QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

APPENDIX 4D AND

CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2015

ABN 16 009 661 901

ASX CODE: QAN

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

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

	December 2015 $M	December 2014 $M	Change $M	Change %
Revenue and other income	8,463	8,058	405	5
Statutory profit after tax	688	206	482	234
Statutory profit after tax attributable to members of Qantas	688	203	485	239
Underlying profit before tax	921	367	554	151

DIVIDENDS

No interim dividend will be paid in relation to the half-year ended 31 December 2015.

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 2015. 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 2015 $	June 2015 $
Net assets per ordinary share[1]	1.53	1.57
Net tangible assets per ordinary share[1]	1.06	1.05

Entities over which control, joint control or significant influence was gained or lost during the period

None.

1 Based on number of ordinary shares outstanding as at 31 December 2015.

OTHER INFORMATION (continued)

Ownership interest in investments accounted for under the equity method

	December 2015 %	June 2015 %
Fiji Resorts Limited	21	21
Hallmark Aviation Services L.P.	49	49
HT & T Travel Philippines, Inc.	28	28
Holiday Tours and Travel (Thailand) Ltd	37	37
Holiday Tours and Travel Vietnam Co. Ltd	37	37
Holiday Tours and Travel (GSA) Ltd	37	37
Helloworld Limited[1]	29	29
Jetstar Hong Kong Airways Limited[2]	25	25
Jetstar Japan Co., Ltd.	33	33
Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
PT Holidays Tours & Travel	37	37

1 Following the merger between Helloworld Limited and AOT Group Limited which completed on 1 February 2016, the Qantas Group's shareholding in Helloworld Limited has reduced from 29 per cent to 19.3 per cent.
2 In June 2015, the shareholders agreed to wind down the business. The process to liquidate the company commenced on 10 December 2015.

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2015 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
Leigh Clifford, AO *Chairman*	*Current, appointed 9 August 2007 – appointed Chairman on 14 November 2007*
Alan Joyce *Chief Executive Officer*	*Current, appointed 28 July 2008 – appointed Chief Executive Officer on 28 November 2008*
Maxine Brenner	*Current, appointed 29 August 2013*
Richard Goodmanson	*Current, appointed 19 June 2008*
Jacqueline Hey	*Current, appointed 29 August 2013*
William Meaney	*Current, appointed 15 February 2012*
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

A STRONG PLATFORM FOR SUSTAINABLE GROWTH

The Qantas Group has continued to deliver against its strategy to maximise long-term shareholder value, reporting a record first half Underlying Profit Before Tax[1] of $921 million for the half-year ended 31 December 2015. Statutory Profit Before Tax increased to $983 million. The record first half underlying result, which compared to Underlying Profit Before Tax of $367 million in the prior period, reflected utilisation-driven growth and operating margin[2] expansion as the Group continued to remove costs and increase revenue.

Qantas built on the long-term competitive advantages of the integrated Group portfolio at the same time as it continued to transform its business through the $2 billion Qantas Transformation program. As at 31 December 2015, $1.36 billion of benefits had been realised in two years of the three and a half year program, with $261 million of benefits realised in the first half of 2015/16.

Customer advocacy (NPS) continued to improve with strong results – improvement in Qantas Domestic, Qantas International and Qantas Loyalty.

The strong revenue performance – a five per cent increase on the prior period, was the result of increased utilisation of existing Group aircraft and continued disciplined investment in the customer through product and service enhancements.

All operating segments generated Return on Invested Capital (ROIC) in excess of the Group's Weighted Average Cost of Capital (WACC), contributing to a Group six month year to date ROIC of 13.1 per cent and twelve month ROIC of 22.8 per cent.

The Group's disciplined hedging program, which seeks to protect against unfavourable movements in AUD fuel prices while retaining participation to favourable price movements, captured the benefit from lower AUD fuel prices in the half contributing to a $448 million reduction in the total fuel cost compared to the prior period.

1 Underlying Profit Before Tax (Underlying PBT) is a non-statutory measure and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas Domestic, Qantas International, Qantas Freight, Qantas Loyalty and Jetstar Group operating segments is Underlying Earnings Before Net Finance Costs and Tax (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying PBT to Statutory Profit Before Tax. Refer to page 14.

2 Calculated as Underlying EBIT divided by total revenue.

REVIEW OF OPERATIONS (continued)

Group Domestic earnings, comprising Underlying Earnings Before Interest and Tax from Qantas Domestic and Jetstar Domestic, increased by over 90 per cent to $556 million building on their position as the two highest margin carriers[3] in the Australian market. The improvement was driven by increased asset utilisation and enhanced dual brand coordination, with dynamic management of capacity to optimise presence of each flying brand in a shifting domestic demand environment.

Qantas held credit metrics above its investment grade-level targets in the period. In recognition of the Group's disciplined Financial Framework and strong balance sheet, Standard and Poor's reinstated Qantas' investment grade credit rating on 17 November 2015.

Qantas takes a disciplined approach to continually review its optimal capital structure and, where there is surplus capital, to assess how to best enhance shareholder value with the appropriate mix of growth investment and shareholder returns. With the Group having returned to investment grade leverage metrics, and based on the current operating outlook, Qantas determined there was surplus capital available to be distributed to shareholders. The shareholder distribution announced at the Group's first half 2015/16 results is in the form of an on-market share buy-back of up to $500 million.

The Group's portfolio strategy, designed to maximise Group outcomes at the same time as growing non-cyclical earnings, provides a strong platform for sustainable growth into the future. Highlights in the first half included:

- Qantas Domestic maintaining its position as the largest and highest margin full-service carrier in the domestic market, with a network, frequency and product advantage for its premium customer base
- Qantas International leveraging utilisation[4] of existing assets for growth into Asia and the United States, and deepening cornerstone alliances with American Airlines and China Eastern to add to the Emirates partnership
- Jetstar Group building on its position as the leading low fares airline in Australia, while Jetstar Group Airlines[5] in Asia continued to strengthen its portfolio in the world's fastest growing aviation market
- Qantas Loyalty investing in digital and data capabilities to leverage customer insights and digital opportunities for break-out growth, with the announcement of the Qantas Assure health insurance joint venture
- Qantas Freight leveraging its leading domestic market share[6] and unique international traffic rights to strengthen the Group's returns

The Qantas Group's financial framework is aligned with shareholder objectives, designed to deliver maintainable Earnings per Share (EPS) growth over the cycle to achieve Total Shareholder Returns (TSR) in the top quartile of the ASX100 index and a basket of global airlines. In the first half of 2015/16, Qantas' performance was consistent with its long-term targets with EPS of 31.9 cents – up from 9.2 cents in the prior period.

In order to deliver against these long-term targets, the financial framework has three clear priorities. The Group met the target of each pillar in the first half of 2015/16:

1. Maintaining our Optimal Capital Structure

- Credit metrics held above investment grade targets, with further improvement in FFO/net debt[7] and Gross debt/adjusted EBITDA[8] forecast in 2015/16
- Minimal refinancing risk and diverse funding profile with weighted average debt maturity around five years
- Retaining strong short-term liquidity[9] of $3.3 billion
- Optimised total liquidity mix to lower cost of capital through the refinancing of 24 operating leased aircraft to unencumbered owned aircraft[10]

3 Operating margin percentage compared to Virgin Australia and Tigerair.
4 Utilisation based on average block hours per aircraft per day.
5 Includes Jetstar Japan, Jetstar Asia in Singapore and Jetstar Pacific in Vietnam.
6 Based on Available Freight Tonne Kilometres.
7 Funds from operations divided by net debt based on Standard and Poor's methodology.
8 Metric based on Moody's methodology.
9 Includes cash and cash equivalents of $2.3 billion and undrawn facilities of $1 billion.
10 Transfer of title for five out of 24 aircraft to be completed in 2016

REVIEW OF OPERATIONS (continued)

2. Return on Invested Capital above WACC[11] through the cycle

- Twelve month ROIC[12] of 22.8 per cent, six month YTD ROIC[13] of 13.1 per cent, meeting target for full-year ROIC greater than 10 per cent through the cycle
- All operating segments continue to deliver ROIC greater than WACC
- Continued delivery of Qantas Transformation, with $261 million benefits realised in the half
- Utilised Group portfolio of brands and diverse fleet mix to respond to downturn in the resources sector while shifting assets to growth markets in domestic Australia and international markets
- Disciplined hedging program, capturing benefit of lower AUD fuel prices in 2015/16 with high level of protection in place for 2016/17

3. Disciplined Allocation of Capital

- Net capital expenditure[14] of $490 million in the half in line with 2015/16 guidance for net capital expenditure of approximately $1 billion
- Capital expenditure in the half included a $350 million investing cash inflow from the sale of the assets relating to Sydney Airport Terminal Three
- Returning surplus capital to shareholders with the announcement of an EPS accretive on-market share buyback of up to $500 million

UNDERLYING PBT

The Qantas Group's first half 2015/16 Underlying PBT increased to $921 million from $367 million, a record first half performance. The improvement in earnings was driven by strong revenue growth, cost reduction initiatives in the Qantas Transformation program, and the benefit from lower AUD fuel prices.

Revenue increased five per cent to $8.46 billion in the half, with a $360 million improvement in net passenger revenue and a $45 million higher contribution from other revenue sources. The five per cent improvement in net passenger revenue reflected increased utilisation of existing assets across the Group and in particular by Qantas International. Group capacity, measured by Available Seat Kilometres, increased by 3.8 per cent while unit revenue[15] increased by two per cent.

The stronger passenger revenue performance included the benefit from foreign exchange movements, most notably by Qantas International, which in turn offset the negative impact of foreign exchange on the Group's non-fuel expenditure. The Group incurred a revenue reduction of approximately $50 million relating to the continued weakening of resources sector traffic in Western Australia and Queensland. Other revenue improved due to the increased contribution from Qantas Loyalty's new and adjacent businesses and increased frequent flyer redemption activity.

Underlying expenses decreased two per cent, with a reduction in the Group's fuel cost partially offset by higher depreciation and amortisation expenses. Increased operating expenses related to growth, and the negative impact of foreign exchange movements against the Australian dollar also contributed. The $448 million reduction in the Group's fuel cost included the benefit from lower AUD fuel prices as well as fuel efficiency measures in the Qantas Transformation program, offset by fuel from increased flying activity.

The contribution from Qantas' share of investments accounted for under the equity method swung to a $6 million profit in the period from a $20 million loss in the prior period, reflecting the improved performance of Jetstar Group Airlines in Asia. Underlying net finance costs improved by $23 million following the reduction in the Group's net debt and lower interest rates.

11 Weighted Average Cost of Capital.
12 Twelve month ROIC is the ROIC EBIT for the twelve months ended 31 December 2015 divided by the Average Invested Capital for the period 1 January 2015 to 31 December 2015.
13 Six month YTD ROIC is the ROIC EBIT for the six months ended 31 December 2015 divided by the Average Invested Capital for the period 1 July 2015 to 31 December 2015.
14 Net capital expenditure is equal to investing cash flows (excluding operating lease refinancing) ($603 million) adjusted for the notional value of operating lease aircraft disposals/acquisitions ($113 million).
15 Ticketed passenger revenue per Available Seat Kilometre (RASK).

REVIEW OF OPERATIONS (continued)

Group Underlying Income Statement Summary	December 2015 $M	December 2014 $M	Change $M	Change %
Net passenger revenue	7,307	6,947	360	5
Net freight revenue	458	485	(27)	(6)
Other revenue	698	626	72	12
Revenue	**8,463**	**8,058**	**405**	**5**
Operating expenses (excluding fuel)[16]	(4,883)	(4,595)	(288)	(6)
Fuel[16]	(1,716)	(2,164)	448	21
Depreciation and amortisation	(585)	(538)	(47)	(9)
Non-cancellable aircraft operating lease rentals	(254)	(241)	(13)	(5)
Share of net profit/(loss) of investments accounted for under the equity method[16]	6	(20)	26	>100
Expenses	**(7,432)**	**(7,558)**	**126**	**2**
Underlying EBIT[1]	**1,031**	**500**	**531**	**>100**
Net finance costs[16]	(110)	(133)	23	17
Underlying PBT[1]	**921**	**367**	**554**	**>100**

Operating Statistics		December 2015	December 2014	Change	Change %
Available Seat Kilometres (ASK)[17]	M	74,650	71,936	2,714	3.8
Revenue Passenger Kilometres (RPK)[18]	M	60,652	57,575	3,077	5.3
Passengers Carried	'000	26,211	25,421	790	3.1
Revenue Seat Factor[19]	%	81.2	80.0	1.2pts	
Unit Revenue (RASK)	c/ASK	8.46	8.30	0.16	2.0
Yield (constant FX)[20]	c/RPK	10.42	10.64	(0.22)	(2.1)
Comparable ex fuel unit cost[21]	c/ASK	(4.93)	(4.95)	0.02	0.4

Group capacity (Available Seat Kilometres) increased by 3.8 per cent with increased utilisation of aircraft at Qantas Domestic, Qantas International, and Jetstar Group. Demand (Revenue Passenger Kilometres) increased by 5.3 per cent, resulting in a 1.2 percentage point increase in revenue seat factor in the half.

Unit revenue[22] (Revenue per Available Seat Kilometre) increased two per cent, with a 2.1 per cent decline in yield (constant foreign exchange) from ticketed passenger revenue more than offset by higher passenger loads and the benefit from currency movements on passenger revenue. The Australian dollar trading in line with its historical average provides an advantage to the Group portfolio, with more of the Australian leisure market holidaying closer to home and increased inbound leisure demand. Total unit cost[23] improved by seven per cent in the period. Comparable ex fuel unit cost, improved by 0.4 per cent as the Group continued to deliver the $2 billion Qantas Transformation program.

16 Underlying operating expenses (excluding fuel) – total Underlying expenses excluding share of net profit/(loss) of investments accounted for under the equity method, depreciation and amortisation, lease rentals, fuel and net finance costs. Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 9 which relate to other reporting periods and other items identified by Management. Refer to the reconciliation of Underlying PBT to Statutory Profit Before Tax. Operating expenses impacted by increased flying activity (3.8 per cent increase in ASKs), CPI increases and adverse impact of foreign exchange, offset by transformation cost reductions.
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 Yield – passenger revenue divided by RPKs (both current and prior period have been calculated using current foreign exchange rates).
21 Comparable ex fuel unit cost – unit cost is adjusted to aid comparability between reporting periods. Comparable ex fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in discount rates, changes in foreign exchange rates, share of net profit/(loss) of investments accounted for under the equity method and changes in block codeshare agreements per ASK.
22 Calculated as ticketed passenger revenue per ASK (RASK).
23 Total unit cost – Underlying PBT less ticketed passenger revenue per ASK.

REVIEW OF OPERATIONS (continued)

Segment Performance Summary	**December 2015 $M**	**December 2014 $M**	**Change $M**	**Change %**
Qantas Domestic	387	227	160	70
Qantas International	270	59	211	>100
Qantas Freight	38	54	(16)	(30)
Qantas Loyalty	176	160	16	10
Jetstar Group	262	81	181	>100
Corporate	(83)	(79)	(4)	(5)
Unallocated/Eliminations	(19)	(2)	(17)	>(100)
Underlying EBIT	**1,031**	**500**	**531**	**>100**
Net finance costs	(110)	(133)	23	17
Underlying PBT	**921**	**367**	**554**	**>100**

Qantas Domestic reported first half Underlying EBIT of $387 million, a $160 million improvement from the first half of 2014/15. The improved result was driven by a two per cent increase in unit revenue and a one per cent reduction in comparable ex fuel unit cost[24].

Qantas International's first half Underlying EBIT of $270 million was a $211 million improvement on the prior period and the strongest first half performance since the segment was reported separately from 2011/12. Unit revenue growth of three per cent and a comparable ex fuel unit cost improvement of two per cent came on top of a 6.5 per cent increase in capacity, all contributing to the strong result.

Jetstar Group reported a record Underlying EBIT of $262 million, a $181 million increase on the prior period. The record result reflected a very strong domestic Australia performance, a controllable unit cost[25] improvement of two per cent, and a positive profit contribution from Jetstar Group Airlines in Asia. The result included a $23 million adverse EBIT impact from Indonesian volcanoes during the period.

Qantas Loyalty Underlying EBIT increased 10 per cent to a record $176 million. A 9.7 per cent increase in revenue included a significant contribution from the growth of adjacent businesses such as Qantas Cash.

Qantas Freight reported Underlying EBIT of $38 million, a $16 million decrease on the first half of 2014/15, with a decline in international air freight demand, the conclusion of favourable Australian air Express legacy agreements and fuel price reductions offsetting reduced fuel costs.

BUILDING ON THE GROUP'S LONG-TERM COMPETITIVE ADVANTAGES

Qantas remains focused on value creation for its shareholders, combining a disciplined financial framework with targeted investment to build on the Group's long-term competitive advantages. The strategic focus of the Group in the first half of 2015/16 included:

- Maximising the Group's leading domestic position through continual evolution of the dual brand strategy
- Growing Qantas International efficiently with cornerstone partnerships (deepened alliances with American Airlines and China Eastern in addition to partnership with Emirates)
- Aligning Qantas and Jetstar with Asia's growth by increasing services between Australia and the region as well as building a pan-Asia brand through Jetstar Group Airlines
- Focusing on developing our people, culture, and leadership capabilities
- Investing in customer, brand, technology and digital for long-term success
- Leveraging digital and data opportunities for break-out growth

24 Qantas International and Qantas Domestic Comparable ex fuel unit cost is calculated as Underlying EBIT less ticketed passenger revenue and fuel adjusted for changes in foreign exchange rates, discount rates and changes in block codeshare agreements per ASK.
25 Controllable unit cost is calculated as underlying expenses less fuel and adjusted for the impact of Jetstar branded associates, changes in discount rates, changes in foreign exchange rates, charter revenue, costs associated with the setup of regional operations in New Zealand and movements in average sector length per available seat kilometre.

REVIEW OF OPERATIONS (continued)

At the same time as pursuing these objectives, Qantas is committed to embedding sustainability across the Group. This includes an enhanced degree of transparency in sustainability reporting, as well as initiatives to integrate Environment, Social and Governance outcomes with the Group's strategy and financial objectives.

In the first half of 2015/16, sustainability highlights included Qantas receiving the Carbon Disclosure Project 'Climate Leadership Award' for the Australian company with the highest carbon disclosure score and highest quality overall disclosure. In the Dow Jones Sustainability Index for Australia and Asia Pacific, Qantas was the highest ranking company in its industry for Brand, Governance and Risk Management.

QANTAS TRANSFORMATION – DELIVERING AGAINST A BALANCED SCORECARD

The Qantas Transformation program is targeting the delivery of $2 billion of gross cost and revenue benefits by the end of 2016/17, to achieve a permanent shift in the Group's cost base and competitive position. With all milestones to date having been met or exceeded, the Group uses a balanced scorecard to ensure the three goals of cost efficiency, improved customer experience and increased people engagement are all met.

The target metrics and progress to date are as follows:

Achieving Our Targets	**Target Metric by FY17**	**Progress to Date**
Accelerated transformation benefits	$2 billion gross benefits	$1,359 million benefits realised
	> 10 per cent Group ex-fuel expenditure reduction	Ex-fuel expenditure[26] reduced by 7.9 per cent
	5,000 full time equivalent reduction	4,500[27] full time equivalent reduction
De-leverage balance sheet	Greater than $1 billion debt[28] reduction	Delivered on schedule
	Debt/EBITDA < four times	Delivered ahead of schedule
	FFO/net debt > 45 per cent	Delivered ahead of schedule
Cash flow	Sustainable positive free cash flow	Delivered on schedule
Fleet simplification	11 fleet types to seven	Eight fleet types, retaining two non-reconfigured B747-400
Customer and brand	Customer advocacy (NPS)	NPS improvement for Qantas Domestic, Qantas International and Qantas Loyalty[29]
	Most on-time domestic carrier: Qantas Domestic	Premium on-time performance maintained with increase to 89.3 per cent[30]

With $1.36 billion of benefits realised through 31 December 2015, including $261 million in the first half of 2015/16, the Group expects to realise a total of $450 million of benefits in 2015/16.

26 Includes Underlying operating expenses (excluding fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable operating lease rentals, compared to first half 2013/14 adjusted for movements in foreign exchange rates and capacity.
27 Actioned FTEs as at 31 December 2015. Approximately 270 FTEs still to exit as at 31 December 2015.
28 Reduction in net debt including capitalised operating lease liabilities.
29 Measured as Net Promotor Score average first half 2015/16 compared to average first half 2014/15.
30 Qantas mainline operations (excluding QantasLink). Source: BITRE

REVIEW OF OPERATIONS (continued)

CONTINUED STRONG CASH GENERATION

Cash Flow Summary	**December 2015 $M**	**December 2014 $M**	**Change $M**	**Change %**
Operating cash flows	1,373	703	670	95
Investing cash flows (excluding aircraft lease refinancing)	(603)	(509)	(94)	(18)
Net free cash flow[31]	**770**	**194**	**576**	**>100**
Aircraft operating lease refinancing	(587)	-	(587)	>(100)
Financing cash flows	(807)	(320)	(487)	>(100)
Cash at beginning of period	2,908	3,001	(93)	(3)
Effect of foreign exchange on cash	7	17	(10)	(59)
Cash at period end	**2,291**	**2,892**	**(601)**	**(21)**

Debt Analysis	**December 2015 $M**	**June 2015 $M**	**Change $M**	**Change %**
Net on balance sheet debt[32]	3,041	2,558	483	19
Net debt including capitalised operating lease liabilities[33]	6,261	6,306	(45)	(1)

Operating cash flows of $1.37 billion almost doubled compared to the prior period due to the strong margin expansion that accompanied the growth undertaken in the half. Investing cash flows of $603 million (excluding aircraft operating lease refinancing for 24 aircraft of $587 million) includes a $350 million investing cash inflow from the sale of the Sydney Airport Terminal Three assets. Financing cash flows of $807 million included a $505 million shareholder distribution in the form of a return of capital announced at the full year 2014/15 and paid in November 2015.

The Group's total liquidity position remained strong with $3.3 billion in short-term liquidity. With the Group having returned to its optimal capital structure, it provides the flexibility to optimise the liquidity mix with a higher proportion of unencumbered fleet – a cheaper source of liquidity than holding high levels of cash. Following the refinancing of operating leased aircraft to unencumbered owned aircraft, 50 per cent of the Group's fleet was unencumbered with an increase in value to more than US$3.5 billion compared to around US$3 billion in 2014/15.

Net on balance sheet debt increased as a result of reducing cash through the refinancing of aircraft out of operating leases. Net debt, including capitalised operating lease liabilities, decreased to $6.26 billion from $6.31 billion at 30 June 2015.

Qantas targets investment grade credit metrics through the cycle, and in 2015/16 expects to see further improvement in both FFO/net debt and debt/adjusted EBITDA compared to 2014/15 where each metric was within or better than investment grade.

31 Net free cash flow – operating cash flows less investing cash flows (excluding aircraft operating lease refinancing). Net free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or distributions to shareholders.
32 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents and aircraft security deposits.
33 Net debt including operating lease liabilities (under the Group's Financial Framework) includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities.

REVIEW OF OPERATIONS (continued)

FLEET

The Qantas Group remains committed to a fleet strategy that provides for long-term flexibility and renewal, and that prioritises Group fleet simplification. The fleet strategy is designed to support the strategic objectives of the Group's two flying brands and the overarching targets of the Qantas Transformation program.

At all times, the Group retains significant flexibility to respond to any changes in market conditions and the competitive environment.

At 31 December 2015, the Qantas Group fleet totalled 300 aircraft. During the first half of 2015/16, the Group purchased four new aircraft:

- Qantas – one Fokker 100
- Jetstar Group – three B787-8s

In addition during the half, the Group removed three aircraft from service including two lease returns. These included one B747-400 and two A330-200s.

The Qantas Group's scheduled passenger fleet average age is now eight years, at the bottom end of the targeted 8-10 year range.

QANTAS DOMESTIC

		December 2015	December 2014	Change	Change %
Total Revenue and Other Income	$M	3,007	3,007	–	–
Revenue Seat Factor	%	76.5	76.0	0.5pts	
Underlying EBIT	$M	387	227	160	70
Operating Margin	%	12.9	7.5	5.4pts	

Qantas Domestic reported a 70 per cent increase in Underlying EBIT to $387 million. The improved result was driven by operating margin expansion on reduced capacity, as Qantas Domestic continued to reduce capacity in the major resources markets of Western Australia and Queensland while adding growth where there was stronger demand on the East Coast of Australia. Revenue was flat on the prior period on a capacity reduction of 1.2 per cent resulting in unit revenue growth of 2.3 per cent. Comparable ex fuel unit cost improved by one per cent.

Excluding the impact of the drop off in resources markets, unit revenue increased four per cent in the half with a strong performance on 'Triangle' routes of Sydney-Melbourne-Brisbane and leisure routes including East Coast and Tasmania.

With continued resource sector weakness, revenue from the sector was down around $50 million with a similar decline expected in the second half of 2015/16. Qantas Domestic have responded by replacing higher-gauge aircraft, including B737-800s, with smaller-gauge Fokker 100 and B717-200 aircraft. This strategy, which continues into the second half of the year, allows Qantas Domestic to maintain its overall network presence and frequency advantage while ensuring its capacity footprint matches the altered demand environment.

Network changes and reduced turn times of Qantas Domestic's B737-800 fleet facilitated a five per cent increase in asset utilisation enabling aircraft to be deployed for further efficient capacity increases in Qantas International. At the same time, Qantas Domestic has improved other key operational metrics with higher seat factor, improved on-time performance and a seven percentage point increase in customer advocacy (Net Promoter Score). Cabin reconfigurations, including significant product enhancements, continued during the first half with nine of 16 A330 aircraft and 12 of 67 B737-800 aircraft now completed.

REVIEW OF OPERATIONS (continued)

QANTAS INTERNATIONAL

		December 2015	December 2014	Change	Change %
Total Revenue and Other Income	$M	2,953	2,748	205	7.5
Revenue Seat Factor	%	83.3	82.4	0.9pts	
Underlying EBIT	$M	270	59	211	>100
Operating Margin	%	9.1	2.1	7.0pts	

Qantas International reported an Underlying EBIT of $270 million, a $211 million improvement on the prior period. Leveraging increased utilisation of existing aircraft, Qantas International grew capacity by 6.5 per cent adding additional services to the United States and Asia. Qantas International's performance retained the benefit of the lower AUD fuel price. At the same time, the segment's margin expanded with unit revenue growth of three per cent and comparable ex fuel unit cost reduction of two per cent.

With continued investment in product enhancements, including cabin reconfigurations, and customer service training, customer advocacy increased seven percentage points to a record. Eight out of 10 international A330-300 aircraft cabin reconfigurations have been completed, with consistently positive customer feedback surrounding the improved in-flight experience.

Aircraft utilisation increased by greater than five per cent in the period, in addition to the 15 per cent lift in productivity achieved between 2011/12 and 2014/15. The increase in aircraft utilisation, coupled with a more agile approach to capacity and network management, facilitated the introduction of new services including Sydney-San Francisco and Brisbane-Narita, increased services to Hong Kong, Philippines during the period in addition to Perth-Singapore which resumed in June 2015.

Qantas International continued to implement its strategy of forging cornerstone alliances in key markets, with deepened alliances with China Eastern from November 2015 and American Airlines[34] from December 2015 in addition to the partnership with Emirates. The American Airlines partnership broadens Qantas' network in the United States and is expected to produce synergies in sales and marketing, customer experience, as well as Frequent Flyer benefits. The China Eastern alliance provides Qantas with a strong partner to tap into the rapidly growing inbound Chinese market into Australia, as well as a strong platform to jointly grow services between Australia and China in the future. The Emirates partnership continues to deliver for customers with its unrivalled network offering to Europe, Middle East and North Africa.

JETSTAR GROUP

		December 2015	December 2014	Change	Change %
Total Revenue and Other Income	$M	1,913	1,773	140	7.9
Revenue Seat Factor	%	82.2	80.3	1.9pts	
Underlying EBIT	$M	262	81	181	>100
Operating Margin	%	13.7	4.6	9.1pts	

Jetstar Group reported record Underlying EBIT of $262 million, up from $81 million in the prior period. The result was driven by the standout performance of Jetstar in the domestic Australia market, with unit revenue growth of 10 per cent amid strong low fares demand. Segment revenue increased eight per cent off a four per cent increase in capacity, with increased fleet utilisation and the completion of the transition to an all B787-8 Dreamliner fleet for Jetstar International long-haul services out of Australia. The first half result included a $23 million adverse impact from the Indonesian volcano eruptions on Jetstar's Australian and Singapore-based operations.

34 American Airlines partnership is subject to regulatory approval.

REVIEW OF OPERATIONS (continued)

Controllable unit cost improved by two per cent compared to the prior period. International business efficiency gains were led by the 11 strong B787-8 fleet. Jetstar Group continued to implement its Lowest Seat Cost program, which targets ongoing improvement in controllable unit cost which in turn facilitates low fares leadership across all the Group's markets.

Jetstar Group Airlines in Asia (comprising Jetstar Japan, Jetstar Asia in Singapore, and Jetstar Pacific in Vietnam) were collectively profitable in the first half, compared to a loss in the prior comparative period. Jetstar Japan reported its maiden six-month profit on the back of improved utilisation and expansion of international routes.

Product and service innovation continued to be integral to Jetstar's strategy, with new ancillary revenue product offerings and digital investment driving ancillary revenue growth.

QANTAS LOYALTY

		December 2015	December 2014	Change	Change %
Qantas Frequent Flyer Members	M	11.2	10.5	0.7	6.3
Revenue	$M	734	669	65	9.7
Underlying EBIT	$M	176	160	16	10
Operating Margin	%	24.0	23.9	0.1pts	

Qantas Loyalty reported record Underlying EBIT of $176 million, up 10 per cent on the prior period. Revenue growth of 9.7 per cent included ongoing strength of the core Qantas Frequent Flyer and Aquire businesses as well as a significant and growing contribution from adjacent businesses in the Qantas Loyalty portfolio. Membership rose to 11.2 million as at 31 December 2015, a 6.3 per cent increase from the 10.5 million members in December 2014.

Qantas Frequent Flyer saw a five per cent growth in the issuance of co-branded credit cards, outpacing industry growth[35] rates as Australian consumers continued to be attracted by the program's rewards. Qantas Frequent Flyer achieved record member advocacy with further improvements to the member value proposition including a reduction in economy points and carrier charges on redemption flights and launching points upgrades on classic redemptions. Qantas Frequent Flyer and Aquire, the rewards program for small to medium-sized enterprises, added 24 new partners including adding Vodafone as a telecommunications earn partner.

In line with its strategy to diversify earnings through new business ventures, Qantas Loyalty reported a 20 per cent growth in Qantas Cash currency loaded during the first half 2015/16 compared to the first half 2014/15, reaching a cumulative $1.5 billion since Qantas Cash commenced. The business continued to add capability to its data analytics and research unit, Red Planet, while investing in a pipeline of break-out growth opportunities to drive future earnings growth. The latest of the consumer-centric, digitally-led ventures to be pursued by Qantas Loyalty is Qantas Assure, announced in November 2015 and launching in the fourth quarter of 2015/16. The health insurance partnership with nib Health Funds, will bring together Qantas Loyalty's distribution strength and loyalty offering with a leading health insurance product.

QANTAS FREIGHT

		December 2015	December 2014	Change	Change %
Total Revenue and Other Income	$M	525	550	(25)	(5)
Load Factor (International)[36]	%	54.8	57.7	(2.9)pts	
Underlying EBIT	$M	38	54	(16)	(30)
Operating Margin	%	7.2	9.8	(2.6)pts	

35 Based on number of personal credit card accounts with interest free periods; growth comparison for 12 months to December 2015; RBA credit and card charges statistics
36 Load Factor (International) – International Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK).

REVIEW OF OPERATIONS (continued)

Qantas Freight reported Underlying EBIT of $38 million, a decrease of $16 million. The lower profit in the half was consistent with Management guidance provided at the 2014/15 result in August 2015 and reflected a revenue decrease of five per cent in challenging cargo markets.

Qantas Transformation benefits and lower fuel prices were offset by fuel surcharge reductions and a decline in air freight demand in international markets. Qantas Freight continued to focus on customer enhancements in the period, including the pilot of a customer advocacy program and selling to new markets Haneda (Tokyo), San Francisco and Vancouver.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax of $983 million for the half-year ended 31 December 2015 is $694 million higher than the prior corresponding period.

Underlying PBT

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

Underlying PBT is derived by adjusting Statutory Profit Before Tax for the impacts of hedge ineffectiveness relating to other reporting periods and certain other items which are not included in Underlying PBT.

Reconciliation of Underlying PBT to Statutory Profit Before Tax	**December 2015 $M**	**December 2014 $M**
Underlying PBT	**921**	**367**
Hedge ineffectiveness relating to other reporting periods	**(14)**	**(31)**
Other items not included in Underlying PBT		
– Net gain on disposal of property, plant and equipment	201	–
– Transformation costs[37]	(48)	(42)
– One-off employee bonus	(67)	–
– Net gain on disposal of investments in controlled entities	–	12
– Other	(10)	(17)
Total other items not included in Underlying PBT	**76**	**(47)**
Statutory Profit Before Tax	**983**	**289**

37 Transformation costs includes redundancies, restructuring costs (including fleet related), impairment of intangible assets and other transformation costs.

REVIEW OF OPERATIONS (continued)

Hedge Ineffectiveness relating to other reporting periods

On the adoption of AASB 9 (2013) on 1 July 2014, there is better alignment between Underlying PBT and Statutory Profit Before Tax, however, there continues to be a difference between Statutory Profit Before Tax and Underlying PBT resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

Other items not included in Underlying PBT

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

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

Transformation costs relating to the $2 billion Qantas Transformation Program of $48 million were incurred during the period.

Net gain on disposal of property, plant and equipment of $201 million relates to the disposal of Sydney Airport Terminal Three and related assets to Sydney Airport Corporation Limited announced on 18 August 2015.

One-off employee bonus of $67 million relates to Enterprise Bargaining Agreements (EBAs) employees that were open for negotiation or had agreed to the 18 month pay freeze as announced on 20 August 2015.

MATERIAL BUSINESS RISKS

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

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

– **Competitive intensity**: Market capacity growth ahead of underlying demand impacts industry profitability.
  - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness in recent years has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners and optimising its network. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas International has embarked on a major restructure of its legacy cost base through the Qantas Transformation program with the objective of achieving a comparable ex fuel unit cost to our direct competitors. Market capacity growth was moderate for the half-year ended 31 December 2015 resulting in unit revenue improvement in the Group's international business.
  - The Australian domestic aviation market continues to attract increased competition. The Qantas Group's market-leading domestic position and dual-brand strategy allow Qantas to position itself to respond to market changes. This strategy leverages Qantas Domestic (including QantasLink) for business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic is focused on improving its cost base relative to its competitor while maintaining a revenue margin. Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs. Market capacity growth was moderate for the half-year ended 31 December 2015 supporting stronger passenger loads and improving yields in the Group's domestic business.

REVIEW OF OPERATIONS (continued)

- **Fuel and foreign exchange volatility**: The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive risk management program. For 2015/16 the Group's hedging profile is positioned such that the worst case total fuel cost is $3.4 billion[38] with 53 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2015/16 is $3.3 billion[39]).
- **Industrial relations**: The risks of industrial action relating to Qantas' collective agreements with its employees. The risk is being mitigated through continuous employee engagement initiatives and ongoing, constructive dialogue with all employee groups and other relevant stakeholders. The Group continues to successfully close EBAs containing an 18-month wage freeze, subsequent to the commencement of the Qantas Transformation program. In recognition of the contribution made by all employees to strengthen the Group's long-term competitive position through the wage freeze and the delivery of all Qantas Transformation targets ahead of schedule, a one-off bonus payment is being made to all employees covered by an 18-month wage freeze.
- **Continuity of critical systems**: The Group's operations depend on the continuity of a number of information technology and communication services. The Group has an extensive control and Group Risk Management Framework[40] to reduce the likelihood of outages, ensure early detection and to mitigate the impact.
- **Key business partners**: The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are managed through the Group Risk Management Framework.

38 As at 19 February 2016, worst case total fuel cost based on a 2-standard deviation move in Brent forward market prices to A$68/bbl for the remainder of 2015/16.
39 As at 19 February 2016, current forward market price total fuel cost based on Brent forward market price of A$49/bbl for remainder of 2015/16.
40 An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on www.qantas.com.

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 38 and forms part of the Directors' Report for the half-year ended 31 December 2015.

ROUNDING

Qantas is a company of the kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998. In accordance with the Class Order, 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 2015 which has been reviewed by the Group's Independent Auditor.

Signed pursuant to a Resolution of the Directors:

LEIGH CLIFFORD, AO
Chairman

ALAN JOYCE
Chief Executive Officer

Sydney
23 February 2016

CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December 2015

	Note	December 2015 $M	December 2014 $M
Revenue and other income			
Net passenger revenue		7,307	6,947
Net freight revenue		458	485
Other	3	698	626
		8,463	**8,058**
Expenditure			
Manpower and staff related		1,913	1,839
Fuel		1,729	2,190
Aircraft operating variable		1,750	1,664
Depreciation and amortisation		585	538
Non-cancellable aircraft operating lease rentals		254	241
Share of net (profit)/loss of investments accounted for under the equity method		(6)	20
Other	3	1,144	1,144
		7,369	**7,636**
Statutory profit before income tax expense and net finance costs		**1,094**	**422**
Finance income		36	48
Finance costs		(147)	(181)
Net finance costs		**(111)**	**(133)**
Statutory profit before income tax		**983**	**289**
Income tax expense	4	(295)	(83)
Statutory profit for the period		**688**	**206**
Attributable to:			
Members of Qantas		688	203
Non-controlling interests		–	3
Statutory profit for the period		**688**	**206**
Earnings per share attributable to members of Qantas:			
Basic/diluted earnings per share (cents)		31.9	9.2

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 2015

	December 2015 $M	December 2014 $M
Statutory profit for the period	**688**	**206**
Items that are or may subsequently be reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	(203)	(136)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1]	73	39
Recognition of effective cash flow hedges on capitalised assets, net of tax	(43)	7
Time value of options, net of tax[2]	(110)	(119)
Foreign currency translation of controlled entities	1	3
Foreign currency translation of investments accounted for under the equity method	17	1
Item that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial losses, net of tax	(20)	(149)
Other comprehensive loss for the period	**(285)**	**(354)**
Total comprehensive income/(loss) for the period	**403**	**(148)**
Total comprehensive income/(loss) attributable to:		
Members of Qantas	403	(151)
Non-controlling interests	–	3
Total comprehensive income/(loss) for the period	**403**	**(148)**

1 These amounts were allocated against revenue of $(6) million (2014: ($(28) million), fuel expenditure of $107 million (2014: $84 million) and income tax expense of $(28) million (2014: $(17) million) in the Consolidated Income Statement.
2 The net fair value movement in the time value of options relates to cash flow hedges.

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2015

	Note	December 2015 $M	June 2015 $M
Current assets			
Cash and cash equivalents	6	2,291	2,908
Receivables	6	821	959
Other financial assets	6	540	613
Inventories		337	322
Assets classified as held for sale		88	136
Other		181	111
Total current assets		**4,258**	**5,049**
Non-current assets			
Receivables	6	146	134
Other financial assets	6	43	49
Investments accounted for under the equity method		193	134
Property, plant and equipment		11,578	10,715
Intangible assets		837	803
Deferred tax assets		173	333
Other		278	313
Total non-current assets		**13,248**	**12,481**
Total assets		**17,506**	**17,530**
Current liabilities			
Payables	6	1,944	1,881
Revenue received in advance		3,386	3,584
Interest-bearing liabilities	6	807	771
Other financial liabilities	6	657	416
Provisions		724	818
Total current liabilities		**7,518**	**7,470**
Non-current liabilities			
Revenue received in advance		1,524	1,359
Interest-bearing liabilities	6	4,649	4,791
Other financial liabilities	6	113	68
Provisions		410	395
Total non-current liabilities		**6,696**	**6,613**
Total liabilities		**14,214**	**14,083**
Net assets		**3,292**	**3,447**
Equity			
Issued capital		4,125	4,630
Treasury shares		(51)	(7)
Reserves		(347)	(66)
Retained earnings		(440)	(1,115)
Equity attributable to members of Qantas		**3,287**	**3,442**
Non-controlling interests		5	5
Total equity		**3,292**	**3,447**

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 2015

December 2015 $M	**Issued Capital**	**Treasury Shares**	**Employee Compensation Reserve**	**Hedge Reserve**	**Foreign Currency Translation Reserve**	**Defined Benefit Reserve**	**Retained Earnings**	**Non-controlling Interests**	**Total Equity**
Balance as at 1 July 2015	4,630	(7)	47	(122)	(29)	38	(1,115)	5	3,447
Total comprehensive income/(loss) for the period									
Statutory profit for the period	–	–	–	–	–	–	688	–	688
Other comprehensive income/(loss)									
- Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(203)	–	–	–	–	(203)
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	73	–	–	–	–	73
- Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	(43)	–	–	–	–	(43)
- Time value of options, net of tax	–	–	–	(110)	–	–	–	–	(110)
- Defined benefit actuarial losses, net of tax	–	–	–	–	–	(20)	–	–	(20)
- Foreign currency translation of controlled entities	–	–	–	–	1	–	–	–	1
- Foreign currency translation of investments accounted for under the equity method	–	–	–	–	17	–	–	–	17
Total other comprehensive income/(loss)	**–**	**–**	**–**	**(283)**	**18**	**(20)**	**–**	**–**	**(285)**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**(283)**	**18**	**(20)**	**688**	**–**	**403**
Transactions with owners recorded directly in equity									
Contributions by and distributions to owners									
- Treasury shares acquired	–	(75)	–	–	–	–	–	–	(75)
- Capital return	(505)	–	–	–	–	–	–	–	(505)
- Share-based payments	–	–	16	–	–	–	–	–	16
- Shares vested and transferred to employees	–	31	(11)	–	–	–	(14)	–	6
- Share-based payments unvested and lapsed	–	–	(1)	–	–	–	1	–	–
Total contributions by and distributions to owners	**(505)**	**(44)**	**4**	**–**	**–**	**–**	**(13)**	**–**	**(558)**
Total transactions with owners	**(505)**	**(44)**	**4**	**–**	**–**	**–**	**(13)**	**–**	**(558)**
Balance as at 31 December 2015	**4,125**	**(51)**	**51**	**(405)**	**(11)**	**18**	**(440)**	**5**	**3,292**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2015

December 2014 $M	**Issued Capital**	**Treasury Shares**	**Employee Compensation Reserve**	**Hedge Reserve**	**Foreign Currency Translation Reserve**	**Defined Benefit Reserve**	**Retained Earnings**	**Non-controlling Interests**	**Total Equity**
Balance as at 1 July 2014	4,630	(16)	32	(72)	(41)	–	(1,671)	4	2,866
Total comprehensive income/(loss) for the period									
Statutory profit for the period	–	–	–	–	–	–	203	3	206
Other comprehensive income/(loss)									
- Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(136)	–	–	–	–	(136)
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	39	–	–	–	–	39
- Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	7	–	–	–	–	7
- Time value of options, net of tax	–	–	–	(119)	–	–	–	–	(119)
- Defined benefit actuarial losses, net of tax	–	–	–	–	–	(149)	–	–	(149)
- Foreign currency translation of controlled entities	–	–	–	–	3	–	–	–	3
- Foreign currency translation of investments accounted for under the equity method	–	–	–	–	1	–	–	–	1
Total other comprehensive income/(loss)	**–**	**–**	**–**	**(209)**	**4**	**(149)**	**–**	**–**	**(354)**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**(209)**	**4**	**(149)**	**203**	**3**	**(148)**
Transactions with owners recorded directly in equity									
Contributions by and distributions to owners									
- Treasury shares acquired	–	(1)	–	–	–	–	–	–	(1)
- Share-based payments	–	–	16	–	–	–	–	–	16
- Shares vested and transferred to employees	–	8	(6)	–	–	–	(2)	–	–
- Share-based payments unvested and lapsed	–	–	(6)	–	–	–	6	–	–
Total contributions by and distributions to owners	–	**7**	**4**	–	–	–	**4**	–	**15**
Total transactions with owners	–	**7**	**4**	–	–	–	**4**	–	**15**
Balance as at 31 December 2014	**4,630**	**(9)**	**36**	**(281)**	**(37)**	**(149)**	**(1,464)**	**7**	**2,733**

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 2015

	December 2015 $M	December 2014 $M
Cash flows from operating activities		
Cash receipts from customers	9,268	8,459
Cash payments to suppliers and employees (excluding cash payments to employees for one-off bonus, redundancies and related costs)	(7,718)	(7,457)
Cash generated from operations	**1,550**	**1,002**
Cash payments to employees for redundancies and related costs	(50)	(186)
Cash payments to employees for one-off bonus	(53)	–
Interest received	34	43
Interest paid	(109)	(158)
Dividends received from investments accounted for under the equity method	2	2
Income taxes paid	(1)	–
Net cash from operating activities	**1,373**	**703**
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets	(997)	(806)
Net receipts for aircraft assigned to investments accounted for under the equity method[1]	–	268
Interest paid and capitalised on qualifying assets	(11)	(8)
Proceeds from disposal of property, plant and equipment	414	92
Proceeds from disposal of controlled entities, net of cash disposed	–	25
Net loan repayment from/(provided to) investments accounted for under the equity method	29	(43)
Payments for investments accounted for under the equity method	(38)	(37)
	(603)	(509)
Aircraft operating lease refinancing	(587)	–
Net cash used in investing activities	**(1,190)**	**(509)**
Cash flows from financing activities		
Payments for capital return[2]	(505)	–
Treasury shares acquired	(75)	(1)
Proceeds from borrowings	–	479
Repayments of borrowings	(227)	(1,066)
Proceeds from sale and finance leaseback of non-current assets	–	275
Net payments for aircraft security deposits and hedges related to debt	–	(7)
Net cash used in financing activities	**(807)**	**(320)**
Net decrease in cash and cash equivalents held	**(624)**	**(126)**
Cash and cash equivalents held at the beginning of the period	**2,908**	**3,001**
Effects of exchange rate changes on cash and cash equivalents	7	17
Cash and cash equivalents held at the end of the period	**2,291**	**2,892**

1 Net receipts for aircraft assigned to Jetstar Japan Co., Ltd. and Jetstar Hong Kong Airways Limited.
2 Paid on 6 November 2015 following shareholders' approval.

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 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 2015 comprises Qantas 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 as at and for the year ended 30 June 2015 is available at www.qantas.com.au or upon request from the registered office of Qantas at 10 Bourke Road, Mascot NSW 2020, Australia.

This Consolidated Interim Financial Report for the half-year ended 31 December 2015 was authorised for issue in accordance with a resolution of the Directors on 23 February 2016.

(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 (IFRSs) form the basis of Australian Accounting Standards (AASBs) 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 2015. 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 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.

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

(c) Significant Accounting Policies

The significant accounting policies applied by the Qantas Group in this Consolidated Interim Financial Report are the same as those applied by the Qantas Group in the Consolidated Annual Financial Report for the year ended 30 June 2015.

(d) Comparatives

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

(e) Estimates

The preparation of the Consolidated Interim Financial Report in conformity with AASBs requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the 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. In preparing this Consolidated Interim Financial Report, the significant judgements made by Management in applying the Qantas Group's accounting policies and the key sources of uncertainty in estimates were materially the same as those applied to the Consolidated Annual Financial Report for the year ended 30 June 2015.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

Note 1. Statement of Significant Accounting Policies (continued)

(f) Carrying Amount of Non-financial Assets

(i) Cash Generating Units

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

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

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

(ii) Assets Classified as Held for Sale

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

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital

(a) Underlying Profit Before Tax (Underlying PBT)

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

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

Refer to Note 2(d) for a description of Underlying PBT and reconciliation from Statutory Profit Before Tax.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

(b) Operating Segments

The Qantas Group comprises the following operating segments:

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

(c) Analysis by Operating Segment[1]

December 2015 $M	Qantas Domestic	Qantas International	Qantas Freight	Qantas Loyalty	Jetstar Group	Corporate	Unallocated/ Eliminations[6]	Consolidated
Revenue and other income								
External segment revenue and other income	2,747	2,663	521	672	1,823	9	28	8,463
Inter-segment revenue and other income	260	290	4	62	90	–	(706)	–
Total segment revenue and other income	**3,007**	**2,953**	**525**	**734**	**1,913**	**9**	**(678)**	**8,463**
Share of net profit of investments accounted for under the equity method[2]	3	2	–	–	1	–	–	6
Underlying EBITDAR[3]	**741**	**510**	**56**	**181**	**469**	**(77)**	**(10)**	**1,870**
Non-cancellable aircraft operating lease rentals	(106)	(33)	(3)	–	(112)	–	–	(254)
Depreciation and amortisation	(248)	(207)	(15)	(5)	(95)	(6)	(9)	(585)
Underlying EBIT	**387**	**270**	**38**	**176**	**262**	**(83)**	**(19)**	**1,031**
Underlying net finance costs						(110)		(110)
Underlying PBT						**(193)**		**921**
Six Month YTD ROIC %[4]								**13.1%**
Twelve Month ROIC %[5]								**22.8%**

1 Qantas Domestic, Qantas International, Qantas Freight, Qantas Loyalty, Jetstar Group and Corporate are the operating segments of the Qantas Group.
2 Share of net profit of investments accounted for under the equity method as reported by Qantas Domestic and Qantas International before rounding is $2.5 million and $2.5 million, respectively. From 1 July 2015, the Group ceased to equity account for the results of Jetstar Hong Kong as the carrying value of the investment had been written down to nil and the Group had not committed to make any further capital contributions.
3 Underlying EBITDAR represents underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.
4 Six month YTD ROIC % is the ROIC EBIT for the six months ended 31 December 2015 divided by the Average Invested Capital for the period 1 July to 31 December 2015 (refer to Note 2(g)).
5 Twelve month ROIC % is the ROIC EBIT for the twelve months ended 31 December 2015 divided by the Average Invested Capital for the period 1 January to 31 December 2015 (Refer to Note 2(g)).
6 Unallocated/Eliminations represent other businesses of the Qantas Group which are not considered to be significant reportable segments.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

(c) Analysis by Operating Segment (continued)

December 2014 **$M**	**Qantas Domestic**	**Qantas International**	**Qantas Freight**	**Qantas Loyalty**	**Jetstar Group**	**Corporate**	**Unallocated/ Eliminations**	**Consolidated**
Revenue and other income								
External segment revenue and other income	2,713	2,434	546	608	1,688	2	67	8,058
Inter-segment revenue and other income	294	314	4	61	85	–	(758)	–
Total segment revenue and other income	**3,007**	**2,748**	**550**	**669**	**1,773**	**2**	**(691)**	**8,058**
Share of net profit/(loss) of investments accounted for using the equity method[1]	2	1	–	–	(23)	–	–	(20)
Underlying EBITDAR	**569**	**268**	**75**	**163**	**278**	**(73)**	**(1)**	**1,279**
Non-cancellable aircraft operating lease rentals	(108)	(17)	(3)	–	(113)	–	–	(241)
Depreciation and amortisation	(234)	(192)	(18)	(3)	(84)	(6)	(1)	(538)
Underlying EBIT	**227**	**59**	**54**	**160**	**81**	**(79)**	**(2)**	**500**
Underlying net finance costs						(133)		(133)
Underlying PBT						**(212)**		**367**
Six Month YTD ROIC %[2]								**6.6%**
Twelve Month ROIC %[3]								**4.1%**

1 Share of net profit of investments accounted for under the equity method as reported by Qantas Domestic and Qantas International before rounding is $1.5 million and $1.5 million, respectively.
2 Six month YTD ROIC % is the ROIC EBIT for the six months ended 31 December 2014 divided by the Average Invested Capital for the period 1 July to 31 December 2014 (refer to Note 2(g)).
3 Twelve month ROIC % is the ROIC EBIT for the twelve months ended 31 December 2014 divided by the Average Invested Capital for the period 1 January to 31 December 2014 (Refer to Note 2(g)).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

(c) Analysis by Operating Segment (continued)

Basis of Preparation

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

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

The significant accounting policies applied in implementing this basis of preparation are set out below. These accounting policies have been consistently applied to all periods presented in the Consolidated Interim Financial Report.

Segment Performance Measure	Basis of Preparation
External segment revenue	External segment revenue is reported by operating segments as follows: - Net passenger revenue is reported by the operating segment which operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process. - Net freight revenue includes air cargo and express freight revenue and is reported by the Qantas Freight operating segment. - Frequent Flyer redemption revenue, marketing revenue, membership fees and other related revenue is reported by the Qantas Loyalty operating segment. - Other revenue is reported by the operating segment that earned the revenue.
Inter-segment revenue	Inter-segment revenue for Qantas Domestic, Qantas International and Jetstar Group operating segments primarily represents: - Net passenger revenue arising from the redemption of frequent flyer points for Qantas Group flights by Qantas Loyalty - Net freight revenue from the utilisation of Qantas Domestic, Qantas International and Jetstar Group's aircraft bellyspace by Qantas Freight. Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of frequent flyer points to Qantas Domestic, Qantas International and Jetstar Group. Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices. Qantas Loyalty does not derive net profit from intersegment transactions relating to frequent flyer point issuances and redemptions.
Share of net profit/(loss) of investments accounted for under the equity method	Share of net profit/(loss) of investments accounted for under the equity method is reported by the operating segment which is accountable for the management of the investment. The share of net profit/(loss) of investments accounted for under the equity method for Qantas Airlines investments has been equally shared between Qantas Domestic and Qantas International.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

(c) Analysis by Operating Segment (continued)

Segment Performance Measure	Basis of Preparation
Underlying EBITDAR	The significant expenses impacting Underlying EBITDAR are as follows: - Manpower and staff related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by Qantas Domestic and Qantas International using an appropriate allocation methodology. - Fuel expenditure is reported by the segment that consumes the fuel in its operations. - Aircraft operating variable costs are reported by the segment that incurs these costs. - All other expenditure is reported by the operating segment to which they are directly attributable or, in the case of Qantas Airlines, between Qantas Domestic and Qantas International using an appropriate allocation methodology. To apply this accounting policy, where necessary expenditure is recharged between operating segments as a cost recovery.
Depreciation and amortisation	Qantas Domestic, Qantas International, Qantas Freight and Jetstar Group report depreciation expense for aircraft owned by the Qantas Group and flown by the segment. Other depreciation and amortisation is reported by segment that uses the related asset.
Non-cancellable aircraft operating lease rentals	Qantas Domestic, Qantas International, Qantas Freight and Jetstar Group report non-cancellable aircraft operating lease rentals for aircraft externally leased by the Qantas Group and flown by the segment. Where aircraft are operated by Qantas Airlines, the aircraft operating lease rental costs are allocated to Qantas Domestic and Qantas International using an appropriate allocation methodology.

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

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

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

(i) Ineffectiveness relating to Other Reporting Periods

On the adoption of AASB 9 (2013) on 1 July 2014, there is better alignment between Underlying PBT and Statutory Profit Before Tax, however, there continues to be a difference between Statutory Profit Before Tax and Underlying PBT resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

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

(ii) Other items not included in Underlying PBT

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

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

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

	December 2015 $M	December 2014 $M
Statutory Profit Before Tax	**983**	**289**
Ineffectiveness relating to other reporting periods		
- Exclude current year derivative mark-to-market movements relating to underlying exposures in future years	–	13
- Include prior periods' derivative mark-to-market movements relating to underlying exposures in the current year	13	18
- Exclude ineffectiveness relating to other reporting periods affecting net finance costs	1	–
	14	**31**
Other items not included in Underlying PBT		
- Net gain on disposal of property, plant and equipment[1]	(201)	–
- Transformation costs[2]	48	42
- One-off employee bonus	67	–
- Net gain on disposal of investments in controlled entities	–	(12)
- Other	10	17
	(76)	**47**
Underlying PBT	**921**	**367**

(iii) Underlying EBIT

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

1 Relates to the disposal of Sydney Airport Terminal Three and related assets to Sydney Airport Corporation Limited.
2 Transformation costs includes redundancies, restructuring costs (including fleet related), impairment of intangible assets and other transformation costs.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

(e) Underlying PBT per Share

	December 2015 cents	December 2014 cents
Basic/diluted Underlying PBT per share	42.7	16.7

(f) Analysis by Geographical Areas

(i) Revenue and other income by geographic areas

	December 2015 $M	December 2014 $M
Net passenger and freight revenue		
Australia	5,606	5,500
Overseas	2,159	1,932
Total net passenger and freight revenue	**7,765**	**7,432**
Other revenue/income	698	626
Total revenue and other income	**8,463**	**8,058**

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

(ii) Non-current assets by geographic areas

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

(g) Return on Invested Capital (ROIC %)

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

Six month YTD ROIC % is the ROIC EBIT for the six months ended 31 December divided by the Average Invested Capital for the period 1 July to 31 December.

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 non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they were owned aircraft. The objective of this adjustment is to show an EBIT result which is indifferent to the financing or ownership structure of aircraft assets. ROIC EBIT therefore excludes the finance costs implicitly included in operating lease rental payments.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

(g) Return on Invested Capital (ROIC %) (continued)

	December 2015 $M	December 2014 $M
ROIC EBIT		
For the six months ended:		
Underlying EBIT	**1,031**	**500**
Add: Non-cancellable aircraft operating lease rentals	254	241
Less: Notional depreciation	(111)	(128)
ROIC EBIT for the six months ended	**1,174**	**613**
For the twelve months ended:		
Underlying EBIT	**1,764**	**216**
Add: Non-cancellable aircraft operating lease rentals	508	500
Less: Notional depreciation	(234)	(263)
ROIC EBIT for the twelve months ended	**2,038**	**453**

(ii) Invested Capital

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

	December 2015 $M	December 2014 $M
INVESTED CAPITAL		
Receivables (current and non-current)	967	1,199
Inventories	337	306
Other assets (current and non-current)	459	185
Investments accounted for using the equity method	193	157
Property, plant and equipment	11,578	10,787
Intangible assets	837	740
Assets classified as held for sale	88	171
Payables	(1,944)	(1,995)
Provisions (current and non-current)	(1,134)	(1,245)
Revenue received in advance (current and non-current)	(4,910)	(4,589)
Capitalised operating leased assets[1]	2,537	3,284
Invested Capital	**9,008**	**9,000**

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

Note 2. Underlying Profit Before Tax, Operating Segments and Return on Invested Capital (continued)

(g) Return on Invested Capital (ROIC %) (continued)

(ii) Average Invested Capital

	December 2015 $M	December 2014 $M
Average Invested Capital for the six months ended	8,986	9,296
Average Invested Capital for the twelve months ended	8,936	10,946

(iv) ROIC %

	December 2015 %	December 2014 %
Six month YTD ROIC %	13.1	6.6
Twelve month ROIC %	22.8	4.1

Note 3. Other Revenue/Income and Other Expenditure

	December 2015 $M	December 2014 $M
Other revenue/income		
Frequent Flyer marketing revenue, membership fees and other revenue	210	171
Frequent Flyer store and other redemption revenue[1]	157	141
Retail, advertising and other property revenue	75	79
Contract work revenue	62	70
Other	194	165
	698	**626**
Other expenditure[2]		
Commissions and other selling costs	292	267
Computer and communication	219	205
Capacity hire	153	144
Property	121	127
Non-aircraft operating lease rentals	112	111
One-off employee bonus	67	–
Marketing and advertising	60	34
Inventory write-off	13	3
Redundancies	12	36
Contract work materials	5	10
Ineffective and non-designated derivatives	–	13
Net gain on disposal of property, plant and equipment	(201)	(3)
Net gain on disposal of investments in controlled entities	–	(12)
Employee benefit discount rate and other assumption changes	18	56
Other	273	153
	1,144	**1,144**

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

2 Airport security charges which were previously reported in other expenditure have been included in aircraft operating variable costs. Selling and marketing expenses have been separately disclosed as either commission and other selling costs, marketing and advertising or other expenditure. The comparative for 31 December 2014 has been restated to enable comparability.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

Note 4. Taxation

	December 2015 $M	December 2014 $M
Statutory profit before income tax expense	983	289
Income tax expense using the domestic corporate tax rate of 30 per cent	(295)	(87)
Adjusted for:		
- (Reversal)/utilisation of previously unrecognised capital losses	(7)	14
- Non-assessable gain on disposal of property, plant and equipment	19	–
- Non-assessable/(non-deductible) share of net profit/(loss) of investments accounted for under the equity method	1	(7)
- Non-deductible losses for foreign branches and controlled entities	(10)	(14)
- Other net non-assessable items	4	8
- (Under)/over provision prior periods	(7)	3
Income tax expense	**(295)**	**(83)**

The Group has a net deferred tax asset as at 31 December 2015 of $173 million (30 June 2015: $333 million) representing a deferred tax asset associated with carried forward tax losses of $585 million ($1.95 billion at 30 per cent) and net of a deferred tax liability of $412 million from temporary differences.

The total franking account balance (at 30 per cent) as at 31 December 2015 is $84 million (30 June 2015: $84 million).

Note 5. Dividends

No dividends were declared or paid during the half-year ended 31 December 2015.

Note 6. 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. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

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

Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet in accordance with AASB 9.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

Note 6. Financial Assets and Financial Liabilities (continued)

The following summarises the carrying amount and fair value for financial assets and financial liabilities held by the Qantas Group.

	December 2015 $M			June 2015 $M		
	Carrying Amount Held at			Carrying Amount Held at		
	Fair Value through Profit and Loss	Amortised Cost	Fair Value	Fair Value through Profit and Loss	Amortised Cost	Fair Value
Financial assets						
Cash and cash equivalents	–	2,291	2,299	–	2,908	2,917
Receivables	–	967	967	–	1,093	1,093
Other financial assets	583	–	583	662	–	662
Financial liabilities						
Payables	–	(1,944)	(1,944)	–	(1,881)	(1,881)
Interest-bearing liabilities	–	(5,456)	(5,473)	–	(5,562)	(5,575)
Other financial liabilities	(770)	–	(770)	(484)	–	(484)

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

Note 7. Commitments

(a) Finance Lease and Hire Purchase Commitments

	December 2015 $M	June 2015 $M
Finance lease and hire purchase liabilities included in the Consolidated Financial Statements		
Aircraft and engines – payable:		
Not later than one year	140	135
Later than one year but not later than five years	573	553
Later than five years	1,136	1,150
	1,849	**1,838**
Less: Future lease and hire purchase finance charges and deferred lease benefits	(329)	(340)
Total finance lease and hire purchase liabilities	**1,520**	**1,498**

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2015

Note 7. Commitments (continued)

(a) Finance Lease and Hire Purchase Commitments (continued)

	December 2015 $M	June 2015 $M
Finance lease and hire purchase liabilities included in the Consolidated Financial Statements		
Current liabilities	98	93
Non-current liabilities	1,422	1,405
Total finance lease and hire purchase liabilities	**1,520**	**1,498**

The Qantas Group leases aircraft under finance leases with expiry dates between one and 10 years.

(b) Operating Lease Commitments

As lessee	December 2015 $M	June 2015 $M
Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements		
Aircraft and engines – payable:		
No later than one year	407	469
Later than one year but not later than five years	694	802
Later than five years	63	88
	1,164	**1,359**
Non-aircraft – payable:		
No later than one year	184	175
Later than one year but not later than five years	530	521
Later than five years but not later than ten years	332	332
Later than ten years	391	398
Less: Provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	(3)	(3)
	1,434	**1,423**

(c) Capital Expenditure Commitments

The Group's capital expenditure commitments as at 31 December 2015 are $12,293 million (June 2015: $10,090 million). The Group has certain rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure.

The Group's capital expenditure commitments are predominately denominated in US dollars. Disclosures outlined above are translated to Australian dollar presentational currency at the 31 December 2015 closing exchange rate of $0.72 (June 2015: $0.77). Included in the Group's capital expenditure commitments as at 31 December 2015 are the commitments to acquire eight new Boeing 787-9s to gradually replace five of its older Boeing 747-400s.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

Note 8. Post Balance Date Events

On 23 February 2016, Qantas announced that the Board proposed to undertake a capital management initiative for Qantas shareholders, comprising an on-market share buy-back of up to $500 million.

Other than the matter noted above, there has not arisen in the interval between 31 December 2015 and the date of this report any event that would have had a material effect on the Consolidated Interim Financial Report as at 31 December 2015.

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

To: the Directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 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

D McLennan

Duncan McLennan
Partner

Sydney
23 February 2016

DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

(a) the Consolidated Interim Financial Report and notes set out on pages 4 to 37 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 2015 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:

LEIGH CLIFFORD, AO
Chairman

ALAN JOYCE
Chief Executive Officer

Sydney
23 February 2016

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF QANTAS AIRWAYS LIMITED

We have reviewed the accompanying Consolidated Interim Financial Report of Qantas Airways Limited (Interim Financial Report), which comprises the Consolidated Balance Sheet as at 31 December 2015, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the half-year ended on that date, notes 1 to 8 comprising a statement of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility 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 for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Qantas Airways Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

KPMG	**Duncan McLennan**	**Julian McPherson**
Sydney	Partner	Partner

23 February 2016

OPERATIONAL STATISTICS

For the half-year ended 31 December 2015

(unaudited)		Half-year ended December 2015	Half-year ended December 2014	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK) - SCHEDULED SERVICES				
Passengers carried	‘000	11,220	11,216	0.0%
Revenue passenger kilometres (RPK)	M	14,189	14,269	(0.6)%
Available seat kilometres (ASK)	M	18,536	18,765	(1.2)%
Revenue seat factor	%	76.5	76.0	0.5pts
JETSTAR DOMESTIC - SCHEDULED SERVICES				
Passengers carried	‘000	6,962	6,708	3.8%
Revenue passenger kilometres (RPK)	M	8,273	7,889	4.9%
Available seat kilometres (ASK)	M	9,750	9,474	2.9%
Revenue seat factor	%	84.8	83.3	1.5pts
QANTAS INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	‘000	3,200	2,944	8.7%
Revenue passenger kilometres (RPK)	M	26,230	24,368	7.6%
Available seat kilometres (ASK)	M	31,492	29,580	6.5%
Revenue seat factor	%	83.3	82.4	0.9pts
JETSTAR INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	‘000	2,720	2,558	6.3%
Revenue passenger kilometres (RPK)	M	8,481	7,759	9.3%
Available seat kilometres (ASK)	M	10,535	9,914	6.3%
Revenue seat factor	%	80.5	78.3	2.2pts
JETSTAR ASIA				
Passengers carried	‘000	2,109	1,995	5.7%
Revenue passenger kilometres (RPK)	M	3,480	3,291	5.7%
Available seat kilometres (ASK)	M	4,337	4,203	3.2%
Revenue seat factor	%	80.2	78.3	1.9pts
QANTAS GROUP OPERATIONS				
Passengers carried	‘000	26,211	25,421	3.1%
Revenue passenger kilometres (RPK)	M	60,652	57,575	5.3%
Available seat kilometres (ASK)	M	74,650	71,936	3.8%
Revenue seat factor	%	81.2	80.0	1.2pts
Aircraft in service at end of period	#	300	297	3 aircraft
EMPLOYEES				
Full-time equivalent employees at end of period (FTE)	#	29,353	29,250	0.4%
RPK per FTE (annualised)	‘000	4,133	3,937	5.0%
ASK per FTE (annualised)	‘000	5,086	4,919	3.4%