)**	**4**	**(84)**	**(1,357)**	**3**	**1,526**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR									
Statutory loss for the year	-	-	-	-	-	-	(1,728)	-	(1,728)
Other comprehensive (loss)/income									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	201	-	-	-	-	201
Transfer of effective hedging losses from hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	49	-	-	-	-	49
De-designation of fuel and foreign exchange hedges to the Consolidated Income Statement, net of tax	-	-	-	15	-	-	-	-	15
Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	4	-	-	-	-	4
Net changes in hedge reserve for time value of options, net of tax	-	-	-	42	-	-	-	-	42
Foreign currency translation of controlled entities	-	-	-	-	10	-	-	-	10
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	12	-	-	-	12
Share of other comprehensive income of investments accounted for under the equity method	-	-	-	12	-	-	-	-	12
Defined benefit actuarial gains, net of tax	-	-	-	-	-	251	-	-	251
Fair value gains on investments, net of tax	-	-	-	-	-	29	-	-	29
Total other comprehensive income for the year	**-**	**-**	**-**	**323**	**22**	**280**	**-**	**-**	**625**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**323**	**22**	**280**	**(1,728)**	**-**	**(1,103)**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Capital raising, net of tax	82	-	-	-	-	-	(6)	-	76
Share-based payments	-	-	19	-	-	-	-	-	19
Shares vested and transferred to employees/shares unvested and lapsed	-	33	(39)	-	-	-	4	-	(2)
Total contributions by and distributions to owners	**82**	**33**	**(20)**	**-**	**-**	**-**	**(2)**	**-**	**93**
Total transactions with owners	**82**	**33**	**(20)**	**-**	**-**	**-**	**(2)**	**-**	**93**
Balance as at 30 June 2021	**3,186**	**(18)**	**34**	**176**	**26**	**196**	**(3,087)**	**3**	**516**

1 Other Reserves as at 30 June 2021 includes the Defined Benefit Reserve of $178 million and the Fair Value Reserve of $18 million.

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

Consolidated Statement of Changes in Equity continued

For the year ended 30 June 2021

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

1 Other reserves as at 30 June 2020 includes the Defined Benefit Reserve of ($73) million and the Fair Value Reserve of ($11) million.

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 2021

	2021 $M	2020 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	7,507	14,460
Cash payments to suppliers, payments to employees (excluding cash payments to employees for redundancies and related costs and discretionary bonus payments to non-executive employees) and refunds to customers from receipts in prior periods.	(6,726)	(12,870)
Cash payments to employees for redundancies and related costs	(926)	(58)
Discretionary bonus payments to non-executive employees	-	(6)
Interest received	15	29
Interest paid (interest-bearing liabilities)	(183)	(146)
Interest paid (lease liabilities)	(73)	(82)
Dividends received from investments accounted for under the equity method	-	15
Australian income taxes paid	-	(255)
Foreign income taxes paid	-	(4)
Net cash (outflow)/inflow from operating activities	**(386)**	**1,083**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment and intangible assets	(747)	(1,549)
Interest paid and capitalised on qualifying assets	(21)	(48)
Payments for investments held at fair value	-	(22)
Proceeds from disposal of property, plant and equipment	94	50
Payments for investments accounted for under the equity method	(48)	(2)
Net cash (outflow) from investing activities	**(722)**	**(1,571)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for share buy-back	-	(443)
Proceeds from share-issuance, net of costs	58	1,342
Payments for treasury shares	-	(5)
Proceeds from interest-bearing liabilities, net of costs	937	2,155
Repayments of interest-bearing liabilities	(759)	(625)
Repayments of lease liabilities	(420)	(367)
Proceeds from finance leases	3	-
Dividends paid to shareholders	-	(204)
Net cash (outflow)/inflow from financing activities	**(181)**	**1,853**
Net (decrease)/increase in cash and cash equivalents held	**(1,289)**	**1,365**
Cash and cash equivalents at the beginning of the year	3,520	2,157
Effects of exchange rate changes on cash and cash equivalents	(10)	(2)
Cash and cash equivalents at the end of the year	**2,221**	**3,520**

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

Condensed Notes to the Preliminary Final Report

For the year ended 30 June 2021

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 (AASB) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Report also complies with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) adopted by the International Accounting Standards Board.

The Report has been prepared on a going concern basis, which assumes the Qantas Group will be able to meet its obligations as and when they fall due. The Report is presented in Australian dollars, which is the functional currency of Qantas Airways Limited (Qantas) and its controlled entities (the Qantas Group) and has been prepared on the basis of historical cost except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values.

The Annual Financial Report is in the process of being audited and is expected to be made available on 17 September 2021. This Report should also be read in conjunction with any public announcements made by Qantas during the year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and ASX Listing Rules.

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

(B) NEW ACCOUNTING INTERPRETATIONS NOT YET ADOPTED

In April 2021, the IFRIC issued a final agenda decision, *Configuration or customisation costs in a cloud computing arrangement*. The decision provides additional guidance on how to determine whether configuration or customisation expenditure relating to cloud computing arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is recognised in the Income Statement. Where material, the application of this agenda decision could result in the reclassification of intangible assets to prepayments in the Statement of Financial Position or the immediate recognition of an expense in the Consolidated Income Statement.

The agenda decision has no formal effective date, however the International Accounting Standards Board expects that preparers are entitled to sufficient time to determine and implement any change. Given the agenda decision was finalised in April 2021 and the complexity of the assessment criteria and implementation on a full retrospective basis, the Group has not adopted this agenda decision in the financial statements for the year ended 30 June 2021. The Group has developed an analysis and impact assessment plan of software capitalised within intangible assets and upon completion will adopt the agenda decision as soon as practicable with any material adjustments required to be recognised retrospectively as a change in accounting policy.

(C) COMPARATIVES

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

(D) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In preparing this Report, judgements made by Management in the application of Australian Accounting Standards that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in future periods were the same as those applied to the Qantas Annual Report for the year ended 30 June 2020. The impact of COVID-19 on estimates and judgements is outlined in Note 1(E).

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) IMPACT OF COVID-19 ON FINANCIAL REPORTING

The impact of COVID-19 on the Qantas Group has been unprecedented and continues to evolve. The section below outlines key areas of impact relevant to the Consolidated Financial Statements for the year ended 30 June 2021. Additional information on how the Group has been impacted by COVID-19 and its ongoing response is provided in the Review of Operations.

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

The measures taken by governments across the world to slow the spread of COVID-19 through travel restrictions and border closures continue to severely impact airlines. These travel restrictions, and the resulting decrease in demand, have resulted in significant capacity reductions domestically and internationally. The Group continues to take decisive action to mitigate the impact of COVID-19, including a reduction in flight capacity (Domestic and International), workforce stand downs, operational cost-out measures and capital expenditure deferrals.

Governments worldwide have enacted relief packages to support affected businesses, including the aviation industry, to mitigate the impact of COVID-19. The AAFRP was introduced to provide refunds or waivers for a range of government charges on the aviation industry. JobKeeper was introduced to help keep Australians in jobs and support affected businesses and was in place in the 2020/21 financial year from July 2020 to March 2021. In April 2021, the International Aviation Support (IAS) program was introduced to maintain a core Australian international aviation capability and ensure Australian airlines can quickly recommence commercial international flights as international restrictions are lifted.

In addition, the Australian Government has commissioned Qantas to conduct various charter repatriation flights. Along with other Australian domestic airlines, Qantas also operated domestic and regional flights as part of the RANS, DANS and TANS intended to maintain vital air transport links. Qantas also secured a contract to conduct freight services under IFAM to ensure import and export freight routes remained open.

In addition to ongoing operational responses, since 30 June 2020 the Group has boosted liquidity by raising $954 million of additional debt and $575 million in committed undrawn facilities with no financial covenants and a further $72 million from the finalisation of the retail portion of its $1.4 billion equity raising. Refer to the Capital Structure and Liquidity section below for further details.

Recovery Plan

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

The immediate focus of the plan is to:
- Rightsize the Group's workforce, fleet and other costs according to demand projections, with the ability to scale up as flying returns
- Restructure to deliver ongoing cost savings and efficiencies across the Group's operations in a changing market
- Recapitalise through the equity raising completed in August 2020 to strengthen the Group's financial resilience to recovery and the opportunities it presents.

The ongoing impact of the COVID-19 crisis and the structural changes within the aviation industry underscore the importance of the Qantas Group's own program of restructuring. The Three-Year Recovery Plan developed in June 2020 has been updated and presented to the Board in June 2021 (Recovery Plan). The Recovery Plan is designed to address and respond to the impact of the crisis, preserving as many key assets and skills as the Group can reasonably carry to support the eventual recovery. COVID-19 represents the biggest challenge ever faced by global aviation and the Group's response to the crisis is scaled accordingly.

Key actions during the financial year 2020/21:
- Delivered $650 million in structural cost benefits, ahead of target. On track for $850 million by financial year 2021/22 and $1 billion in annual cost improvements from the 2022/23 financial year onwards with greater than 90 per cent of initiatives completed or underway
- Maintained cash focus and agile network management in addressing highly dynamic environment
- Generated positive Statutory Net Free Cash Flow in the second half of the 2020/21 financial year allowing debt reduction to commence. Cash flow generation driven by domestic recovery, significant Qantas Loyalty cash flow contribution and record Freight performance
- Materially completed cash outflows for deferred payables, refunds and redundancies
- Qantas Loyalty returned to growth and achieved record customer NPS
- Enhanced customer confidence through 'Fly Well' and 'Fly Flexible' programs
- Conducted international repatriation flights and maintained vital freight routes
- Maintained strong liquidity, increasing committed undrawn facilities to $1.6 billion and retained Baa2 investment grade credit rating.

Looking into financial year 2021/22 towards domestic ramp up and international restart:
- Highly leveraged to recovery in travel demand as vaccine roll out progresses with pace
  - Well-positioned to meet expected sharp increase in domestic travel as lockdowns end
  - Able to respond with a range of fleet types and agile network
- Planning for disciplined restart of regular long-haul international passenger services
  - Maintaining fleet readiness through IFAM and repatriation flights
  - Giving customer confidence to fly, as 'trusted travel advisor' through 'Fly Well' and investment in digital health passport
- Continued focus on balance sheet repair through debt reduction in financial year 2021/22
- Qantas Loyalty growth trajectory continues.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

ii. Capital Structure and Liquidity

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

- Maintain an optimal capital structure that minimises the cost of capital by holding an appropriate level of Net Debt. [1]The appropriate level of Net Debt reflects the Qantas Group's size, measured by Invested Capital. This is consistent with investment grade credit metrics.
- Deliver ROIC that exceeds the weighted average cost of capital through the cycle.
- Make disciplined capital allocation decisions between reinvestment, debt reduction and distribution of surplus capital to shareholders while maintaining an optimal capital structure.

Surplus capital is determined on a forward-looking basis, which is the difference between the projected Net Debt position and the target Net Debt position.

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

During the 2020/21 financial year, the Group raised $954 million of additional debt and repaid $759 million of debt including $400 million for repayment of a 2020/21 bond. The remaining debt raised strengthened short-term liquidity. There is no further material debt maturing until May 2022 and no financial covenants on the Group's debt.

During the year, the Group also completed a retail Share Purchase Plan resulting in the issuance of 22.6 million shares at $3.18 per share (totalling $72 million).

The Group increased its committed undrawn facilities from $1 billion to $1.6 billion, boosting available liquidity.

As at 30 June 2021, the Group's available liquidity is $3.8 billion, including $2.2 billion of cash and cash equivalents and a $1.6 billion undrawn facility.

As at 30 June 2021, Net Debt (as measured by the Group's Financial Framework) is $5.9 billion with no financial covenants.

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

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

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

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

iii. Impact on Accounting Judgements and Estimates

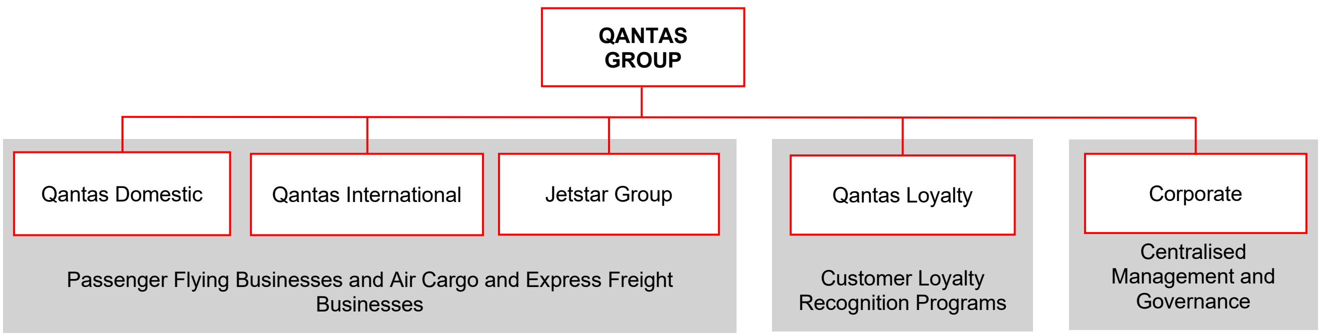
The Group's Recovery Plan in response to COVID-19 has influenced certain accounting judgements and estimates impacting the Preliminary Final Report for the year ended 30 June 2021. The Recovery Plan influenced key judgements and estimates within the following areas of the Financial Report:

Area of Financial Report	Impact on Judgements and Estimates
Impairment testing	The Recovery Plan informed cash flows used in the determination of the recoverable amount of Cash Generating Units (CGUs) using the value in use method. Refer to Note 7 for further details on impairment testing.
Fleet strategy	The Recovery Plan informed judgements around the Group's fleet strategy, which influences estimates impacting property, plant & equipment, right of use assets, lease liabilities and provisions (including provisions for makegood on leased assets).
Provision for redundancies	Decisions and actions to implement the Recovery Plan have informed the recognition of redundancy provisions as at 30 June 2021.
Hedge designation and hedge accounting	The Recovery Plan informed key inputs to hedge designation and hedge accounting requirements including forecast fuel consumption and forecast income and expenditure denominated in foreign currencies. Refer to Note 14 for details on hedge designation and hedge accounting.
Balance sheet presentation	The Recovery Plan informed judgements around the presentation of balance sheet items, particularly in relation to the presentation of revenue received in advance as either current or non-current.
Revenue recognition (Impact of breakage assumptions)	The significant impact of COVID-19, together with strategies within the Recovery Plan, informed judgements around customer and member behaviour and customer engagement strategies which impacted assumptions around breakage.
Income tax	The Recovery Plan informed judgements around the recognition and recoverability of a net deferred tax asset relating to income tax losses. Refer to Note 8 for details on income tax and deferred tax assets.

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

(A) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:



i. Underlying EBIT

Underlying EBIT is the primary reporting measure used by the Qantas Group's Chief Operating Decision-Making bodies (CODM), being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Qantas Domestic, Qantas International, Jetstar Group, and Qantas Loyalty operating segments. The primary reporting measure of the Corporate segment is Underlying PBT, as net finance costs are managed centrally and are not allocated to the Qantas Domestic, Qantas International, Jetstar Group or Qantas Loyalty operating segments. Underlying EBIT is calculated as Underlying PBT (refer to Note 2(B)) but excluding the impact of net finance costs.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

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

(A) OPERATING SEGMENTS (CONTINUED)

ii. Analysis by Operating Segment

2021 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[1]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	2,496	1,584	1,105	962	5	(218)	5,934
Inter-segment revenue and other income	249	14	35	22	-	(320)	-
Total segment revenue and other income	**2,745**	**1,598**	**1,140**	**984**	**5**	**(538)**	**5,934**
Share of net profit/(loss) of investments accounted for under the equity method	1	1	(131)	-	-	-	(129)
Underlying EBITDA[2]	**159**	**117**	**(129)**	**333**	**(87)**	**17**	**410**
Depreciation and amortisation[2]	(746)	(690)	(418)	(56)	(12)	-	(1,922)
Impairment[2]	(3)	(2)	(3)	(5)	-	-	(13)
Underlying EBIT	**(590)**	**(575)**	**(550)**	**272**	**(99)**	**17**	**(1,525)**
Net finance costs					(301)		(301)
Underlying PBT					**(400)**		**(1,826)**
ROIC %[3]							**(23.3%)**

2020 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations[1]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	4,334	5,849	2,897	1,106	7	64	14,257
Inter-segment revenue and other income	338	228	109	118	-	(793)	-
Total segment revenue and other income	**4,672**	**6,077**	**3,006**	**1,224**	**7**	**(729)**	**14,257**
Share of net (loss)/profit of investments accounted for under the equity method	3	3	(59)	-	-	-	(53)
Underlying EBITDA[2]	**907**	**846**	**426**	**390**	**(117)**	**(15)**	**2,437**
Depreciation and amortisation[2]	(723)	(785)	(447)	(49)	(17)	-	(2,021)
Impairment[2]	(11)	(5)	(5)	-	-	-	(21)
Underlying EBIT	**173**	**56**	**(26)**	**341**	**(134)**	**(15)**	**395**
Net finance costs					(271)		(271)
Underlying PBT					**(405)**		**124**
ROIC %[3]							**5.8%**

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

1 Unallocated/Eliminations represents unallocated and other businesses of the Qantas Group which are not considered to be reportable segments including consolidation elimination entries. It also includes the impact of discount rate changes on provisions (refer to Note 6) and changes in presentation of income/expenses where the determination of whether the Group is acting as principal or agent is made on consolidation.
2 Underlying EBITDA represents underlying earnings before income tax expense, depreciation, amortisation, net finance costs and impairment. Depreciation and amortisation and impairment differs from the depreciation and amortisation and impairment recognised in the Consolidated Income Statement due to items not included in Underlying PBT. Refer to Note 2(B).
3 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital. Refer to Note 2(C).

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

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

(A) OPERATING SEGMENTS (CONTINUED)

ii. Analysis by Operating Segment (continued)

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

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

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

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

Underlying PBT is a non-statutory measure and is the primary reporting measure used by the CODM for the purpose of assessing the performance of the Group. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of each operating segment and the Qantas Group.

Underlying PBT includes the impact of COVID-19 on the operating performance of the Group. Group revenue for the year ended 30 June 2021 as recognised within Underlying PBT is down $8.3 billion compared to the year ended 30 June 2020, which is consistent with the reduction of revenue within the Group's Statutory Loss.

Likewise, the impact of the decisive actions taken by the Group to mitigate the impact of COVID-19 including a reduction in flight capacity domestically and internationally (including a reduction in costs from fuel and variable cost reductions), workforce stand downs and operational cost-out measures have also been recognised in Underlying PBT. Government support to mitigate the impact of COVID-19 from travel restrictions and border closures including the AAFRP, JobKeeper, IAS, RANS, DANS, TANS, government repatriation flights and IFAM payments, together with costs to operate or payments to employees, are also recorded in Underlying PBT.

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

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

The impact of COVID-19 and the Group's Recovery Plan have resulted in items not included in Underlying PBT, including asset impairments, Recovery Plan restructuring costs including redundancies and de-designated hedging due to a significant decrease in flying activity.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY (LOSS)/PROFIT BEFORE TAX	2021 $M	2020 $M	2019 $M
Underlying PBT	**(1,826)**	**124**	**1,326**
Items not included in Underlying PBT			
– Transformation costs and discretionary bonuses for non-executive employees[1]	-	(191)	(260)
– Recovery Plan restructuring costs[2]	(319)	(642)	-
– (Impairment)/reversal of impairment of assets and related costs	(257)	(1,428)	39
– De-designation of fuel and foreign exchange hedges	33	(571)	-
– Net gain on disposal of assets	18	-	192
– Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair value hedging agenda decision	-	-	(105)
Total items not included in Underlying PBT	**(525)**	**(2,832)**	**(134)**
Statutory (Loss)/Profit Before Income Tax Expense	**(2,351)**	**(2,708)**	**1,192**

1 Costs incurred under the Transformation Program in prior years are reported under Transformation costs.
2 Costs incurred in relation to the Group's Recovery Plan are reported under Recovery Plan restructuring costs.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

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

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

In the 2020/21 financial year, the items outside of Underlying PBT included:

Item Outside of Underlying PBT	Description
Recovery Plan restructuring costs	$319 million included people restructuring costs of $297 million and other restructuring costs of $22 million. People restructuring costs include redundancy costs related to announced restructuring initiatives. Other restructuring costs primarily resulted from changes to fleet strategy as a result of the Recovery Plan. Included in other restructuring costs is $7 million of non-cash accelerated depreciation.
Impairment of assets and related costs	Impairments of assets and related costs of $257 million includes: – $155 million impairment of the Group's A380 fleet resulting from changes in the recoverable amount or net realisable value of the assets including from changes in the market value of the aircraft, changes in the onerous contractual commitments and movement in foreign exchange rates since 30 June 2020 – $73 million impairment of property, plant and equipment and right of use assets relating to aircraft in the Jetstar Asia cash generating unit – $3 million impairment relating to the early retirement of the Group's 747 fleet driven by movement in foreign exchange rates since 30 June 2020 – $27 million impairment of property, plant and equipment, intangible assets and other assets from the implementation of restructuring initiatives in the Recovery Plan – ($1) million of net impairment reversal of assets in relation to the Group's associates. Refer to Note 7 for details on impairment of assets and related costs.
De-designation of fuel and foreign exchange hedges	The Group hedges fuel price risk in accordance with the Treasury Risk Management Policy. Hedge accounting is applied when the requirements of AASB 9 *Financial Instruments* (AASB 9) are met. Where the forecast fuel purchase transaction is no longer expected to occur, then hedge accounting is discontinued prospectively and the amount accumulated in equity is reclassified to the Consolidated Income Statement. The significant decrease in flying activity compared to expectations at 30 June 2020 has resulted in hedge accounting being discontinued where forecast fuel purchases are no longer expected to occur. Where the underlying derivatives, while de-designated for hedge accounting purposes, had remained unrealised or unsettled, foreign exchange and mark-to-market movements have occurred. These movements have also been recognised as ineffectiveness in the Consolidated Income Statement. De-designation and ineffectiveness of fuel and foreign exchange hedges of $33 million has been recognised immediately in the Consolidated Income Statement. Refer to Note 14 for further details.
Net gain on disposal of assets	$18 million net gain on disposal primarily relates to a $15 million gain on sale of Qantas' interest in the Joint User Hydrant Installation.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

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

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

The 2019/20 financial year included the following items:

Item Outside of Underlying PBT	Description
Transformation costs and discretionary bonuses for non-executive employees	$191 million included redundancy and related costs of $44 million, fleet restructuring costs of $62 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet), other upfront costs of $55 million directly incurred to enable the delivery of transformation benefits, and $30 million of discretionary bonuses for non-executive employees which is paid after the employees' post-wage freeze collective agreement is voted upon and approved.
Recovery Plan restructuring costs	$642 million included people restructuring costs of $575 million and fleet restructuring costs of $67 million resulting from the announced Recovery Plan. People restructuring costs include redundancy costs related to the announced restructure, and the remeasurement of employee entitlement provisions resulting from rightsizing and restructuring strategies in the Recovery Plan. Fleet restructuring costs resulted from changes to fleet strategy in the Recovery Plan.
Impairment of assets and related costs	Impairments of assets and related costs of $1,428 million includes: – $1,087 million impairment of the Group's A380 fleet, including spares, inventories and related onerous contracts – $23 million impairment relating to the early retirement of the Group's 747 fleet – $150 million impairment of property, plant and equipment, intangible assets and other assets not expected to be recovered in the Recovery Plan – $25 million impairment of the Group's investment in Pacific Airlines (formerly Jetstar Pacific) – $73 million impairment of Goodwill and indefinite lived intangible assets in the Jetstar Asia cash generating unit – $70 million impairment of the Group's investment in Helloworld.
De-designation of fuel and foreign exchange hedges	The Group hedges fuel price risk in accordance with the Treasury Risk Management policy. Hedge accounting is applied when the requirements of AASB 9 *Financial Instruments* are met. Where the forecast fuel purchase transaction is no longer expected to occur, then hedge accounting is discontinued prospectively, and the amount accumulated in equity is reclassified to the Consolidated Income Statement. The significant decrease in flying activity in the last quarter of the 2019/20 financial year and into the 2020/21 financial year has resulted in hedge accounting being discontinued where forecast fuel purchases are no longer expected to occur. De-designation of fuel and foreign exchange hedges of $571 million has been recognised immediately in the Consolidated Income Statement.

The 2018/19 financial year included the following items:

Item Outside of Underlying PBT	Description
Transformation costs and discretionary bonuses for non-executive employees	$260 million included redundancy and related costs of $65 million, fleet restructuring costs of $107 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet), other upfront costs of $55 million directly incurred to enable the delivery of transformation benefits, $27 million of discretionary bonuses to non-executive employees which is paid after the employees' post-wage freeze collective agreement is voted upon and approved, and other costs of $6 million.
Reversal of impairment of associate	$39 million reversal of impairment relating to the Group's investment in Helloworld Travel Limited. The reversal of the impairment has been recognised as an item outside of Underlying PBT consistent with the treatment of the original impairment.
Net gain on disposal of assets	Net gain on disposal of assets of $192 million is comprised of: - Net gain on disposal of a controlled entity of $47 million arising from the sale of the Qantas Catering business - Net gain on disposal of airport terminal assets of $141 million primarily relating to the gain on disposal of Melbourne Domestic Terminal assets - Net gain on partial disposal of an associate of $4 million relating to the Group's investment in Helloworld Travel Limited. The Group sold 2 million shares for $5.50 per share in September 2018.
Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision	Following the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision, the Group put in place accounting hedge designations to manage the foreign exchange movements of foreign currency by designating foreign currency interest-bearing liabilities and lease liabilities as the hedging instrument in a cash flow hedge relationship. In accordance with AASB 9, these designations apply prospectively from 1 July 2019. For periods before the designation the foreign exchange movements were recognised immediately in the Consolidated Income Statement. As the difference between reporting periods arose due to the timing of accounting hedge designations, the impact on the Consolidated Income Statement in financial year 2018/19 has been recognised outside of Underlying PBT to ensure comparability.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

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

(C) RETURN ON INVESTED CAPITAL

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

i. ROIC EBIT

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

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

	2021 $M	2020 $M
Underlying EBIT	**(1,525)**	**395**
Addback: Lease depreciation under AASB 16	373	402
Less: Notional depreciation[1]	(105)	(108)
Less: Net cash expenses for non-aircraft leases	(199)	(225)
ROIC EBIT	**(1,456)**	**464**
Average Invested Capital for the year ended 30 June 2021	**6,248**	**8,055**
ROIC %[2]	**(23.3%)**	**5.8%**

1 For calculating ROIC, capitalised leased aircraft are included in the Group's Invested Capital at the AUD market value (referencing AVAC) at the date of commencing operations at the prevailing AUD/USD rate. This value is depreciated notionally in accordance with the Group's accounting policies with the calculated depreciation reported above known as notional depreciation.
2 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital. Refer to Note 2(C) (ii) and 2(C) (iii).

ii. Average Invested Capital

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

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

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

	2021 $M	2020 $M
INVESTED CAPITAL		
Receivables (current and non-current)	633	621
Inventories	279	306
Other assets (current and non-current)	856	562
Investments accounted for under the equity method	57	59
Property, plant and equipment	10,787	11,726
Intangible assets	849	1,050
Assets classified as held for sale	1	58
Payables (current and non-current)	(1,857)	(2,450)
Provisions (current and non-current)	(1,825)	(2,190)
Revenue received in advance (current and non-current)	(5,431)	(5,040)
Capitalised aircraft leased assets[1]	1,167	1,301
Invested Capital as at 30 June	**5,516**	**6,003**
Average Invested Capital for the year ended 30 June	**6,248**	**8,055**

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

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

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

(C) RETURN ON INVESTED CAPITAL (CONTINUED)

iii. ROIC %

	2021 %	2020 %
ROIC %[1]	**(23.3)**	**5.8**

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

iv. ROIC (Statutory EBIT) %

	2021 %	2020 %
ROIC (Statutory EBIT) %[1]	**(31.7)**	**(29.4)**

1 ROIC (Statutory EBIT) % is calculated by replacing Underlying EBIT with Statutory EBIT, maintaining a consistent methodology to ROIC % as outlined in Note 2(C) (i) to (iii).

v. Underlying Earnings per Share

	2021 cents	2020 cents
Underlying (Loss)/Earnings Per Share[1]	**(71.3)**	**5.9**

1 Underlying Earnings Per Share is calculated as Underlying PBT less tax benefit/expense based on the Group's effective tax rate of (26.5) per cent (2020: (27.5) per cent) divided by the weighted average number of shares during the year, excluding unallocated treasury shares.

3 EARNINGS PER SHARE

	2021 cents	2020 cents
Basic loss per share[1]	**(91.8)**	**(129.6)**
Diluted loss per share[2]	**(91.8)**	**(129.6)**

1 Weighted average number of shares used in basic Earnings Per Share calculation of 1,882 million (2020: 1,516 million) excludes unallocated treasury shares.
2 Weighted average number of shares used in basic and diluted Earnings Per Share calculation is the same for the years ended 30 June 2021 and 30 June 2020 as the effect of share rights expected to vest are anti-dilutive and excluded from the calculation. Weighted average number of shares used in diluted Earnings Per Share calculation of 1,882 million (2020: 1,516 million) excludes unallocated treasury shares.

	2021 $M	2020 $M
Statutory loss attributable to members of Qantas	**(1,728)**	**(1,964)**

	2021 Number M	2020 Number M
NUMBER OF SHARES		
Issued shares as at 1 July	1,864	1,571
Shares bought back and cancelled	-	(80)
Capital raising	22	373
Issued shares as at 30 June	**1,886**	**1,864**
Weighted average number of shares for the year	**1,883**	**1,518**

4 REVENUE AND OTHER INCOME

(A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREA

	2021 $M	2020 $M
Net passenger and freight revenue		
Australia	4,214	9,262
Overseas	868	3,966
Total net passenger and freight revenue	**5,082**	**13,228**
Other revenue and income	852	1,029
Total revenue and other income	**5,934**	**14,257**

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

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

4 REVENUE AND OTHER INCOME (CONTINUED)

(B) OTHER REVENUE AND INCOME

	2021 $M	2020 $M
Frequent Flyer marketing revenue and other Qantas Loyalty businesses	431	467
Qantas Rewards Store and other redemption revenue[1,2]	81	96
Third-party services revenue	128	263
Other income	212	203
Total other revenue and income	**852**	**1,029**

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

5 DEPRECIATION AND AMORTISATION

	2021 $M	2020 $M
Property, plant and equipment	1,356	1,446
Right of use assets	373	402
Intangible assets	200	197
Total depreciation and amortisation	**1,929**	**2,045**

6 OTHER EXPENDITURE

	2021 $M	2020 $M
Commissions and other selling costs	166	506
Computer and communication	320	489
Capacity hire (excluding lease components)	139	268
Property occupancy and utility expenses	121	176
Marketing and advertising	70	160
Discretionary bonuses to non-executive employees	-	30
Discount rate changes impact on provisions	(4)	7
Other	246	314
Total other expenditure	**1,058**	**1,950**

7 IMPAIRMENT OF ASSETS AND RELATED COSTS

(A) IMPAIRMENT TESTING OF CASH GENERATING UNITS

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

– Confirmed the identification of the Group's CGUs
– Tested specific individual assets for impairment
– Completed an impairment test of the Group's CGUs.

i. Identification of CGUs

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

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

7 IMPAIRMENT OF ASSETS AND RELATED COSTS (CONTINUED)

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

i. Identification of CGUs (continued)

The identified CGUs by operating segment for the 2020/21 financial year are outlined in the table below.

Operating Segment	CGUs Identified
Qantas Domestic	Qantas Domestic CGU
Qantas International	Qantas International CGU
	Qantas Freight CGU
Jetstar Group	Jetstar Australia/New Zealand CGU
	Jetstar Asia CGU
	Jetstar Japan CGU
Qantas Loyalty	Qantas Loyalty CGU

ii. Impairment Assessment

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

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

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

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

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

Impairment Assessment of Individual Assets

Aircraft

With the impact of COVID-19 and the closure of international borders, the Three-Year Recovery Plan announced in June 2020 expected the Group's A380 fleet to be grounded for the foreseeable future. Given the significant uncertainty around the return to service of the fleet, the cash flows of the Qantas International CGU within the Recovery Plan did not include cash flows relating to the A380 assets. The A380 fleet was therefore assessed for impairment outside of the Qantas International CGU at 30 June 2020 and 31 December 2020.

At 30 June 2020 and at 31 December 2020, the recoverable amount of the A380 fleet was determined using a fair value less costs of disposal model. The fair value less costs of disposal was estimated based on valuations provided by two external and independent aircraft valuers (AVAC and AVITAS), translated at AUD/USD exchange rates prevailing at the end of the relevant reporting period. The Group made necessary adjustments to these valuations for the level of maintenance life remaining on the aircraft.

For the half-year ended 31 December 2020, there were indicators of further impairment since 30 June 2020 due to a decrease in the valuations provided by external and independent aircraft valuers and a significant change in AUD/USD foreign exchange rates from $0.69 to $0.76. As a result, the recoverable amount of the A380 fleet was remeasured using a consistent methodology as the 30 June 2020 impairment test. The recoverable amount of the A380 fleet was below its carrying value and was impaired to the adjusted recoverable amount.

At the end of the 2020/21 financial year, there were indicators of further impairment since 31 December 2020 due to a decrease in the valuations provided by external and independent aircraft valuers. As a result, the recoverable amount of the A380 fleet was remeasured using a consistent methodology as the 30 June 2020 and 31 December 2020 impairment tests. The recoverable amount of the A380 fleet was below its carrying value and has been impaired to the adjusted recoverable amount.

The Group's fleet plan approved by the Board in June 2021 expects the majority of the A380 fleet to return to service progressively from financial year 2022/23. The forecast cash flows of the Qantas International CGU estimated as at 30 June 2021 therefore includes the cash flows of the Group's A380 assets. As a result, as at 30 June 2021, the carrying value of the A380 fleet has been allocated to the Qantas International CGU for the purpose of impairment testing.

It is expected that 10 A380s will return to service and two will be retired as they are surplus to requirements. As non-operating aircraft, the carrying value of the two aircraft identified for retirement has been further written down to their recoverable amount or net realisable value based on estimates of disposal, salvage or part-out valuations.

With the Group's A380 assets being allocated to the Qantas International CGU, any impairment risk of the Group's A380 fleet will no longer be assessed with reference to the fair value less costs of disposal of the individual assets, but rather based on the value in use of the assets within the Qantas International CGU. Any assets identified as inventory are carried at the lower of cost and net realisable value. An impairment reversal may be required where the Qantas International CGU impairment test reports a surplus and the fair value less costs of disposal of an A380 asset has increased significantly above its carrying value.

The carrying value of the Group's A380 fleet within the Qantas International CGU as at 30 June 2021 is $377 million.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

7 IMPAIRMENT OF ASSETS AND RELATED COSTS (CONTINUED)

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

ii. Impairment Assessment (continued)

Other Property, Plant and Equipment and Intangible Assets

The Group's response to COVID-19 within the Recovery Plan has included restructuring initiatives that have resulted in certain assets (including property, plant and equipment and intangible assets) being abandoned or projects being discontinued. Where the recoverable amount is below the carrying value of these assets, an impairment has been recognised.

Impairment Assessment of CGUs

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

Significant Assumption	How it was Determined
Calculation of recoverable amount	The recoverable amounts of CGUs were determined based on their value in use. The value in use was determined by discounting the future cash flows forecast in the Recovery Plan.
Individual assets tested separately	Assets that have been tested for impairment individually are not allocated to CGUs. As outlined above, as at 30 June 2021 the carrying value of the A380 fleet has been allocated to the Qantas International CGU for impairment testing.
Recovery Plan	The Group's Recovery Plan was developed with reference to expected demand scenarios domestically and internationally. The immediate focus of the plan is to: - Rightsize the Group's workforce, fleet and other costs according to demand projections, with the ability to scale-up as flying returns - Restructure to deliver ongoing cost savings and efficiencies across the Group's operations in a changing market - Recapitalise through the equity raising completed in August 2020 to strengthen the Group's financial resilience to recovery and the opportunities it presents. The long-term annual ongoing restructuring benefit to the Group of the Recovery Plan is estimated to be $1 billion from financial year 2022/23 onwards. As the impact of COVID-19 continues to evolve, it is extremely challenging to predict the full extent and duration of the impact on the Group's operations. The Group's Recovery Plan and the structural changes achieved to date and underway, mean the Group is well-positioned to respond to the changing environment. For the year ended 30 June 2021, the Group has delivered $650 million in structural cost benefits, ahead of target. The Group is on track to deliver $850 million by financial year 2021/22 and $1 billion in annual cost improvements from the 2022/23 financial year onwards with greater than 90 per cent of initiatives completed or underway.
Period of cash flows forecast	The Group's Recovery Plan is a three-year plan. The financial forecasts have been extended if necessary to the year where capacity recovery is expected to reach full run-rate. For the purposes of performing an impairment test using value in use under AASB 136, the final year of the forecast has been used to inform the determination of the terminal year. Given the uncertainty of the impact and timing of COVID-19, the Group has adjusted the cash flow forecast under the Recovery Plan for these uncertainties rather than adjusting the discount rate.
Cash flows	Cash flows were projected based on the Board-approved Recovery Plan. Cash flows to determine a terminal value were extrapolated using a constant growth rate of 2.5 per cent per annum, which does not exceed the long-term average growth rate for the industry. Cash outflows include capital and maintenance expenditure for the purchase of aircraft and other property, plant and equipment. These cash outflows do not include capital expenditure that enhances the current performance of assets and related cash flows have been treated consistently.
Discount rate	A pre-tax discount rate of 10 per cent per annum has been used in discounting the projected cash flows of the CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2020: 10 per cent per annum). Given the uncertainty of the impact and timing of COVID-19, the Group has adjusted the cash flows under the Recovery Plan for these uncertainties rather than adjusting the discount rate.
Foreign exchange rate used	AUD/USD: 0.75

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

7 IMPAIRMENT OF ASSETS AND RELATED COSTS (CONTINUED)

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

ii. Impairment Assessment (continued)

Impairment Assessment of CGUs (continued)

Sensitivity to significant changes in assumptions

Pre-COVID-19, the Group was reporting ROIC in excess of the Group's Weighted Average Cost of Capital. For example, the 12-month ROIC as at 31 December 2019 was 19.6 per cent, and as at 30 June 2019 was 19.2 per cent, compared to the Group's WACC of 10 per cent. This, combined with an assessment of other factors under AASB 136, evidenced that pre-COVID-19 there were no indicators of impairment of the Group's CGUs.

Sensitivity to Changes in Cash Flows (CGUs other than Jetstar CGUs in Asia)

The terminal year in the impairment test has the most material impact on the determination of the recoverable amount and of the surplus between the recoverable amount and carrying value of CGUs. The earlier years in the Recovery Plan, while impacting the measurement of the recoverable amount, do not materially impact the surplus identified.

The outcomes of the impairment test have been assessed against the expected impact of localised lockdowns and state border restrictions within the domestic market and the pausing of the Trans-Tasman 'travel bubble' that occurred subsequent to 30 June 2021 and prior to the release of this report. These events are expected to primarily impact the first half of the 2021/22 financial year. The Group is well-positioned to meet the expected sharp increase in domestic travel as lockdowns end and is highly leveraged to recovery in travel demand as the vaccine roll out progresses with pace. The short-term impacts do not change the overall recovery expectations or the forecast terminal year and therefore do not change the conclusions of the impairment tests.

Reasonably possible changes in the short-term to the timing of domestic and international recovery are unlikely to result in impairment of the CGUs, assuming that the overall recovery expectations remain. The terminal value cash flow is in excess of the break-even cash flow and reasonably possible changes in this assumption do not result in impairment.

Sensitivity to Changes in Cash Flows (Jetstar CGUs in Asia)

As outlined below, the recoverable amount of the Jetstar Asia CGU was below the carrying amount of the Jetstar Asia CGU, resulting in further impairments. As a result, the Group recognised impairment in the Jetstar Asia CGU of Goodwill and indefinite lived intangible assets in the 2019/20 financial year and of property, plant and equipment and right of use assets in the 2020/21 financial year. The impairments were allocated to individual assets to the extent that the assets were not reduced below their individual fair value less costs of disposal.

Reasonably possible changes in forecast cash flows would further reduce the estimated recoverable amount of the CGU. Goodwill and indefinite lived intangible assets have been fully impaired, and property, plant and equipment and right of use assets have been impaired to individual fair value less costs of disposal. AASB 136 requires that any allocation of CGU impairment should not reduce the asset below its individual fair value less costs of disposal. As a result, any additional impairment would only be recognised if there was a reduction in the individual fair value less costs of disposal of the individual assets.

The fair value less costs of disposal could change depending on valuations provided by two external and independent aircraft valuers (AVAC and AVITAS), changes in AUD/USD exchange rates, or changes in the level of maintenance life remaining on the aircraft other than already accounted for through depreciation.

The carrying value of the Jetstar Japan CGU at 30 June 2021 is nil.

The Group has assessed each CGU to determine whether there is any indication that the CGU may be impaired.

CGUs other than Jetstar Asia CGU

No impairment was recognised within the Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight, Jetstar Australia/New Zealand and Jetstar Japan CGUs during the year ended 30 June 2021. As noted above, the Qantas International CGU includes the carrying value of the A380 fleet ($377 million) as at 30 June 2021.

Jetstar Asia CGU

At 30 June 2020, the Group recognised impairment of the Goodwill and indefinite lived intangible assets in the Jetstar Asia CGU. Following recognition of this impairment, the recoverable amount was equal to the carrying value of assets allocated to the CGU.

As disclosed in the 2020 Annual Report, any reasonably possible change in forecast cash flows or assumptions would further reduce the estimated recoverable amount below the remaining carrying value of the CGU. As Goodwill and indefinite lived intangible assets have been fully impaired, any further impairment would be allocated to property, plant and equipment and right of use assets, to the extent they are not reduced below their fair value less costs of disposal on an individual basis.

The impact of COVID-19 travel restrictions on Jetstar Asia in Singapore since 30 June 2020 has been more severe than expected at 30 June 2020 with borders remaining closed and 'travel bubbles' not eventuating. The expected easing of border restrictions has been further delayed which is significant given Jetstar Asia relies exclusively on international travel. For the half-year ended 31 December 2020, this represented an indicator of further impairment of the Jetstar Asia CGU.

An impairment test of the Jetstar Asia CGU was undertaken as at 31 December 2020 using updated cash flow projections to calculate the updated recoverable amount. The recoverable amount determined was below the carrying amount of the Jetstar Asia CGU, resulting in further impairments.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

7 IMPAIRMENT OF ASSETS AND RELATED COSTS (CONTINUED)

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

ii. Impairment Assessment (continued)

As the Goodwill and indefinite lived intangible assets of the CGU have been fully impaired at 30 June 2020, the impairments were allocated to property, plant and equipment and right of use assets to the extent that the assets were not reduced below their individual fair value less costs of disposal. The fair value less costs of disposal was estimated based on valuations provided by two external and independent aircraft valuers (AVAC and AVITAS), translated at 31 December 2020 into AUD/USD exchange rates. Necessary adjustments to these valuations were made for the level of maintenance life remaining on the aircraft.

There continues to be significant uncertainty regarding the impact of COVID-19 on the future performance of the Jetstar Asia CGU. As a result, another impairment test of the Jetstar Asia CGU was undertaken as at 30 June 2021 using updated cash flow projections to calculate the updated recoverable amount. The recoverable amount was compared against the carrying amount of the Jetstar Asia CGU. In addition, the individual fair value less costs of disposals were estimated. This assessment resulted in minor changes to the impairment recognised at 31 December 2020.

(B) RESULTS OF THE GROUP'S IMPAIRMENT TEST

i. Impairment of Individual Assets

The Group recognised impairment of $198 million (2020: $1,254 million) in respect of individual assets, which primarily relates to the Group's A380 fleet. As a result of the additional impairment recognised in respect of the A380s of $155 million (2020: $1,087 million), the remaining carrying value of the aircraft and engines (including related engineering spares and inventory) at 30 June 2021 is $377 million (30 June 2020: $611 million).

ii. CGU Impairments

The Group recognised an impairment of $73 million in respect of the property, plant and equipment and right of use assets in the Jetstar Asia CGU (2020: $73 million in respect of the Goodwill and indefinite lived intangible assets).

No impairment was recognised within the Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight, Jetstar Australia/New Zealand and Jetstar Japan CGUs during the year ended 30 June 2021 (2020: $nil). The carrying value of the Jetstar Japan CGU at 30 June 2021 is nil.

iii. Other Impairments

Investments accounted for under the equity method

The Group recognised an impairment of $1 million (2020: $70 million) in relation to its investment in Helloworld Travel Ltd. (ASX: HLO). The impairment recognised was determined with reference to the volume weighted average price (VWAP) in the last quarter of the 2020/21 financial year.

Assets Held for Sale

The Group recognised a $10 million impairment of the Group's investment in Pacific Airlines (formerly Jetstar Pacific), relating to the recycling of deferred currency movements within the foreign currency translation reserve in Pacific Airlines to the Consolidated Income Statement on transfer of the investment to assets held for sale (2020: $25 million impairment of the investment due to the announced exit of the business).

iv. Summary of Impairments and Liabilities recognised

	2021 $M	2020 $M
Impairment of individual assets		
Impairment of A380s and onerous contractual commitments relating to A380s	155	1,087
Impairment of 747s held for sale	3	23
Impairment of software intangibles and onerous contractual commitments	33	97
Impairment of property, plant and equipment and recognition of exit costs	7	47
Total impairment of individual assets	**198**	**1,254**
CGU impairment		
Impairment of Jetstar Asia CGU property, plant and equipment and right of use assets	73	73
Total CGU impairment	**73**	**73**
Other impairment/(reversal) of impairment		
Impairment of investment in Helloworld	1	70
Impairment of Investment in Pacific Airlines	10	25
Other assets	(12)	34
Total other (reversal of impairment)/impairment	**(1)**	**129**
Total impairment of assets and related costs	**270**	**1,456**

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

8 INCOME TAX BENEFIT

(A) INCOME TAX RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

	2021 $M	2020 $M
Current income tax expense		
Current income tax – Australia	-	-
Current income tax – foreign	(1)	(4)
Total current income tax expense	**(1)**	**(4)**
Deferred income tax benefit		
Origination and reversal of temporary differences	(49)	675
Benefit of tax losses	671	86
Current year deferred income tax benefit	**622**	**761**
Adjustments for the prior year	2	(13)
Total deferred income tax benefit	**624**	**748**
Total income tax benefit in the Consolidated Income Statement	**623**	**744**

(B) RECONCILIATION BETWEEN INCOME TAX BENEFIT AND STATUTORY LOSS BEFORE INCOME TAX

	2021 $M	2020 $M
Statutory loss before income tax benefit	**(2,351)**	**(2,708)**
Income tax benefit using the domestic corporate tax rate of 30 per cent	705	812
Adjusted for:		
Differences in loss from investments accounted for under the equity method	(38)	(20)
Losses for foreign branches not recognised	(9)	(5)
Losses for controlled entities not recognised	(38)	(19)
Write-down of investments and non-deductible CGU impairments	-	(29)
Non-assessable gain on property, plant and equipment	1	-
Other net non-deductible items	-	6
Over/(under) provision from prior years	2	(1)
Income tax benefit	**623**	**744**

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

	2021 $M	2020 $M
Income tax on:		
Cash flow hedges	(133)	76
Defined benefit actuarial (gains)/losses	(108)	17
Fair value gains on investments	(15)	(2)
Income tax (expense)/benefit recognised directly in the Consolidated Statement of Comprehensive Income	**(256)**	**91**

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

8 INCOME TAX BENEFIT (CONTINUED)

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

	2021 $M	2020 $M
Income tax benefit	**623**	**744**
Adjustment for temporary differences		
Receivables	69	29
Inventories	(1)	(2)
Investments accounted for under the equity method	18	(23)
Property, plant and equipment and intangible assets	71	(352)
Right of use assets	(66)	(4)
Payables	11	14
Revenue received in advance	(78)	(80)
Interest-bearing liabilities	4	(15)
Lease liabilities	123	(16)
Other financial assets/(liabilities)	(35)	20
Provisions	78	(219)
Other items	(145)	(27)
Temporary differences	**49**	**(675)**
Adjustments for prior years	(2)	13
Value of recognised tax losses	**670**	**82**
Tax losses recognised (Australian)[1]	(671)	(86)
Tax instalments paid	-	141
Income tax (payable)/receivable[2]	**(1)**	**137**

1 A deferred tax asset of $671 million (June 2020: $86 million) has been recognised for income tax losses and is expected to be recovered in future periods.
2 Financial year 2020/21 net income tax payable of $1 million relates to overseas income tax.

(E) QANTAS GROUP CARRIED FORWARD TAX LOSSES

	2021 $M	2020 $M
Tax losses available to be utilised in current year	(86)	-
Total tax losses brought forward	**(86)**	**-**
Tax losses recognised	(671)	(86)
Tax losses carried forward to be utilised in future periods[1]	**(757)**	**(86)**

1 A deferred tax asset of $757 million has been recognised for income tax losses and is expected to be recovered in future periods.

9 DIVIDENDS

No dividend will be paid in relation to the year ended 30 June 2021.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

10 CAPITAL

	2021 $M	2020 $M
Opening balance: 1,863,491,352 (June 2020: 1,570,505,939) ordinary shares, fully paid	3,104	1,871
Shares bought back during the year: nil (June 2020: 79,712,857) ordinary shares	-	(95)
Capital raising: 22,553,346 (June 2020: 372,698,270) ordinary shares	82	1,328
Closing balance: 1,886,044,698 (June 2020: 1,863,491,352) ordinary shares	**3,186**	**3,104**

On 10 August 2020, the Group completed a retail Share Purchase Plan resulting in the issuance of 22.6 million shares at $3.18 per share totalling $71.7 million. Equity raising costs were accrued against the capital raising as at June 2020 as a reduction in Issued Capital. The tax benefit of these costs was recognised in equity in the year ended 30 June 2021, resulting in an increase in Issued Capital of $10 million. The fully underwritten Institutional Placement in June 2020 and the Share Purchase Plan in July 2020 provided total proceeds of $1,432 million, resulting in an increase in Issued Capital of $1,410 million, net of tax and fees.

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

11 REVENUE RECEIVED IN ADVANCE

	2021 $M			2020 $M		
	Current	Non-current	Total	Current	Non-current	Total
Unavailed passenger revenue	2,143	-	2,143	2,031	-	2,031
Unredeemed Frequent Flyer revenue	894	2,119	3,013	617	2,200	2,817
Other revenue received in advance	240	35	275	136	56	192
Total revenue received in advance	**3,277**	**2,154**	**5,431**	**2,784**	**2,256**	**5,040**

Unavailed passenger revenue relates to sales to passengers in advance of the date of passenger travel. The balance includes tickets relating to travel with a travel date subsequent to year end and tickets which have been transferred to a travel credit as a result of flight cancellations from border closures and other restrictions due to the impact of COVID-19.

Tickets generally expire either, within 12 months after the planned travel date, if they are not used within that time period or on the date of planned travel, depending on the terms and conditions. At the time of travel, revenue is also recognised in respect of tickets that are not expected to be used. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket, experience, historical and expected future trends.

Travel credits are available to be used for future flights and are typically eligible for refund. Where customers have made refund claims by 30 June 2021, these are no longer classified as unavailed passenger revenue and are reported as payables in the Consolidated Balance Sheet. Further refund claims are expected, given that the Group's forecast flight schedule remains severely restricted. Notwithstanding that travel credits may not be expected to be utilised in the next 12 months, unavailed passenger revenue is classified as current on the basis that the Group does not have an unconditional right to defer usage of the ticket for at least 12 months.

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

Other revenue received in advance primarily relates to prepaid Qantas Club membership fees, revenue collected on behalf of other airlines, unavailed cargo revenue and grants or supplier incentives the Group has received but are recognised over time. Other revenue is classified as current where it is expected to be recognised or transferred to another carrier within the next 12 months.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

12 CASH AND CASH EQUIVALENTS AND INTEREST-BEARING LIABILITIES

(A) CASH AND CASH EQUIVALENTS

	2021 $M	2020 $M
Cash balances	143	249
Cash at call	327	733
Short-term money market securities and term deposits	1,751	2,538
Total cash and cash equivalents	**2,221**	**3,520**

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

Short-term money market securities of $250 million (2020: $76 million) held by the Qantas Group are pledged as collateral under the terms of certain operational financing facilities when underlying unsecured limits are exceeded. The collateral cannot be sold or repledged in the absence of default by the Qantas Group.

(B) INTEREST-BEARING LIABILITIES

	2021 $M			2020 $M		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans – secured	433	1,628	2,061	362	1,742	2,104
Bank loans – unsecured	-	436	436	-	320	320
Other loans – secured	241	2,328	2,569	110	2,615	2,725
Other loans – unsecured	295	1,469	1,764	396	1,148	1,544
Total interest-bearing liabilities	**969**	**5,861**	**6,830**	**868**	**5,825**	**6,693**

13 PROVISIONS

	2021 $M			2020 $M		
	Current	Non-current	Total	Current	Non-current	Total
Annual leave	375	-	375	351	-	351
Long service leave	340	50	390	469	61	530
Redundancies and other employee benefits	123	-	123	569	-	569
Total employee benefits	**838**	**50**	**888**	**1,389**	**61**	**1,450**
Onerous contracts	31	-	31	65	4	69
Make good on leased assets	131	523	654	23	469	492
Insurance, legal and other	136	116	252	62	117	179
Total other provisions	**298**	**639**	**937**	**150**	**590**	**740**
Total provisions	**1,136**	**689**	**1,825**	**1,539**	**651**	**2,190**

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

14 DE-DESIGNATION AND INEFFECTIVENESS OF FUEL AND FOREIGN EXCHANGE HEDGES

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

The Group is exposed to fuel price risk with exposure of future AUD fuel to unfavourable USD-denominated price movements and foreign exchange movements. The Group uses cash flow hedges to manage the risk to USD price movements through options and swaps on jet kerosene, gasoil and crude oil, and to manage the risk of foreign exchange through foreign exchange contracts and currency options.

Hedge accounting is applied when the requirements of AASB 9 are met. Where the forecast fuel purchase transaction is no longer expected to occur, the hedge accounting is discontinued prospectively and the amount accumulated in equity is reclassified to the Consolidated Income Statement.

The Group has applied judgement in assessing whether forecast purchases are still expected to occur. Given the significant decrease in flying activity compared to expectations at 30 June 2020, $21 million of hedge losses were de-designated and recognised immediately in the Consolidated Income Statement. Prospective changes in fair value of de-designated hedging were accounted for through the Consolidated Income Statement, resulting in a $33 million gain. The amount recognised in the Consolidated Income Statement also includes foreign exchange movements with a $21 million gain since de-designation. The net impact ($33m gain) has been reported in the Consolidated Income Statement as de-designation and ineffectiveness of fuel and foreign exchange hedges.

Hedge reserve balance

Designated hedging deemed effective (where fuel consumption is probable to occur), remains deferred in reserves and will be recognised in the Consolidated Income Statement in the same reporting period as the fuel expense being hedged.

15 GOVERNMENT GRANTS AND ASSISTANCE

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

Packages	Description
RANS, DANS and government repatriation flights *RANS/DANS recognised within other revenue and income* *Government repatriation flights recognised within net passenger revenue*	This package is underwritten by the Australian government. The Group operated a series of domestic and regional flights on behalf of the Australian Government to maintain critical links that had been made commercially unviable by COVID-related travel restrictions. It includes a baseline network of domestic passenger flights servicing the most critical metropolitan and regional routes while providing freight belly space capacity. In addition, the Australian Government commissioned Qantas to conduct various charter repatriation flights. The Regional Airline Network Support (RANS), Domestic Aviation Network Support (DANS) and government repatriation flights were operated on a fee-for-service basis, with fare revenue offsetting the cost to the taxpayer. Income of $118 million was recognised in the Consolidated Income Statement. The costs to operate these flights were recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel, depreciation and amortisation and other expenses. On 2 August 2021, the government announced it was extending the DANS and RANS program until 31 December 2021.
Tourism Aviation Network Support (TANS) *Recognised within other revenue and income*	This program is intended to increase the number of flight frequencies to selected regions which have been heavily impacted by the loss of international tourists above minimum connectivity (aviation surge capacity) and to also reduce the cost of flying for consumers by discounting ticket prices to those regions through half price airfares. Discounts are offered on a selected number of routes per week across 15 key tourism regions with the original sale period between 1 April 2021 and 31 July 2021 for travel by 30 September 2021. On 2 August 2021, the travel and sale period for the TANS program was extended until 30 November 2021 due to the various state lockdowns and border closures. Income of $19 million was recognised in the Consolidated Income Statement. The costs to operate these flights were recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel, depreciation and amortisation and other expenses.

Condensed Notes to the Preliminary Final Report continued

For the year ended 30 June 2021

15 GOVERNMENT GRANTS AND ASSISTANCE (CONTINUED)

International Freight Assistance Mechanism (IFAM) *Recognised within net freight revenue*	This mechanism is intended to restore critical global supply chains which have been heavily impacted by COVID-19 containment measures around the world to ensure exporters maintain connectivity to strategic markets. On 11 March 2021, the government announced an extension of the program to the end of September 2021. Income of $219 million was recognised in the Consolidated Income Statement. The costs to operate these flights were recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel, depreciation and amortisation and other expenses.
JobKeeper Payment (JobKeeper) *Recognised within manpower and staff-related expenses*	This program was intended to help keep more Australians in jobs and support businesses affected by the significant economic impact of COVID-19. The original JobKeeper was in place until 27 September 2020. On 21 July 2020, the government announced the extension of JobKeeper to 28 March 2021 at modified rates and eligibility. JobKeeper is recorded net of manpower related expenses. As one of the most heavily impacted companies, the Qantas Group recognised $588 million of JobKeeper, which was either paid directly to stood down employees or subsidised the wages of those still working.
International Aviation Support (IAS) Package *Recognised within other revenue and income*	The program is intended to provide support to maintain a core Australian international aviation workforce and operational capability to ensure airlines can quickly restart commercial international flights once international restrictions are lifted. Announced on 11 March 2021, the IAS program runs between 1 April 2021 and 31 October 2021. The funding covers employee support and retention payments to maintain international workforce capability, training to ensure international workers maintain their skills and currency, maintenance and costs associated with bringing international aircraft out of long-term storage, and port readiness costs. Income of $22 million was recognised in the Consolidated Income Statement. The costs to awaken aircraft and the training of the international workforce was recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel and other expenses. Further to the payments made in relation to international readiness, the Group also received $27 million of employee retention payments. This was wholly passed through to impacted employees and the Group received no benefit.
Australian Airline Financial Relief Package (AAFRP)[1] *Recognised within aircraft operating variable expenses*	Includes the refunding and ongoing waiving of a range of government charges on the industry including aviation fuel excise, Airservices Australia charges on domestic airline operations[1] and domestic and regional aviation security charges. Applicable charges applying to flights between 1 February 2020 and 31 December 2020 were eligible for consideration in accordance with the eligibility criteria and related information set out in the grant opportunity guidelines. Under this package, the Group recognised direct support of $97 million for the year ended 30 June 2021, offsetting related costs.
Singapore Job Support Scheme *Recognised within manpower and staff-related expenses*	The Job Support Scheme provides wage support to employers, helping enterprises retain their local employees (Singapore citizens and permanent residents) during this period of economic uncertainty. Support under the scheme offset and protected local employees' wages of SGD $6 million.
New Zealand Aviation Relief Package *Recognised within aircraft operating variable expenses*	Includes financial support to airlines to pay passenger-based government charges and to cover airway-related fees from 1 March 2020 to 30 April 2021 in response to the COVID-19 crisis. Support of $8 million was recognised in the Consolidated Income Statement, offsetting related costs.

1 The AAFRP also provided support to other suppliers of the Group (including government-owned corporations). The AAFRP package ceased in its original format on 31 December 2020 and on 1 January 2021 the Airservices waiver was reduced to 50 per cent. On 11 March 2021, the Australian Government announced the Domestic Airport Security Cost Support package (DASCS), which provided funding to meet eligible costs related to mandatory security screening obligations under the Aviation Transport Security Regulations 2005. On 2 August 2021, the Australian Government announced the DASCS program would be extended until 31 December 2021. As a result of the aforementioned support, the providers have granted waivers to the Group of $135 million for the year ended 30 June 2021.

16 CAPITAL COMMITMENTS

The Group's capital expenditure commitments as at 30 June 2021 are $8,114 million (30 June 2020: $9,028 million). The Group has certain rights within its aircraft purchase contracts which enable deferment of capital expenditure commitments.

The Group's capital expenditure commitments are predominantly denominated in US dollars. Commitments reported above are translated to the Group's Australian dollar presentational currency at the 30 June 2021 closing exchange rate of $0.75 (30 June 2020: $0.69).

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For the year ended 30 June 2021

17 POST-BALANCE SHEET DATE EVENTS

Subsequent to 30 June 2021, various Australian state governments reimposed restrictions on interstate travel or imposed localised or state-wide lockdowns of various durations. In addition, the Trans-Tasman ‘travel bubble’ was paused. These government restrictions impacted demand for domestic and Trans-Tasman travel and the Group responded by adjusting capacity.

The Group’s Recovery Plan is a three-year plan, and while these non-adjusting post-balance date events have impacted the timing of demand recovery, this is expected to have a short-term impact and not change materially the overall recovery strategy of the Three-Year Recovery Plan.

Also subsequent to 30 June 2021, the Federal Court handed down its decision in favour of the Transport Workers Union (TWU) regarding the Group’s outsourcing of the remaining ground handling functions. The decision has not considered any implications of this judgement around requirements to reinstate workers or pay compensation or penalties. In addition, the Group will appeal this judgement, which will then proceed to the Full Federal Court. The Federal Court decision and the outcome of the appeal are considered a contingent liability and no adjustment has been recognised in the financial statements for the year ended 30 June 2021.

Operational Statistics
For the year ended 30 June 2021

(unaudited)		June 2021	June 2020	June 2019
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK)				
Passengers carried	'000	8,439	16,344	21,989
Revenue Passenger Kilometres (RPK)	M	9,883	19,552	26,339
Available Seat Kilometres (ASK)	M	16,951	25,773	33,866
Revenue Seat Factor	%	58.3	75.9	77.8
JETSTAR DOMESTIC				
Passengers carried	'000	6,045	10,243	14,153
Revenue Passenger Kilometres (RPK)	M	7,443	11,879	16,459
Available Seat Kilometres (ASK)	M	10,059	13,709	18,888
Revenue Seat Factor	%	74.0	86.7	87.1
GROUP DOMESTIC				
Group Domestic Available Seat Kilometres (ASK)	M	27,010	39,482	52,754
QANTAS INTERNATIONAL				
Passengers carried	'000	121	6,289	8,822
Revenue Passenger Kilometres (RPK)	M	274	42,460	59,808
Available Seat Kilometres (ASK)	M	640	50,484	69,571
Revenue Seat Factor	%	42.8	84.1	86.0
JETSTAR INTERNATIONAL				
Passengers carried	'000	1,194	4,564	6,386
Revenue Passenger Kilometres (RPK)	M	872	13,603	18,302
Available Seat Kilometres (ASK)	M	1,197	16,180	21,157
Revenue Seat Factor	%	72.8	84.1	86.5
JETSTAR ASIA				
Passengers carried	'000	67	3,035	4,463
Revenue Passenger Kilometres (RPK)	M	85	4,533	6,584
Available Seat Kilometres (ASK)	M	527	5,724	7,948
Revenue Seat Factor	%	16.1	79.2	82.8
GROUP INTERNATIONAL				
Group International Available Seat Kilometres (ASK)	M	2,364	72,388	98,676
QANTAS GROUP OPERATIONS				
Passengers carried	'000	15,866	40,475	55,813
Revenue Passenger Kilometres (RPK)	M	18,557	92,027	127,492
Available Seat Kilometres (ASK)	M	29,374	111,870	151,430
Revenue Seat Factor	%	63.2	82.3	84.2
Group Unit Revenue	c/ASK	9.72	8.99	8.85
Aircraft at end of the year	#	311	314	314