25 February 2021

ASX Market Announcements Office
Australian Securities Exchange Limited

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Qantas Group HY21 Appendix 4D and Interim Financial Report

Qantas Airways Limited attaches the following documents relating to its results for the half-year ended 31 December 2020:

- Appendix 4D; and
- Interim Financial Report.

Yours faithfully,

Andrew Finch
Group General Counsel and Company Secretary

Authorised for release by Qantas' Board of Directors.

QANTAS AIRWAYS LIMITED AND ITS CONTROLLED ENTITIES

APPENDIX 4D AND

CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2020

ABN: 16 009 661 901

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Results for Announcement to the Market

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

	December 2020 $M	December 2019 $M	Change $M	Change %
Revenue and other income	2,330	9,464	(7,134)	(75.4%)
Statutory (loss)/profit after tax	(1,081)	445	(1,526)	(342.9%)
Statutory (loss)/profit after tax attributable to members of Qantas	(1,081)	445	(1,526)	(342.9%)
Underlying (loss)/profit before tax	(1,034)	771	(1,805)	(234.1%)

DIVIDENDS

No interim dividend will be paid in relation to the half-year ended 31 December 2020.

EXPLANATION OF RESULTS

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

This information should be read in conjunction with the Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2020. This report should also be read in conjunction with any public announcements made by Qantas in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and ASX Listing Rules.

The information provided in this report contains all the information required by ASX Listing Rule 4.2A.

Other Information

		December 2020	June 2020
Net assets per ordinary share[1]	$	0.40	0.82
Net tangible assets per ordinary share[1,2]	$	(0.11)	0.26

		December 2020	December 2019
Basic earnings per share (Statutory Earnings per share)[3]	cents	(57.5)	28.8
Diluted earnings per share[4]	cents	(57.5)	28.8
Underlying Earnings per share[5]	cents	(40.5)	34.3

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 period excluding unallocated treasury shares.
4 Weighted average number of shares used in basic and diluted earnings per share calculation is the same for the half year ended 31 December 2020. Weighted average number of shares used in diluted earnings per share calculation excludes treasury shares and the prior period also includes the effect of share rights expected to vest (using treasury stock method).
5 Underlying Earnings per share is calculated as Underlying Profit Before Tax less tax expense (based on the Group's effective tax rate of 26.3 per cent (31 December 2019: 31.3 per cent)) divided by the weighted average number of shares outstanding during the period excluding unallocated treasury shares.

Other Information (continued)

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

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

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

	December 2020	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

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.

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2020 and the Independent Auditor's Review Report thereon.

Directors

The Directors of Qantas Airways Limited at any time during or since the end of the half-year were as follows:

Name	Period of Directorship
Richard Goyder, AO *Chairman*	*Current, appointed 17 November 2017 – appointed Chairman 26 October 2018*
Alan Joyce, AC *Chief Executive Officer*	*Current, appointed 28 July 2008 – appointed Chief Executive Officer 28 November 2008*
Maxine Brenner	*Current, appointed 29 August 2013*
Jacqueline Hey	*Current, appointed 29 August 2013*
Belinda Hutchinson, AC	*Current, appointed 12 April 2018*
Michael L'Estrange, AO	*Current, appointed 7 April 2016*
Antony Tyler	*Current, appointed 26 October 2018*
Paul Rayner	*Current, appointed 16 July 2008*
Todd Sampson	*Current, appointed 25 February 2015*
Barbara Ward, AM	*Current, appointed 19 June 2008*

Review of Operations

For the half-year ended 31 December 2020

RESULTS HIGHLIGHTS

Underlying Loss Before Tax

(1,034) $M

1H21	1H21	(1,034)
1H20	1H20	771
1H19	1H19	775

Statutory (Loss)/Profit After Tax

(1,081) $M

1H21	1H21	(1,081)
1H20	1H20	445
1H19	1H19	463

Return on Invested Capital

(18.1) %

1H21	1H21	(18.1%)
1H20	1H20	19.6%
1H19	1H19	19.5%

The performance of the Group and individual segments will be compared to the corresponding prior period (first half of the 2019/20) and the first half of the 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.

For most of the 2020 calendar year, the operations of the Qantas Group were severely impacted by the actions taken by governments to address the health impacts of the COVID-19 global pandemic. This included imposing travel restrictions and international and domestic border closures which have significantly disrupted air travel. This has led to the Qantas Group losing approximately $11 billion in revenue since the start of the pandemic.

The measures taken have been largely successful in suppressing the incidence of the virus in the Australian community. However, outbreaks have continued to occur. The 6 months to 31 December 2020 included a second wave in Victoria. This resulted in a protracted lockdown and nationwide domestic border closures. Over time, as travel and border restrictions progressively eased, this led to a surge in domestic travel. Towards the end of the half, a third wave struck Sydney's Northern Beaches and Brisbane, initiating another round of border closures. Despite these challenges the Group's performance against a range of metrics demonstrates its underlying strength.

The Group's focus on preserving liquidity, restructuring its cost base and protecting its balance sheet has positioned it well to weather ongoing disruption to travel demand and for the eventual recovery.

The Qantas Group reported an Underlying Loss Before Tax [1] (Underlying LBT) of ($1,034) million for the 6 months ended 31 December 2020, a decrease of $1,809 million compared to first half 2018/19 (down $1,805 million compared to first half 2019/20). The Group's Statutory Loss Before Tax of ($1,467) million was down $2,158 million from the first half 2018/19 (down $2,115 million from first half 2019/20). The Statutory Loss Before Tax for the first half 2020/21 included a net $433 million of costs, mostly non-cash, 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 JUHI [2] assets and net de-designation of fuel and foreign exchange hedges.

Group Total Revenue was $2,330 million, down approximately $7.0 billion or 75 per cent compared with Pre-COVID levels and the prior year. Swift action was taken to reduce the Group's costs to respond to the significant decline in revenue. Net operating expenses [3], a good proxy for the Group's operating cash costs, also reduced by 75 per cent. As activity declined, the Group benefited from a commensurate reduction in fuel consumption costs, aircraft operating variable and manpower costs as a significant number of employees were stood down. Recovery Plan restructuring benefits totalling $206 million also contributed to the reduction in the Group's cost base. The total savings from activity based, rightsizing and restructuring totalled $5.1 billion. Depreciation and amortisation non-cash charges continued to impact the Group's profitability at an EBIT level resulting in a loss of ($888) million for the half. Despite the choppy recovery, the Group's focus on reducing and variabilising its cost base has delivered a profit at an Underlying EBITDA level of $86 million, a decrease of $1,813 million compared to Pre-COVID and $1,820 million to the prior year.

During the period, the Group's Domestic airlines flew approximately 30 per cent of their Pre-COVID network but remained profitable contributing $71 million at the Underlying EBITDA level. The Group's International operations fell into losses, contributing an Underlying EBITDA loss of $86 million, as the Group's International passenger operations were largely grounded. Qantas Freight delivered a record performance providing a natural hedge to the impact of the grounding of the passenger business, 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 an Underlying EBITDA of $152 million. This reinforces the benefit of the diversification of earnings it provides.

The financial metrics for the first half of the 2020/21 financial year are:

- Statutory Earnings Per Share was a loss of 57.5 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 $861 million including one-off cash outflows for restructuring, redundancies, refunds and deferred payables. The Group's usually strong cash flow generation ability was impacted by lower earnings and the working capital movements associated with lower revenue received in advance, receivables and payables. Despite this, the operations generated positive cash flow, which partially offset the significant one-off cash outflows.
- Net capital expenditure [4] of $0.5 billion was invested in the business.

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 Joint User Hydrant Installation.
3 Group gross expenditure excluding depreciation and amortisation and one-offs, net of other revenue.
4 Net Capital Expenditure is equal to net investing cash flows in the Consolidated Cash Flow Statement. During the half year ended 31 December 2020, there were no new aircraft leases entered into and no returns of leased aircraft.

Review of Operations continued

For the half-year ended 31 December 2020

RESULTS HIGHLIGHTS (CONTINUED)

The Group and its employees continued to benefit from Australian Government programs to support businesses and employees that have been severely affected through the pandemic including:

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

In addition, the Australian Government commissioned Qantas Airways to conduct various charter repatriation flights, including to/from Chennai, Delhi, Frankfurt, Johannesburg, London and Paris. Along with other Australian domestic airlines, the Group also performed several domestic and regional flights as part of the RANS [5] and DANS [6] intended to maintain vital air transport links. Qantas Freight was also contracted to conduct freight services under the International Freight Assistance Mechanism 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 half, $839 million new debt funding was raised and $71.7 million in proceeds from the retail Share Purchase Plan bolstered the balance sheet. The Group also secured a further $0.6 billion in committed undrawn funding. At 31 December 2020, cash and cash equivalents totalled $2.6 billion with total liquidity at $4.2 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 the first half of 2020/21, Net Debt [7] rose to $6.05 billion, above the Net Debt target range of $4.5 billion to $5.6 billion, with debt reduction a priority in the coming months. 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.

THREE-YEAR RECOVERY PLAN

The measures taken to cut costs and preserve liquidity through the fourth quarter of the prior year ensured the Group was well positioned to launch its Three-Year Recovery Plan. A retail Share Purchase Plan (SPP) was launched on 2 July 2020 consistent with listing requirements surrounding the fully underwritten Institutional Placement conducted in June 2020. $71.7 million was raised through the SPP, providing an additional liquidity buffer in the half.

The Recovery Plan is on track to deliver $0.6 billion in savings [8] in 2020/21, $0.8 billion by 2021/22 and $1.0 billion in ongoing savings by 2022/23 with the decisions made to deliver the FY21 benefits 90 per cent complete.

	Target		
Key area of focus	**Metrics**	**Timeframe**	**As at end of December 2020**
Cost Savings	Restructuring cost benefits of $0.6b in FY21, $0.8b by FY22, $1.0b by FY23	FY23	**On track, reviewing opportunities for revenue and margin benefits**
	Increased target to at least 8,500 exits	FY21	**~5,300 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	**Capital allocation is prioritising debt reduction**
	Net Debt / EBITDA <2.5 times	FY22	**Balance sheet repair to commence in 4Q21**
Cash Flow	Sustainable positive net free cash flow	FY22 onwards	**Significant outflows for refunds and deferred payables largely complete**
	Flying activity is contribution positive (RASK-Variable cost/ASK >0)	From FY21	**99% of Domestic flights cash flow positive**
	Capex [9] for FY21 ~$0.75b	FY21	**On track, 1H21 spend $514m**
Fleet Management	Defer deliveries of A321neos and 787-9 aircraft	Jun-20	**Complete**
	Retire 6 x 747s; 12 x A380s in long term storage	Dec-20	**Complete**
Customer and Brand	Maintain Customer Advocacy (NPS) premium to domestic competitor	Ongoing	**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	**Accelerated earnings when flying returns**
Employee Engagement	Employee sentiment	Ongoing	**Employee engagement impacted by stand downs/restructuring but strengthening on signs of recovery**

5 Regional Airline Network Support.
6 Domestic Aviation Network Support.
7 Net Debt under the Group's Financial Framework includes net on balance sheet debt and capitalised aircraft lease liabilities.
8 FY21 $0.6 billion target based on flying 30 per cent Group capacity.
9 Capital expenditure, net of asset sales.

Review of Operations continued

For the half-year ended 31 December 2020

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

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

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

MAINTAINABLE EPS [14] GROWTH OVER THE CYCLE

TOTAL SHAREHOLDER RETURN IN THE TOP QUARTILE

Maintaining an Optimal Capital Structure

- The Group's Financial Framework targets an optimal capital structure to achieve the lowest cost of capital. This results in a Net Debt target range of $4.5 billion to $5.6 billion, based 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 31 December 2020, Net Debt was $6.05 billion which is above the Net Debt target range, with debt reduction a priority as the recovery progresses.

ROIC > WACC Through the Cycle

Return on Invested Capital (ROIC) for the 12 months to 31 December 2020 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 57.5 cents 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.

10 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).
11 Based on the Invested Capital of approximately $6 billion as at 30 June 2020.
12 Weighted Average Cost of Capital, calculated on a pre-tax basis.
13 Target of greater than 10 per cent ROIC allows ROIC to be greater than pre-tax WACC through the cycle.
14 Earnings Per Share.

Review of Operations continued

For the half-year ended 31 December 2020

GROUP PERFORMANCE

The Underlying Before Tax result for the first half 2020/21 was a loss of ($1,034) million, including the impact of government-imposed travel restrictions and border closures due to the COVID-19 pandemic. This compares with an Underlying Profit Before Tax of $775 million Pre-COVID and $771 million in the prior year. Ticketed passenger revenue [15] declined by 87 per cent compared to Pre-COVID levels as the Domestic airlines recovered to only 30 per cent of Pre-COVID flying and the international 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 reduced total underlying expenditure by more than $5.1 billion, which helped to partially offset the steep decline in revenue.

Group Underlying Income Statement Summary [16]	December 2020 $M	December 2019 $M	December 2018 $M
Net passenger revenue	1,298	8,305	8,027
Net freight revenue	613	496	525
Other revenue	419	663	654
Revenue and other income	**2,330**	**9,464**	**9,206**
Operating expenses (excluding fuel)[15]	(1,868)	(5,593)	(5,347)
Fuel	(309)	(1,975)	(1,963)
Depreciation and amortisation[16]	(974)	(1,006)	(983)
Share of net (loss)/profit of investments accounted for under the equity method	(67)	10	3
Total underlying expenditure	**(3,218)**	**(8,564)**	**(8,290)**
Underlying EBIT	**(888)**	**900**	**916**
Net finance costs	(146)	(129)	(141)
Underlying PBT	**(1,034)**	**771**	**775**

Operating Statistics		December 2020	December 2019	December 2018
Available Seat Kilometres (ASK) [17]	M	8,837	76,880	76,854
Revenue Passenger Kilometres (RPK) [18]	M	5,568	65,437	64,958
Passengers carried	000	4,915	28,876	28,500
Revenue Seat Factor [19]	%	63.0	85.1	84.5
Operating Margin [20]	%	(38.1)	9.5	10.0
Unit Revenue (RASK) [21]	c/ASK	10.33	9.19	8.94
Total Unit Cost [22]	c/ASK	(22.03)	(8.18)	(7.93)

Group capacity (ASK) decreased by 89 per cent mainly due to the grounding of the international airlines and the slow recovery of domestic capacity to only 30 per cent of Pre-COVID levels for the half. Revenue Passenger Kilometres decreased by 91 per cent as the Group's Revenue Seat Factor fell to 63 per cent. Group Unit Revenue increased to 10.33 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 22.03 c/ASK as a result of the significant decline in ASKs and the Group's fixed cost base including depreciation and amortisation charges.

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

Review of Operations continued

For the half-year ended 31 December 2020

CASH GENERATION

Cash Flow Summary	December 2020 $M	December 2019 $M	Change $M	Change %
Operating cash flows	(861)	1,475	(2,336)	(158)
Investing cash flows	(514)	(1,262)	748	59
Net free cash flow	**(1,375)**	**213**	**(1,588)**	**(746)**
Financing cash flows	468	(624)	1,092	175
Cash at beginning of year	3,520	2,157	1,363	63
Effect of foreign exchange on cash	(7)	(1)	(6)	(600)
Cash at end of year	**2,606**	**1,745**	**861**	**49**

Debt Analysis		December 2020 $M	June 2020 $M	Change $M	Change %
Net on balance sheet debt [23]	$M	4,659	3,173	1,486	47
Capitalised aircraft lease liabilities [24]	$M	1,393	1,561	(168)	(11)
Net Debt [25]		**6,052**	**4,734**	**1,318**	**28**

Operating cash flows for the first half of 2020/21 were a net outflow of $861 million, including one-off outflows for restructuring, redundancies, refunds and deferred payables. This was partially offset by the positive cash flow generated by the operations.

Net capital expenditure of $0.5 billion was primarily directed to capitalised maintenance and the delivery of an A321P2F freighter.

Net financing cash inflows of $468 million included $839 million draw down of debt and $71.7 million proceeds from the retail Share Purchase Plan, offset by scheduled debt repayments of $202 million and $241 million in other financing costs including aircraft and non-aircraft lease liability repayments and funding costs.

At 31 December 2020, the Group's unencumbered asset base was greater than $2.5 billion [26], including 41 per cent of the Group fleet [27], land, spare engines and other assets.

Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changes in market conditions and earnings scenarios. At 31 December 2020, the Group's leverage metrics were outside its Baa2 investment grade metrics but expects to return to within the range by 30 June 2022.

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

Review of Operations continued

For the half-year ended 31 December 2020

FLEET

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

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

In the first half of 2020/21, the Group retired four 747-400ERs (three remain held for sale), transferred four A320-200s from Jetstar to QantasLink and took delivery of the A321-200P2F freighter.

At 31 December 2020, the Qantas Group fleet [28] totalled 314 aircraft (including the three aircraft held for sale).

Fleet Summary (Number of aircraft)	December 2020	June 2020
A380	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	17	17
A320-200	8	4
Total Qantas (including QantasLink and Network Aviation)	**221**	**221**
A320/A321-200	72	76
787-8	11	11
Total Jetstar Group	**83**	**87**
737-300/400F	5	5
767-300F	1	1
A321-200P2F	1	-
Total Freight	**7**	**6**
Total held for sale (747-400ER)	**3**	**-**
Total Group	**314**	**314**

Through the first half of 2020/21, the Group's fleet strategy adjusted to the new demand environment. The Group has accelerated the retirement of the 747-400ERs, with all having left the operating fleet by the end of July 2020. The A380 fleet has been put into long-term storage for the foreseeable future. Jetstar Asia's fleet is reducing from 18 to 13 through a mixture of lease returns and aircraft redeployment to Australia. Jetstar Group A320ceos continue to be transferred to QantasLink for redeployment into the growing resources sector market in Western Australia. In addition, grounded passenger A330-300s were redeployed as freighters to support the International Freight Assistance Mechanism.

28 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).

Review of Operations continued

For the half-year ended 31 December 2020

SEGMENT PERFORMANCE

Segment Performance Summary (EBIT)	December 2020 $M	December 2019 $M	December 2018 $M
Qantas Domestic	(337)	465	478
Qantas International	(291)	122	119
Jetstar Group	(328)	220	253
Qantas Loyalty	125	196	175
Corporate	(50)	(87)	(91)
Unallocated/Eliminations	(7)	(16)	(18)
Underlying EBIT	**(888)**	**900**	**916**
Net finance costs	(146)	(129)	(141)
Underlying PBT	**(1,034)**	**771**	**775**

QANTAS DOMESTIC

Revenue

1,003 $M

1H21	**1,003**
1H20	3,218
1H19	3,230

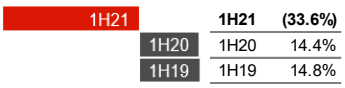
Underlying EBITDA

28 $M

1H21	**28**
1H20	821
1H19	857

Operating Margin

(33.6) %



1H21	**(33.6%)**
1H20	14.4%
1H19	14.8%

Metrics		December 2020	December 2019	December 2018
ASKs	M	5,220	17,437	17,314
Seat factor	%	58.1	79.9	79.6

Qantas Domestic remained profitable before depreciation and amortisation, reporting an Underlying EBITDA of $28 million and generated positive underlying operating cash flow despite a roughly 70 per cent decline in revenue.

Using improved planning processes, Qantas Domestic flexibly adjusted its network, redeploying its multi-gauge fleet to minimise costs incurred in response to changing flying patterns due to border closures. This included the launch of 21 new routes and 14 charter routes. Flying included a mixture of commercial routes and routes where there was insufficient demand to fly them 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.

The impact of border closures associated with outbreaks of the virus led to a choppy recovery in domestic travel. Qantas Domestic was well positioned to capture the rapidly changing and evolving demand pools including:

- A significant intra-state network to respond to the premium leisure demand recovery.
- Re-deploying further A320 capacity to Western Australia to support the resilient resources market demand growth.
- Securing 29 new corporate and large SME customers.
- Giving customers confidence to book through introduction of health measures including the 'Fly Well' program, mandatory mask wearing for customer-facing employees and more flexible booking terms and conditions offered through the 'Fly Flexible' program.

The competitive environment is changing, as the main competitor emerges from Voluntary Administration with a smaller fleet, and a third entrant is poised to enter the market, Qantas Domestic is extending its leading position in the recovering domestic market.

Review of Operations continued

For the half-year ended 31 December 2020

QANTAS INTERNATIONAL

Revenue

722 $M

1H21	**722**
1H20	3,843
1H19	3,693

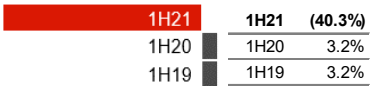
Underlying EBITDA

55 $M

1H21	**55**
1H20	518
1H19	477

Operating Margin

(40.3) %



1H21	**(40.3%)**
1H20	3.2%
1H19	3.2%

Metrics		December 2020	December 2019	December 2018
ASKs	M	31	34,613	35,151
Seat factor	%	25.8	86.5	85.5

The passenger business was largely grounded, except for a limited one-way travel bubble with New Zealand and Australian Government sponsored charter flights, bringing home thousands of Australians who were stranded overseas.

The current freight and repatriation activities [29] are maintaining most of the fleet in operational readiness and a base level of technical and cabin crew recency. 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 aircraft and property holding costs and non-cash employee provisions. This resulted in an Underlying EBITDA profit of $55 million for the combined operations.

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 by redeploying A330-300 passenger aircraft to freight activities, transporting vital medical supplies and other high priority freight. Qantas Freight also continued to support the International Freight Assistance Mechanism, 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 main competitor. 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:

- 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.
- Deferred delivery of three 787-9 Dreamliners in line with the Group's requirements.
- A380 fleet moved to long-term storage for the foreseeable future, maintained to allow ability to return to operations through a preservation program.
- Retirement of the remaining 747-400ER fleet in July 2020 with three aircraft held for sale as of 31 December 2020.

29 Current Qantas International repatriation and freight operations as at December 2020 Block Hours represents 8 per cent of the Pre-COVID Qantas International Block Hours for December 2018.

Review of Operations continued

For the half-year ended 31 December 2020

JETSTAR GROUP

Revenue

384 $M

1H21	**384**
1H20	2,120
1H19	2,048

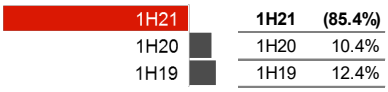
Underlying EBITDA

(98) $M

1H21	**(98)**
1H20	443
1H19	471

Operating Margin

(85.4) %



1H21	**(85.4%)**
1H20	10.4%
1H19	12.4%

Metrics		December 2020	December 2019	December 2018
ASKs	M	3,586	24,830	24,389
Seat factor	%	70.5	86.9	86.6

The Jetstar Group reported an Underlying EBITDA loss of ($98) million as the profits from the domestic business could not offset losses from the international operations.

Jetstar's Australian Domestic business delivered an Underlying EBITDA profit of $43 million through its highly variable cost base, the restructuring program and leading position in the price sensitive leisure market. First half capacity averaged 30 per cent of Pre-COVID levels. It peaked at approximately 70 per cent in late December, driven by pent up leisure and Visiting Friends and Relatives demand.

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 $74 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 is reducing from 18 to 13 through a mixture of lease returns and aircraft redeployment to Australia. This has resulted in redundancies of 25 per cent of staff.

Jetstar Japan is implementing its own restructuring program in response to the impacts of the pandemic but due to higher fixed costs and a fully leased fleet, has incurred losses for the first time for many years. Jetstar Group's result includes $67 million attributable to the share of after-tax losses for Jetstar Japan.

The previously announced exit of Jetstar Pacific is well advanced, with commercial functions transitioned and rebranding to Pacific Airlines and reservation system cutover completed. Qantas Group shares in Pacific Airlines will transfer to Vietnam Airlines, awaiting regulatory approval.

Through its highly variable cost base, the benefit of further cost transformation through the restructuring program that will lower its unit costs 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 half-year ended 31 December 2020

QANTAS LOYALTY

Revenue

438 $M

1H21	**438**
1H20	872
1H19	809

Underlying EBITDA

152 $M

1H21	**152**
1H20	219
1H19	195

Operating Margin

28.5 %

1H21	**28.5%**
1H20	22.5%
1H19	21.6%

Metrics		December 2020	December 2019	December 2018
QFF members	M	13.5	13.2	12.6

Qantas Loyalty provided an important source of diversified earnings and positive cash flow as the Group's passenger airlines were largely grounded. Cash contribution to the Group was $454 million from gross sales to external parties. Earnings were $152 million at an Underlying EBITDA level and Underlying EBIT was $125 million as the strategy to diversify earnings lessened the impact of the significant decline in air travel.

Qantas Loyalty continued its leadership position in total share of credit card spend despite a short-term decline in points earned through credit card spend. It continues to strengthen its financial services portfolio with renewed multi-year agreements with three of the major banks and an expanded partnership with Commonwealth Bank of Australia.

Meanwhile, the retail businesses such as Qantas Wine and Qantas Store saw revenues at peak levels as members turned to online shopping and sought ways to earn and burn points on the ground.

Qantas Insurance portfolio continues to perform well with continued growth in policies and the launch of home insurance.

Travel-related products remain sensitive to border announcements with a strong rebound in travel redemption activity during the second quarter with flight redemptions increasing when border restrictions eased.

Despite the grounding of the airlines, the program maintained its relevance with record member engagement through the ongoing program generosity. This includes status tier extensions, new ways to earn status credits and increased Classic Reward seat availability across popular Australian destinations while international travel is off the agenda. On the ground Classic redemptions have also expanded to rail travel.

The value of the program to Partners has been maintained with the diversification of the program ecosystem and growing coalition including the Accor partnership announced this half.

Qantas Loyalty's earnings are expected to accelerate on resumption of consistent travel activity and remains committed to achieving the target of $500-600 million Underlying EBIT by FY24.

Review of Operations continued

For the half-year ended 31 December 2020

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Loss Before Tax of ($1,467) million for 2020/21 compares to a Statutory Profit Before Tax of $648 million for 2019/20.

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 half-year ended 31 December 2020 as recognised within Underlying PBT is down $7.1 billion compared to the half-year ended 31 December 2019, which is consistent with the impact on Statutory Loss primarily due to the impact of COVID-19.

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

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

Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, 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 (including the A380 fleet), 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	December 2020 $M	December 2019 $M	December 2018 $M
Underlying PBT	**(1,034)**	**771**	**775**
Items not included in Underlying PBT			
– Transformation costs and discretionary bonus for non-executive employees[1]	-	(123)	(125)
– Recovery Plan restructuring costs[2]	(284)	-	-
– (Impairment)/reversal of impairment of assets and related costs	(167)	-	43
– De-designation of fuel and foreign exchange hedges	3	-	-
– Net gain on disposal of assets	15	-	45
– Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair value hedging agenda decision	-	-	(47)
Total items not included in Underlying PBT	**(433)**	**(123)**	**(84)**
Statutory (Loss)/Profit Before Income Tax Expense	**(1,467)**	**648**	**691**

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

Review of Operations continued

For the half-year ended 31 December 2020

Underlying PBT (CONTINUED)

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

Item outside of Underlying PBT	Description
Recovery Plan restructuring costs	$284 million included people restructuring costs of $268 million and other restructuring costs of $16 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 $4 million of non-cash accelerated depreciation.
Impairment of assets and related costs	Impairments of assets and related costs of $167 million includes: – $71 million impairment of the Group's A380 fleet resulting 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. With the impact of COVID-19 and the closure of international borders, the Group's A380 fleet is expected to be grounded for the foreseeable future. – $4 million impairment relating to the early retirement of the Group's 747 fleet driven by movement in foreign exchange rates since 30 June 2020. – $23 million impairment of property, plant and equipment, intangible assets and other assets and related costs not expected to be recovered in the Recovery Plan. – $78 million impairment of property, plant and equipment and right of use assets relating to aircraft in the Jetstar Asia cash generating unit. – ($9) million partial reversal of impairment of the Group's investment in Helloworld. Refer to Note 7 for details on impairment of assets and related costs.
Net gain on disposal of assets	$15 million relates to the sale of Qantas' share of its interest in the Joint User Hydrant Installation.
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 $3 million has been recognised immediately in the Consolidated Income Statement. Refer to Note 14 for further details.

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

Review of Operations continued

For the half-year ended 31 December 2020

MATERIAL BUSINESS RISKS

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

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

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

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. 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.

Operational ramp up: Following the grounding and storage of a significant proportion of the Group's fleet in the early stages of the pandemic, the Group commenced planning for the staggered ramp up of operations in line with demand as domestic border restrictions eased. An Operational Restart Framework was established to provide Group-wide governance over operational restart processes and ensure safety and compliance risks were appropriately identified and managed. Retraining and refamiliarisation programs have been designed and implemented to prepare our workforce to resume operations following an extended period of stand down. The Civil Aviation Safety Authority (CASA) has been continuously updated on activities undertaken by the Group to ensure the safe and compliant resumption of operations. This Framework will be adapted and implemented for the resumption of international services in line with the Government's decisions on national border restrictions.

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

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

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 Three-Year 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 COVID-19 crisis has necessitated the unprecedented stand down of the majority of the Group's workforce. The Group recognised that this situation required increased efforts to ensure that our people remained connected to the organisation, and their health and wellbeing supported. Secondary employment and career transition services were rapidly developed and deployed to support our employees in securing paid work wherever possible. 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 also 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 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 and the decline in customer confidence in travelling due to domestic border restrictions may impact the Qantas Group's reputation and its ability to attract customers in the future.

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

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

Review of Operations continued

For the half-year ended 31 December 2020

MATERIAL BUSINESS RISKS (CONTINUED)

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 material 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 the 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. FY21 fuel cost is expected to be materially lower than FY20 with 2H21 fuel fully hedged in collars and outright options. The Group has outright options in place to cover fuel price risk arising from additional flying under an accelerated recovery scenario. Fuel and FX hedging are actively managed to reflect changes in capacity due to border closures.

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

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

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 operation 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 any 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, too, could have a material adverse effect on the Qantas Group's operations and Recovery Plan.

Climate change: The Qantas Group is subject to short-term and long-term climate-related physical and transition risks. These risks are an inherent part of the operations of an airline and are managed by undertaking scenario analysis, strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate policies) impact the proximity of climate-related risks. The Qantas Group has also set ambitious but achievable targets to reduce our emissions by capping emissions at 2020 levels[30] 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.

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

30 Aligned to the requirements of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The Directors have received the Lead Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*.

The Lead Auditor's Independence Declaration is set out on page 44 and forms part of the Directors' Report for the half-year ended 31 December 2020.

ROUNDING

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

ASIC GUIDANCE

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

In line with previous years and in accordance with the *Corporations Act 2001*, the Directors' Report is unaudited. Notwithstanding this, the Directors' Report (including the Review of Operations) contains disclosures which are extracted or derived from the Consolidated Interim Financial Report for the half-year ended 31 December 2020 which has been reviewed by the Group's Independent Auditor.

Signed pursuant to a Resolution of the Directors:

RICHARD GOYDER, AO
Chairman

ALAN JOYCE, AC
Chief Executive Officer

Sydney
25 February 2021

Consolidated Income Statement

For the half-year ended 31 December 2020

	Notes	December 2020 $M	December 2019 $M
REVENUE AND OTHER INCOME			
Net passenger revenue		1,298	8,305
Net freight revenue		613	496
Other revenue and income	4(B)	419	663
Revenue and other income		**2,330**	**9,464**
EXPENDITURE			
Manpower and staff-related		865	2,212
Aircraft operating variable		569	2,262
Fuel		309	1,975
Depreciation and amortisation	5	978	1,025
Share of net loss/(profit) of investments accounted for under the equity method		67	(10)
Impairment of assets and related costs	7	167	-
De-designation and ineffectiveness of fuel and foreign exchange hedges	14	(3)	-
Redundancies and related costs		268	38
Other	6	431	1,185
Expenditure		**3,651**	**8,687**
Statutory (loss)/profit before income tax expense and net finance costs		**(1,321)**	**777**
Finance income		12	20
Finance costs		(158)	(149)
Net finance costs		**(146)**	**(129)**
Statutory (loss)/profit before income tax expense		**(1,467)**	**648**
Income tax benefit/(expense)	8(A)	386	(203)
Statutory (loss)/profit for the period		**(1,081)**	**445**
Attributable to:			
Members of Qantas		(1,081)	445
Non-controlling interests		-	-
Statutory (loss)/profit for the period		**(1,081)**	**445**
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic earnings per share (cents)	3	**(57.5)**	**28.8**
Diluted earnings per share (cents)	3	**(57.5)**	**28.8**

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

Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2020

	December 2020 $M	December 2019 $M
Statutory (loss)/profit for the period	**(1,081)**	**445**
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	96	41
Transfer of effective hedging losses/(gains) from hedge reserve to the Consolidated Income Statement, net of tax[1]	48	(69)
De-designation of fuel and foreign exchange hedges to the Consolidated Income Statement, net of tax	15	-
Recognition of effective cash flow hedges on capitalised assets, net of tax	4	(26)
Net changes in hedge reserve for time value of options, net of tax	(1)	(9)
Foreign currency translation of controlled entities	1	2
Foreign currency translation of investments accounted for under the equity method	-	4
Share of other comprehensive income of investments accounted for under the equity method	7	3
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial gains/(losses), net of tax	38	(45)
Fair value gains on investments, net of tax	18	-
Other comprehensive income/(loss) for the period	**226**	**(99)**
Total comprehensive (loss)/income for the period	**(855)**	**346**

Attributable to:		
Members of Qantas	(855)	346
Non-controlling interests	-	-
Total comprehensive (loss)/income for the period	**(855)**	**346**

1 These amounts were allocated to revenue of $nil (2019: $1 million), fuel expenditure of $64 million (2019: ($99) million), foreign exchange losses of $4 million (2019: $nil) and income tax expense of ($20) million (2019: $29 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 31 December 2020

	Notes	December 2020 $M	June 2020 $M
CURRENT ASSETS			
Cash and cash equivalents	12(A)	2,606	3,520
Receivables		650	520
Lease receivables		4	2
Other financial assets		57	216
Inventories		296	306
Assets classified as held for sale		41	58
Income tax receivable		-	137
Other		175	193
Total current assets		**3,829**	**4,952**
NON-CURRENT ASSETS			
Receivables		85	101
Lease receivables		31	23
Other financial assets		148	139
Investments accounted for under the equity method		65	59
Property, plant and equipment		11,340	11,726
Right of use assets		1,204	1,440
Intangible assets		961	1,050
Deferred tax assets		468	167
Other		427	369
Total non-current assets		**14,729**	**15,074**
Total assets		**18,558**	**20,026**
CURRENT LIABILITIES			
Payables		1,800	2,351
Revenue received in advance	11	2,538	2,784
Interest-bearing liabilities	12(B)	922	868
Lease liabilities		424	524
Other financial liabilities		60	238
Provisions	13	1,583	1,539
Total current liabilities		**7,327**	**8,304**
NON-CURRENT LIABILITIES			
Payables		90	99
Revenue received in advance	11	2,369	2,256
Interest-bearing liabilities	12(B)	6,343	5,825
Lease liabilities		1,104	1,318
Other financial liabilities		16	47
Provisions	13	550	651
Total non-current liabilities		**10,472**	**10,196**
Total liabilities		**17,799**	**18,500**
Net assets		**759**	**1,526**
EQUITY			
Issued capital	10	3,186	3,104
Treasury shares		(18)	(51)
Reserves		28	(173)
Accumulated Losses		(2,440)	(1,357)
Equity attributable to members of Qantas		**756**	**1,523**
Non-controlling interests		3	3
Total equity		**759**	**1,526**

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2020

December 2020 $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 PERIOD									
Statutory loss for the period	-	-	-	-	-	-	(1,081)	-	(1,081)
Other comprehensive (loss)/income									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	96	-	-	-	-	96
Transfer of effective hedging losses from hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	48	-	-	-	-	48
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	-	-	-	(1)	-	-	-	-	(1)
Defined benefit actuarial gains, net of tax	-	-	-	-	-	38	-	-	38
Foreign currency translation of controlled entities	-	-	-	-	1	-	-	-	1
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	-	-	-	-	-
Fair value gains on investments, net of tax	-	-	-	-	-	18	-	-	18
Share of other comprehensive income of investments accounted for under the equity method	-	-	-	7	-	-	-	-	7
Total other comprehensive income for the period	**-**	**-**	**-**	**169**	**1**	**56**	**-**	**-**	**226**
Total comprehensive (loss)/income for the period	**-**	**-**	**-**	**169**	**1**	**56**	**(1,081)**	**-**	**(855)**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Capital raising, net of tax	82	-	-	-	-	-	(6)	-	76
Share-based payments	-	-	14	-	-	-	-	-	14
Shares vested and transferred to employees/shares unvested and lapsed	-	33	(39)	-	-	-	4	-	(2)
Total contributions by and distributions to owners	**82**	**33**	**(25)**	**-**	**-**	**-**	**(2)**	**-**	**88**
Total transactions with owners	**82**	**33**	**(25)**	**-**	**-**	**-**	**(2)**	**-**	**88**
Balance as at 31 December 2020	**3,186**	**(18)**	**29**	**22**	**5**	**(28)**	**(2,440)**	**3**	**759**

1 Other Reserves as at 31 December 2020 includes the Defined Benefit Reserve of ($35) million and the Fair Value Reserve of $7 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 half-year ended 31 December 2020

December 2019 $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 PERIOD									
Statutory profit for the period	-	-	-	-	-	-	445	-	445
Other comprehensive (loss)/income									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	41	-	-	-	-	41
Transfer of hedging gains from hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(69)	-	-	-	-	(69)
Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	(26)	-	-	-	-	(26)
Net changes in hedge reserve for time value of options, net of tax	-	-	-	(9)	-	-	-	-	(9)
Defined benefit actuarial losses, net of tax	-	-	-	-	-	(45)	-	-	(45)
Foreign currency translation of controlled entities	-	-	-	-	2	-	-	-	2
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	4	-	-	-	4
Share of other comprehensive income/(loss) of investments accounted for under the equity method	-	-	-	4	-	(1)	-	-	3
Total other comprehensive (loss)/income for the period	**-**	**-**	**-**	**(59)**	**6**	**(46)**	**-**	**-**	**(99)**
Total comprehensive (loss)/income for the period	**-**	**-**	**-**	**(59)**	**6**	**(46)**	**445**	**-**	**346**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(95)	-	-	-	-	-	(348)	-	(443)
Dividends paid	-	-	-	-	-	-	(204)	-	(204)
Treasury shares acquired	-	(5)	-	-	-	-	-	-	(5)
Share-based payments	-	-	19	-	-	-	-	-	19
Shares vested and transferred to employees	-	105	(74)	-	-	-	(22)	-	9
Total contributions by and distributions to owners	**(95)**	**100**	**(55)**	**-**	**-**	**-**	**(574)**	**-**	**(624)**
Total transactions with owners	**(95)**	**100**	**(55)**	**-**	**-**	**-**	**(574)**	**-**	**(624)**
Balance as at 31 December 2019	**1,776**	**(52)**	**46**	**(23)**	**8**	**(74)**	**1,052**	**3**	**2,736**

1 Other Reserves as at 31 December 2019 includes the Defined Benefit Reserve of ($79) million and the Fair Value Reserve of $5 million.

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

Consolidated Cash Flow Statement

For the half-year ended 31 December 2020

	December 2020 $M	December 2019 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	2,747	9,874
Cash payments to suppliers, refunds to customers from receipts in prior periods and payments to employees (excluding cash payments to employees for redundancies and related costs and discretionary bonus payments to non-executive employees)	(3,163)	(7,983)
Cash payments to employees for redundancies and related costs	(470)	(22)
Discretionary bonus payments to non-executive employees	-	(2)
Interest received	10	18
Interest paid (interest-bearing liabilities)	(92)	(75)
Interest paid (lease liabilities)	(34)	(50)
Dividends received from investments accounted for under the equity method	-	13
Australian income taxes refund received/(paid)	141	(296)
Foreign income taxes paid	-	(2)
Net cash (used in)/from operating activities	**(861)**	**1,475**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment and intangible assets	(547)	(1,246)
Interest paid and capitalised on qualifying assets	(14)	(26)
Proceeds from disposal of property, plant and equipment	47	12
Payments for investments accounted for under the equity method	-	(2)
Net cash used in investing activities	**(514)**	**(1,262)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for share buy-back	-	(443)
Proceeds from capital raising, net of costs	58	-
Payments for treasury shares	-	(5)
Proceeds from interest-bearing liabilities	831	422
Repayments of interest-bearing liabilities	(202)	(189)
Repayments of lease liabilities	(219)	(205)
Dividends paid to shareholders	-	(204)
Net cash from/(used in) financing activities	**468**	**(624)**
Net decrease in cash and cash equivalents held	**(907)**	**(411)**
Cash and cash equivalents at the beginning of the period	3,520	2,157
Effects of exchange rate changes on cash and cash equivalents	(7)	(1)
Cash and cash equivalents at the end of the period	**2,606**	**1,745**

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

Condensed Notes to the Consolidated Interim Financial Report

For the half-year ended 31 December 2020

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(A) REPORTING ENTITY

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

The Consolidated Interim Financial Report of Qantas for the half-year ended 31 December 2020 comprises Qantas Group and its controlled entities (together referred to as the Qantas Group) and the Qantas Group's interest in investments accounted for using the equity method. The Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2020 is available at www.qantas.com.au or upon request from the registered office of Qantas Group at 10 Bourke Road, Mascot NSW 2020, Australia.

This Consolidated Interim Financial Report for the half-year ended 31 December 2020 was authorised for issue in accordance with a resolution of the Directors on 25 February 2021.

(B) STATEMENT OF COMPLIANCE

The Consolidated Interim Financial Report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards (AASB) adopted by the Australian Accounting Standards Board (AASB). The Financial Report of the Qantas Group also complies with International Accounting Standard IAS 34 *Interim Financial Reporting*.

The Consolidated Interim Financial Report does not include all of the information required for an Annual Financial Report and should be read in conjunction with the Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2020. This report should also be read in conjunction with any public announcements made by Qantas Group in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and ASX Listing Rules.

The Consolidated Interim Financial Report is presented in Australian dollars, which is the functional currency of 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 Report has been prepared on a going concern basis, which assumes the Group will be able to meet its obligations as and when they fall due.

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

(C) COMPARATIVES

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

(D) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In preparing this Report, judgements made by Management in the application of 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 Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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 half-year ended 31 December 2020. 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 has 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 Australian Airline Aviation Financial Relief package was introduced to provide refunds or waivers of a range of Government charges on the aviation industry. The JobKeeper Payment was introduced to help keep Australians in jobs and support affected businesses.

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

In addition to ongoing operational responses, since 30 June 2020 the Group has boosted liquidity by raising $839 million of additional debt and $600 million in committed undrawn facilities, with no financial covenants, and a further $72 million from 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; and
- Recapitalise through the equity raising completed in August 2020 to strengthen the Group's financial resilience to recovery and the opportunities it presents.

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 Recovery Plan is designed to address 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 first half of financial year 2020/21:
- Restructuring program activities are near completion and the Group is targeting at least $1 billion in annual cost improvements from the 2022/2023 financial year onwards;
- New Restructuring activities included a review of Qantas' ground handling operations, with a decision made to outsource the remainder of this function. Combined with changes at Jetstar, this will regrettably result in a further 2,500 people leaving the Group, taking the total number of job losses across the Group due to COVID-19 to 8,500;
- Maintained cash and cost discipline while retaining flexibility to respond to border closures;
- Boosted liquidity, increased undrawn committed facilities to $1.6 billion, maintaining investment grade credit rating;
- Substantial working capital outflows completed;
- Restart of domestic operations to meet sharp increase in intakes as borders opened;
- Expanded Loyalty program on-the-ground redemption options; and
- Conducted international repatriation flights and maintained vital freight routes.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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; and
- 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 a prudent liquidity policy that ensures adequate coverage of liquidity requirements while considering a range of adverse scenarios.

The Group raised $839 million of additional debt, including $400 million to refinance a bond maturing in June 2021, $70 million of which was repaid by 31 December 2020. The remaining debt raised will be used to strengthen short term liquidity. There are no further material debt maturing until May 2022 and no financial covenants on the Group's debt.

During the period, 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 undrawn committed facilities from $1 billion to $1.6 billion boosting available liquidity.

As at 31 December 2020, the Group's available liquidity was $4.2 billion, including $2.6 billion of cash and cash equivalents and $1.6 billion undrawn facility.

As at 31 December 2020, Net Debt (as measured by the Group's Financial Framework) was $6.05 billion with no financial covenants on its debt.

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

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

1 Net Debt includes on balance sheet debt and capitalised aircraft lease liabilities under the Group's Financial Framework. Capitalised aircraft lease liabilities are measured at 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 Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

iii. Impact on Accounting Judgements and Estimates

COVID-19, together with the Group's actions and responses and the strategy within the Recovery Plan have influenced certain accounting judgements and estimates impacting the Consolidated Financial Statements for the half-year ended 31 December 2020.

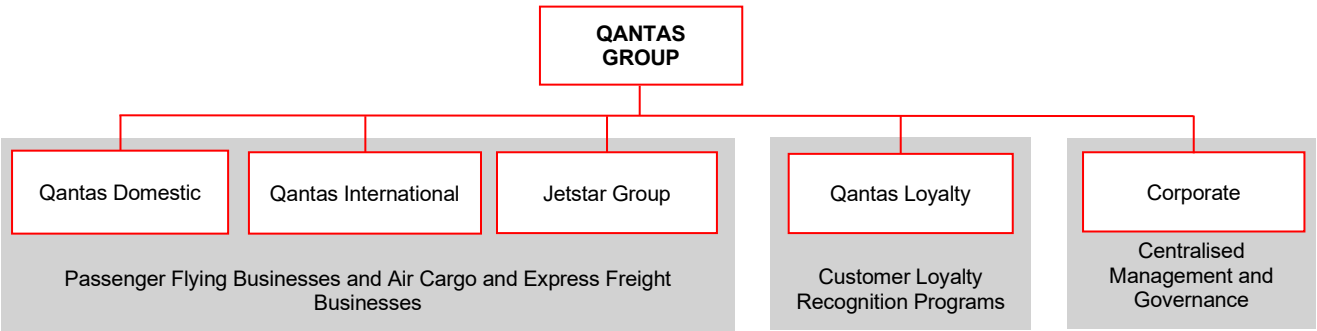
The Recovery Plan assumptions have impacted key judgements and estimates within the following areas of the Financial Report:

Area of Financial Report	Impact on Judgements and Estimates
Impairment Testing	The Recovery Plan, together with updated forecasts, informed cash flows used in the determination of the recoverability 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, together with updated forecasts, informs judgements around the Group's fleet strategy. This includes the strategy around aircraft utilisation (including for the A380 fleet which will be grounded for the foreseeable future), early retirement of the 747 fleet, deferral of A321neo and 787-9 fleet deliveries and assumptions around aircraft lease returns during the period covered by the Recovery Plan.
Provision for redundancies	Decisions and actions to implement the Recovery Plan have informed the recognition of redundancy provisions as at 31 December 2020.
Hedge designation and hedge accounting	The Recovery Plan, together with updated forecasts, 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, together with updated forecasts, informed assumptions around the presentation of balance sheet items, particularly in relation to presentation as current or non-current for Qantas Points, revenue received in advance and refund liabilities.
Revenue Recognition (Impact of breakage Assumptions)	The significant impact of COVID-19 together with strategies within the Recovery Plan, together with updated forecasts, informed assumptions around customer and member behaviour and customer engagement strategies which impacted assumptions around breakage.
Income Tax	The Recovery Plan, together with updated forecasts informed judgement 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 Qantas Domestic, Qantas International, Jetstar Group, and Qantas Loyalty operating segments. The primary reporting measure of the Corporate segment is Underlying PBT, as net finance costs are managed centrally and are not allocated to the Qantas Domestic, Qantas International, Jetstar Group or Qantas Loyalty operating segments. Underlying EBIT is calculated using a consistent methodology as Underlying PBT as outlined below (refer to section B) but excluding the impact of net finance costs.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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

(A) OPERATING SEGMENTS (CONTINUED)

ii. Analysis by Operating Segment

December 2020 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Unallocated/ Corporate	Eliminations[1]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	919	717	371	431	4	(112)	2,330
Inter-segment revenue and other income	84	5	13	7	-	(109)	-
Total segment revenue and other income	**1,003**	**722**	**384**	**438**	**4**	**(221)**	**2,330**
Share of net loss of investments accounted for under the equity method	-	-	(67)	-	-	-	(67)
Underlying EBITDA[2]	**28**	**55**	**(98)**	**152**	**(44)**	**(7)**	**86**
Depreciation and amortisation[3]	(365)	(346)	(230)	(27)	(6)	-	(974)
Underlying EBIT	**(337)**	**(291)**	**(328)**	**125**	**(50)**	**(7)**	**(888)**
Net finance costs					(146)		(146)
Underlying PBT					**(196)**		**(1,034)**
Twelve Month ROIC %[4]							**(18.1%)**

December 2019 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Unallocated/ Corporate	Eliminations[1]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	3,015	3,689	2,045	787	3	(75)	9,464
Inter-segment revenue and other income	203	154	75	85	-	(517)	-
Total segment revenue and other income	**3,218**	**3,843**	**2,120**	**872**	**3**	**(592)**	**9,464**
Share of net profit of investments accounted for under the equity method	4	5	1	-	-	-	10
Underlying EBITDA[2]	**821**	**518**	**443**	**219**	**(79)**	**(16)**	**1,906**
Depreciation and amortisation[3]	(356)	(396)	(223)	(23)	(8)	-	(1,006)
Underlying EBIT	**465**	**122**	**220**	**196**	**(87)**	**(16)**	**900**
Net finance costs					(129)		(129)
Underlying PBT					**(216)**		**771**
Twelve Month ROIC %[4]							**19.6%**

December 2018 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Unallocated/ Corporate	Eliminations[1]	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	3,036	3,526	1,974	726	2	(58)	9,206
Inter-segment revenue and other income	194	167	74	83	-	(518)	-
Total segment revenue and other income	**3,230**	**3,693**	**2,048**	**809**	**2**	**(576)**	**9,206**
Share of net profit of investments accounted for under the equity method	4	4	(5)	-	-	-	3
Underlying EBITDA[2]	**857**	**477**	**471**	**195**	**(83)**	**(18)**	**1,899**
Depreciation and amortisation[3]	(379)	(358)	(218)	(20)	(8)	-	(983)
Underlying EBIT	**478**	**119**	**253**	**175**	**(91)**	**(18)**	**916**
Net finance costs					(141)		(141)
Underlying PBT					**(232)**		**775**
Twelve Month ROIC %							**19.5%**

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 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 and net finance costs.

3 Depreciation and amortisation differs from the depreciation and amortisation recognised in the Consolidated Income Statement due to items not included in Underlying PBT. Refer to Note 2(B).

4 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital. Refer to Note 2(C).

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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

(A) OPERATING SEGMENTS (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 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 half-year ended 31 December 2020 as recognised within Underlying PBT is down $7.1 billion compared to the half-year ended 31 December 2019 which is consistent with the impact on Statutory Loss primarily due to the impact of COVID-19.

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

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

Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, 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 (including the A380 fleet), 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	December 2020 $M	December 2019 $M	December 2018 $M
Underlying PBT	**(1,034)**	**771**	**775**
Items not included in Underlying PBT			
– Transformation costs and discretionary bonus for non-executive employees[1]	-	(123)	(125)
– Recovery Plan restructuring costs[2]	(284)	-	-
– (Impairment)/reversal of impairment of assets and related costs	(167)	-	43
– De-designation of fuel and foreign exchange hedges	3	-	-
– Net gain on disposal of assets	15	-	45
– Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair value hedging agenda decision	-	-	(47)
Total items not included in Underlying PBT	**(433)**	**(123)**	**(84)**
Statutory (Loss)/Profit Before Income Tax Expense	**(1,467)**	**648**	**691**

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

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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

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

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

Item outside of Underlying PBT	Description
Recovery Plan restructuring costs	$284 million included people restructuring costs of $268 million and other restructuring costs of $16 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 $4 million of non-cash accelerated depreciation.
Impairment of assets and related costs	Impairments of assets and related costs of $167 million includes: – $71 million impairment of the Group's A380 fleet resulting 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. With the impact of COVID-19 and the closure of international borders, the Group's A380 fleet is expected to be grounded for the foreseeable future. – $4 million impairment relating to the early retirement of the Group's 747 fleet driven by movement in foreign exchange rates since 30 June 2020. – $23 million impairment of property, plant and equipment, intangible assets and other assets and related costs not expected to be recovered in the Recovery Plan. – $78 million impairment of property, plant and equipment and right of use assets relating to aircraft in the Jetstar Asia cash generating unit. – ($9) million partial reversal of impairment of the Group's investment in Helloworld. Refer to Note 7 for details on impairment of assets and related costs.
Net gain on disposal of assets	$15 million relates to the sale of Qantas' share of its interest in the Joint User Hydrant Installation.
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 $3 million has been recognised immediately in the Consolidated Income Statement. Refer to Note 14 for further details.

The first half of 2019/20 financial year included the following items:

Item outside of Underlying PBT	Description
Transformation costs and discretionary bonuses for non-executive employees	Transformation costs and discretionary bonuses for non-executive employees of $123 million included redundancy and related costs of $37 million, fleet restructuring costs of $48 million (primarily related to costs of the introduction of the 789 Dreamliners and the retirement of the 747 fleet), other upfront costs of $32 million directly incurred to enable the delivery of transformation benefits and discretionary bonuses to non-executive employees of $6 million (which are paid to non-executive employees after the employee's post wage freeze collective agreement is voted upon and approved). Included in fleet restructuring costs are $21 million of non-cash accelerated depreciation and inventory write-downs.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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

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

The first half of 2018/19 included the following items (restated where relevant for the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision):

Item outside of Underlying PBT	Description
Transformation costs and discretionary bonuses for non-executive employees	Transformation costs and discretionary bonuses for non-executive employees totalling $125 million included redundancy and related costs of $9 million, fleet restructuring costs of $72 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet), other upfront costs of $23 million directly incurred to enable the delivery of transformation benefits, discretionary bonuses to non-executive employees of $19 million (which are paid to non-executive employees after the employees post-wage freeze collective agreement is voted upon and approved) and other items of $2 million.
Net gain on disposal/reversal of impairment of associate	Net gain on disposal/reversal of impairment of associate of $43 million which relates to the Group's investment in Helloworld Travel Limited. The Group sold 2 million shares for $5.50 per share in September 2018 and reversed previously recognised impairment. 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 a controlled entity of $45 million which related to the sale of Qantas Catering completed in 2018/19.
Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision	Following the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision, the Group put in place accounting hedge designations to manage the foreign exchange movements of foreign currency by designating foreign currency interest-bearing liabilities and lease liabilities as the hedging instrument in a cash flow hedge relationship. In accordance with AASB 9, these designations apply prospectively from 1 July 2019. For comparative periods before the designation (which have been restated for the adoption of AASB 16 and the IFRIC Fair Value hedging agenda decision) the foreign exchange movements were recognised immediately in the Consolidated Income Statement. As the difference between reporting periods arose due to the timing of accounting hedge designations, the impact on the Consolidated Income Statement in the comparative period has been recognised outside of Underlying PBT to ensure comparability.

(C) RETURN ON INVESTED CAPITAL

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

Twelve month ROIC % is the ROIC EBIT for the twelve months ended 31 December divided by the Average Invested Capital for the period 1 January to 31 December.

i. ROIC EBIT

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

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

	Twelve months to 31 December 2020 $M	Twelve months to 31 December 2019 $M
Underlying EBIT		
– For the six months ended 30 June	(505)	692
– For the six months ended 31 December	(888)	900
Total Underlying EBIT for the period	**(1,393)**	**1,592**
Addback: Lease depreciation under AASB 16	400	370
Less: Notional depreciation[1] for the twelve months ended 31 December	(107)	(109)
Less: Cash expenses for non-aircraft leases	(202)	(206)
ROIC EBIT for the twelve months ended 31 December	**(1,302)**	**1,647**
Average Invested Capital for the twelve months ended 31 December	**7,186**	**8,387**
ROIC %[2]	**(18.1%)**	**19.6%**

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

2 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital. Refer to Note 2(C).

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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

(C) RETURN ON INVESTED CAPITAL (CONTINUED)

ii. Average Invested Capital

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

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

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

	December 2020 $M	December 2019 $M
INVESTED CAPITAL		
Receivables (current and non-current)	735	1,084
Inventories	296	379
Other assets (current and non-current)	602	607
Investments accounted for under the equity method	65	222
Property, plant and equipment	11,340	13,097
Intangible assets	961	1,263
Assets classified as held for sale	41	16
Payables (current and non-current)	(1,890)	(2,358)
Provisions (current and non-current)	(2,133)	(1,449)
Revenue received in advance (current and non-current)	(4,907)	(5,763)
Capitalised aircraft leased assets[1]	1,248	1,369
Invested Capital as at 31 December	**6,358**	**8,467**
Average Invested Capital for the twelve months 31 December	**7,186**	**8,387**

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

iii. ROIC %

	December 2020 %	December 2019 %
Twelve month ROIC %[1]	**(18.1)**	**19.6**

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

iv. ROIC (Statutory EBIT) %

	December 2020 %	December 2019 %
Twelve month ROIC (Statutory EBIT) %[1]	**(61.8)**	**17.6**

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

v. Underlying Earnings per Share

	December 2020 %	December 2019 %
Underlying earnings per share[1]	**(40.5)**	**34.3**

1 Underlying earnings per share is calculated as Underlying PBT less tax expense based on the Group's effective tax rate of (26.3) per cent (2019: 31.3 per cent) divided by the weighted average number of shares during the period, excluding unallocated treasury shares.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

3 EARNINGS PER SHARE

	December 2020 cents	December 2019 cents
Basic earnings per share[1]	**(57.5)**	**28.8**
Diluted earnings per share[2]	**(57.5)**	**28.8**

1 Weighted average number of shares used in basic earnings per share calculation of 1,880 million (2019: 1,543 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 half year ended 31 December 2020. Weighted average number of shares used in diluted earnings per share calculation of 1,880 million (2019: 1,547 million) excludes unallocated treasury shares and prior period also includes the effect of share rights expected to vest (using treasury stock method).

	$M	$M
Statutory (loss)/profit attributable to members of Qantas	**(1,081)**	**445**

	December 2020 Number M	December 2019 Number M
NUMBER OF SHARES		
Issued shares as at 1 July	1,863[1]	1,571
Shares bought back and cancelled	-	(80)
Capital raising	23	-
Issued shares as at 31 December	**1,886**	**1,491**
Weighted average number of shares as at 31 December	**1,881**	**1,545**

1 Issued shares includes capital raising completed in June 2020 and shares issued on 1 July 2020.

4 REVENUE AND OTHER INCOME

(A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREA

	December 2020 $M	December 2019 $M
Net passenger and freight revenue		
Australia	1,528	6,302
Overseas	383	2,499
Total net passenger and freight revenue	**1,911**	**8,801**
Other revenue and income	419	663
Total revenue and other income	**2,330**	**9,464**

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.

(B) OTHER REVENUE AND INCOME

	December 2020 $M	December 2019 $M
Frequent Flyer marketing revenue and other Qantas Loyalty businesses	214	272
Qantas Store and other redemption revenue[1,2]	40	57
Third Party Services Revenue	62	175
Other income	103	159
Total other revenue and income	**419**	**663**

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.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

5 DEPRECIATION AND AMORTISATION

	December 2020 $M	December 2019 $M
Property, plant and equipment	687	731
Right of use assets	196	199
Intangible assets	95	95
Total depreciation and amortisation	**978**	**1,025**

6 OTHER EXPENDITURE

	December 2020 $M	December 2019 $M
Commissions and other selling costs	57	367
Computer and communication	140	270
Capacity hire (excluding lease components)	84	146
Property occupancy and utility expenses	53	88
Marketing and advertising	23	105
Discretionary bonus to non-executive employees	-	6
Discount rate changes impact on provisions	20	18
Net gain on disposal of assets	(18)	(2)
Other	72	187
Total other expenditure	**431**	**1,185**

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

(A) IMPAIRMENT TESTING OF CASH GENERATING UNITS

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.

The identified CGUs by Operating Segment for the half-year ended 31 December 2020 are consistent with the 2019/20 financial year and 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 Asia CGU
	Jetstar Japan CGU
	Jetstar Australia/New Zealand CGU
Qantas Loyalty	Qantas Loyalty CGU

ii. Impairment Assessment

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

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

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

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

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

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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

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

Impairment Assessment of Individual Assets

Aircraft

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

At 30 June 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 30 June 2020 AUD/USD exchange rates. The Group made necessary adjustments to these valuations for the level of maintenance life remaining on the aircraft. The recoverable amount of the A380 fleet was below their carrying value resulting in the recognition of $1,018 million impairment.

For the half-year ended 31 December 2020, there were indicators of impairment 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 their carrying value and has been impaired to the adjusted recoverable amount.

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

Other Property, Plant & 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 & 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 Group has assessed each CGU to determine whether there is any indication that the CGU may be impaired. This assessment involved a review of the assumptions supporting the impairment test undertaken as at 30 June 2020, together with updated forecasts. The significant assumptions applied in that impairment test are disclosed in the Annual Report for the year ended 30 June 2020.

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 2020.

The impairment assessment at 31 December 2020 did not identify any indicators of impairment of these CGUs.

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 & 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. This represents an indicator of further impairment of the Jetstar Asia CGU as at 31 December 2020. There continues to be significant uncertainty of the impact of COVID-19 on the future performance 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 impairment.

As the Goodwill and indefinite lived intangible assets of the CGU have been fully impaired at 30 June 2020, the impairment was allocated to property, plant & 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 AUD/USD exchange rates. Necessary adjustments to these valuations were made for the level of maintenance life remaining on the aircraft.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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

(B) RESULTS OF THE GROUP'S IMPAIRMENT TEST

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

The Group recognised an impairment of $96 million (2019: $nil) in respect of identified specific assets which do not contribute to the cash flows of the Group's CGUs under the Group's Recovery Plan primarily relating to the A380 fleet. The remaining carrying value of these assets is not included in the assets and liabilities of the CGU impairment tests. As a result of the additional impairment recognised in respect of the A380s the remaining carrying value of the aircraft and engines (including related engineering spares and inventory) is $495 million at 31 December 2020 (30 June 2020: $611 million).

ii. CGU Impairments

The Group recognised an impairment of $78 million (2019: $nil) in respect of the property, plant and equipment and right of use assets in the 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 half-year ended 31 December 2020 (2019: $nil).

iii. Summary of Impairments and Liabilities recognised

	December 2020 $M	December 2019 $M
Impairment of individual assets and recognition of liabilities which do not contribute to the Group's Recovery Plan		
Impairment of A380s and onerous contractual commitments relating to A380s	71	-
Impairment of 747s held for sale	4	-
Impairment of intangible assets under construction and onerous contractual commitments	21	-
Total specific asset impairment and recognition of liabilities which do not contribute to the Group's Recovery Plan	**96**	**-**
CGU Impairment		
Impairment of Jetstar Asia CGU property, plant and equipment and right of use assets	78	-
Total CGU Impairment	**78**	**-**
Other Impairment/(reversal) of impairment		
Reversal of impairment of investment in Helloworld accounted for under the equity method	(9)	-
Other assets	2	-
Total other impairment/(reversal of impairment)	**(7)**	**-**
Total impairment of assets and related costs	**167**	**-**

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

8 INCOME TAX BENEFIT/(EXPENSE)

(A) RECONCILIATION BETWEEN INCOME TAX BENEFIT/(EXPENSE) AND STATUTORY (LOSS)/PROFIT BEFORE INCOME TAX

	December 2020 $M	December 2019 $M
Statutory (loss)/profit before income tax benefit/(expense)	**(1,467)**	**648**
Income tax benefit/(expense) using the domestic corporate tax rate of 30 per cent	440	(194)
Adjusted for:		
Differences in loss from investments accounted for under the equity method	(19)	-
Losses for foreign branches not recognised	(4)	-
Losses for controlled entities not recognised	(18)	(8)
Write-down of investments and non-deductible CGU impairments	(12)	-
Other net non-deductible items	(3)	-
Over/(under) provision from prior periods	2	(1)
Income tax benefit/(expense)	**386**	**(203)**

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

	December 2020 $M	December 2019 $M
Income tax on:		
Cash flow hedges	(69)	27
Defined benefit actuarial (gains)/losses	(16)	19
Fair value gains on investments	(8)	-
Income tax (expense)/benefit recognised directly in the Consolidated Statement of Comprehensive Income	**(93)**	**46**

(C) RECONCILIATION OF INCOME TAX BENEFIT/(EXPENSE) TO INCOME TAX PAYABLE

	December 2020 $M	December 2019 $M
Income tax benefit/(expense)	**386**	**(203)**
Temporary differences	**(26)**	**13**
Adjustments for prior periods	(2)	1
Taxable loss/(income) at the domestic corporate tax rate of 30 per cent	**358**	**(189)**
Tax losses recognised (Australian)[1]	(358)	-
Tax instalments paid	-	185
Income tax payable	**-**	**(4)**

1 A deferred tax asset of $358 million has been recognised for income tax losses and is expected to be recovered in future periods.

(D) QANTAS GROUP CARRIED FORWARD TAX LOSSES

	December 2020 $M	December 2019 $M
Tax losses available to be utilised in current period	(86)	-
Total tax losses brought forward	**(86)**	**-**
Tax losses utilised against current taxable income	-	-
Tax losses recognised[1]	(358)	-
Tax losses carried forward to be utilised in future periods	**(444)**	**-**

1 A deferred tax asset of $358 million has been recognised for income tax losses and is expected to be recovered in future periods.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

9 DIVIDENDS

No interim dividend will be paid in relation to the half-year ended 31 December 2020.

10 CAPITAL

	December 2020 $M	June 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 period: 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 half year ended 31 December 2020 resulting in an increase in Issue 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

	December 2020 $M			June 2020 $M		
	Current	Non-current	Total	Current	Non-current	Total
Unavailed passenger revenue	1,766	-	1,766	2,031	-	2,031
Unredeemed Frequent Flyer revenue	651	2,320	2,971	617	2,200	2,817
Other revenue received in advance	121	49	170	136	56	192
Total revenue received in advance	**2,538**	**2,369**	**4,907**	**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 31 December 2020 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. Travel credits are available to be used for future flights and in certain circumstances are eligible for refund. Where customers have made refund claims by 31 December 2020 these are no longer classified as unavailed passenger revenue and are reported as payables in the Consolidated Balance Sheet.

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.

12 CASH AND CASH EQUIVALENTS AND INTEREST-BEARING LIABILITIES

(A) CASH AND CASH EQUIVALENTS

	December 2020 $M	June 2020 $M
Cash balances	160	249
Cash at call	411	733
Short-term money market securities and term deposits	2,035	2,538
Total cash and cash equivalents	**2,606**	**3,520**

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

12 CASH AND CASH EQUIVALENTS AND INTEREST-BEARING LIABILITIES (CONTINUED)

(B) INTEREST-BEARING LIABILITIES

	December 2020 $M			June 2020 $M		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans – secured	433	1,802	2,235	362	1,742	2,104
Bank loans – unsecured	-	321	321	-	320	320
Other loans – secured	163	2,451	2,614	110	2,615	2,725
Other loans – unsecured	326	1,769	2,095	396	1,148	1,544
Total interest-bearing liabilities	**922**	**6,343**	**7,265**	**868**	**5,825**	**6,693**

13 PROVISIONS

	December 2020 $M			June 2020 $M		
	Current	Non-current	Total	Current	Non-current	Total
Annual leave	391	-	391	351	-	351
Long service leave	416	56	472	469	61	530
Redundancies and other employee benefits	496	-	496	569	-	569
Total employee benefits	**1,303**	**56**	**1,359**	**1,389**	**61**	**1,450**
Onerous contracts	36	-	36	65	4	69
Make good on leased assets	122	372	494	23	469	492
Insurance, legal and other	122	122	244	62	117	179
Total other provisions	**280**	**494**	**774**	**150**	**590**	**740**
Total provisions	**1,583**	**550**	**2,133**	**1,539**	**651**	**2,190**

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 totalling a $4 million gain. The amount recognised in the Consolidated Income Statement also includes foreign exchange movements of $20 million since de-designation. The net impact ($3m 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.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

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 Federal 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 Federal Government commissioned Qantas to conduct various charter repatriation flights and rescue 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 $84 million was recognised in the Consolidated Income Statement. The costs to operate these flights were recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel, depreciation and amortisation and other expenses.
International Freight Assistance Mechanism *Recognised within net freight revenue*	This mechanism is intended to restore critical global supply chains which have been heavily impacted by COVID-19 containment measures around the world and ensures exporters maintain connectivity to strategic markets. On 6 October 2020, the Government announced an extension of the program to the middle of 2021. Income of $90 million was recognised in the Consolidated Income Statement. The costs to operate these flights were recognised primarily in manpower and staff-related costs, aircraft operating variable, fuel, depreciation and amortisation and other expenses.
JobKeeper Payment *Recognised within manpower and staff-related expenses*	Intended to help keep more Australians in jobs and support businesses affected by the significant economic impact of COVID-19. The original JobKeeper Payment was in place until 27 September 2020. On 21 July 2020, the Government announced the extension of the JobKeeper payment to 28 March 2021 at modified rates and eligibility. The JobKeeper payment is recorded net of manpower related expenses. As one of the most heavily impacted companies, the Qantas Group recognised $459 million in JobKeeper payments, the majority of which was paid directly to employees on stand down and the rest used to subsidise wages of those still working.
Singapore Job Support Scheme *Recognised within manpower and staff-related expenses*	The Job Support Scheme provides wage support to employers, helping enterprises retain their local employees (Singapore citizens and permanent residents) during this period of economic uncertainty. Support under the scheme offset and protected local employees' wages of SGD $5 million.
Australian Airline Financial Relief Package[1] *Recognised within aircraft operating variable expenses*	Includes the refunding and ongoing waiving of a range of Government charges on the industry including aviation fuel excise, Airservices Australia charges on domestic airline operations[1] and domestic and regional aviation security charges. Applicable charges applying to flights between 1 February 2020 and 31 December 2020 are eligible for consideration in accordance with the eligibility criteria and related information set out in the grant opportunity guidelines. Under this package, the Group recognised direct support of $66 million for the half-year ended 31 December 2020, offsetting related costs. On 14 December 2020, the Government announced it was extending a 50 per cent waiver of domestic air services charges from 1 January 2021 to 31 March 2021.
New Zealand Aviation Relief Package *Recognised within aircraft operating variable expenses*	Includes financial support to airlines to pay passenger-based Government charges and to cover Airways related fees from 1 March 2020 to 31 December 2020 in response to the COVID-19 crisis. Support of $8 million was recognised in the Consolidated Income Statement, offsetting related costs.

1 The Australian Airline Financial Relief Package also provided support to other suppliers of the Group (including Government-owned corporations). As a result of this support, the providers have provided waivers to the Group of $45 million for the half-year ended 31 December 2020.

16 CAPITAL COMMITMENTS

The Group's capital expenditure commitments as at 31 December 2020 are $8,005 million (30 June 2020: $9,028 million). The Group has certain rights within its aircraft purchase contracts which can defer the capital expenditure commitments.

The Group's capital expenditure commitments are predominantly denominated in US dollars. Commitments reported above are translated to the Group's Australian dollar presentational currency at the 31 December 2020 closing exchange rate of $0.76 (30 June 2020: $0.69).

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2020

17 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash, cash equivalents and non-interest-bearing financial assets and liabilities approximates their carrying value due to their short maturity. The fair value of financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. The fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The fair value of options is determined using standard valuation techniques. Other financial assets and liabilities represent the fair value of investments and derivative financial instruments recognised on the Consolidated Balance Sheet.

	December 2020				June 2020			
	Carrying Amount Held at				Carrying Amount Held at			
$M	**Fair Value Through Profit And Loss**	**Fair Value Through Other Comprehensive Income[3]**	**Amortised Cost**	**Fair Value**	**Fair Value Through Profit And Loss**	**Fair Value Through Other Comprehensive Income[3]**	**Amortised Cost**	**Fair Value**
Cash and cash equivalents	-	-	2,606	2,608	-	-	3,520	3,522
Receivables	-	-	735	735	-	-	621	621
Other financial assets[1]	75	130	-	205	251	104	-	355
Financial asset	**75**	**130**	**3,341**	**3,548**	**251**	**104**	**4,141**	**4,498**
Payables	-	-	1,890	1,890	-	-	2,450	2,450
Interest-bearing liabilities[2]	-	-	7,265	8,193	-	-	6,693	7,450
Other financial liabilities[1]	76	-	-	76	285	-	-	285
Financial liabilities	**76**	**-**	**9,155**	**10,159**	**285**	**-**	**9,143**	**10,185**

1 Other financial assets and liabilities represent the fair value of equity investments and derivative financial instruments recognised on the Consolidated Balance Sheet. Derivative financial instruments have been measured at fair value using Level 2 inputs in estimating their fair values. Equity instruments have been measured at fair value using Level 1 or Level 2 inputs in estimating their fair value.
2 The fair value of interest-bearing liabilities is calculated as the present value of outstanding contractual cashflows discounted at a risk-free rate.
3 As at 31 December 2020, $122 million (June 2020: $96 million) of the $130 million of other financial assets relates to the Group's investment in Alliance Airlines (ASX: AQZ) which has been accounted for as an investment held at fair value through other comprehensive income under AASB 9.

During the period, the Group recognised fair value changes in relation to listed and unlisted equity investments, net of tax in Other Comprehensive Income of $18 million (June 2020: ($16) million). The Group recognised fair value changes, net of tax of $18 million (2020: $7 million) in respect of listed equity investments using Level 1 inputs. The Group recognised fair value changes, net of tax of $nil (2020: ($23) million) in respect of unlisted equity investments using Level 2 inputs.

18 POST BALANCE SHEET DATE EVENTS

Subsequent to 31 December 2020, various Australian State Governments reimposed certain restrictions on interstate travel or imposed localised short-term lockdowns.

These Government restrictions impacted demand for domestic travel and the Group responded by adjusting capacity.

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

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG
Sydney
25 February 2021

Andrew Yates
Partner

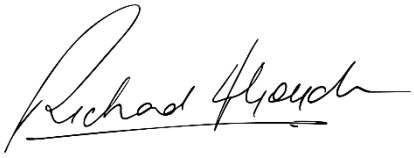
DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

(a) the Consolidated Interim Financial Report and notes set out on pages 20 to 43 are in accordance with the *Corporations Act 2001*, including:
   i. giving a true and fair view of the financial position of the Qantas Group as at 31 December 2020 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
   ii. complying with *Australian Accounting Standard AASB 134: Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that Qantas Airways Limited and its controlled entities will be able to pay its debts as and when they become due and payable.

Signed pursuant to a Resolution of the Directors:



RICHARD GOYDER, AO
Chairman

ALAN JOYCE, AC
Chief Executive Officer

Sydney
25 February 2021

Independent Auditor's Review Report

To the shareholders of Qantas Airways Limited

Conclusion

We have reviewed the accompanying Consolidated **Interim Financial Report** of Qantas Airways Limited (Interim Financial Report).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Qantas Airways Limited is not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the **Group's** financial position as at 31 December 2020 and of its performance for the **Interim Period** ended on that date; and

ii) complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- the Consolidated Balance Sheet as at 31 December 2020;
- the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the Interim Period ended on that date;
- notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information; and
- the Directors' Declaration.

The **Group** comprises Qantas Airways Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the six months ended on 31 December 2020.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the Interim Period ended on that date and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

Andrew Yates
Partner
Sydney
25 February 2021

Caoimhe Toouli
Partner
Sydney
25 February 2021

Operational Statistics

For the half-year ended 31 December 2020

(unaudited)		December 2020	December 2019	December 2018
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK)				
Passengers carried	'000	2,658	11,640	11,417
Revenue passenger kilometres (RPK)	M	3,032	13,927	13,788
Available seat kilometres (ASK)	M	5,220	17,437	17,314
Revenue seat factor	%	58.1	79.9	79.6
JETSTAR DOMESTIC				
Passengers carried	'000	1,733	7,255	7,208
Revenue passenger kilometres (RPK)	M	2,144	8,528	8,511
Available seat kilometres (ASK)	M	2,957	9,668	9,693
Revenue seat factor	%	72.5	88.2	87.8
GROUP DOMESTIC				
Group Domestic Available Seat Kilometres	M	8,177	27,105	27,007
QANTAS INTERNATIONAL				
Passengers carried	'000	3	4,448	4,428
Revenue passenger kilometres (RPK)	M	8	29,938	30,044
Available seat kilometres (ASK)	M	31	34,613	35,151
Revenue seat factor	%	25.8	86.5	85.5
JETSTAR INTERNATIONAL				
Passengers carried	'000	503	3,263	3,238
Revenue passenger kilometres (RPK)	M	359	9,674	9,389
Available seat kilometres (ASK)	M	493	11,161	10,740
Revenue seat factor	%	72.8	86.7	87.4
JETSTAR ASIA				
Passengers carried	'000	18	2,270	2,209
Revenue passenger kilometres (RPK)	M	25	3,370	3,226
Available seat kilometres (ASK)	M	136	4,001	3,956
Revenue seat factor	%	18.4	84.2	81.5
GROUP INTERNATIONAL				
Group International Available Seat Kilometres	M	660	49,775	49,847
QANTAS GROUP OPERATIONS				
Passengers carried	'000	4,915	28,876	28,500
Revenue passenger kilometres (RPK)	M	5,568	65,437	64,958
Available seat kilometres (ASK)	M	8,837	76,880	76,854
Revenue seat factor	%	63.0	85.1	84.5
Group Unit Revenue	c/ASK	10.33	9.19	8.94
Aircraft at end of the period	#	314	316	315