QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

APPENDIX 4D AND

CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2011

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 2011 $M	December 2010 $M	Change $M	Change %
Revenue and other income	8,048	7,591	457	6
Statutory profit after tax	42	239	(197)	(82)
Statutory profit after tax attributable to members of Qantas	42	241	(199)	(83)
Underlying profit before tax	202	417	(215)	(52)

DIVIDENDS

No interim dividend will be paid in relation to the half-year ended 31 December 2011.

EXPLANATION OF RESULTS

Please refer to page 3 ‘Review of Operations’ for an explanation of the results.

This information should be read in conjunction with the Qantas Airways Limited 2011 Annual Report and Consolidated Interim Financial Report for the half-year ended 31 December 2011.

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

OTHER INFORMATION

	December 2011 $	June 2011 $
Net tangible assets per ordinary share	2.46	2.45

OTHER INFORMATION (continued)

Entities over which control was gained and lost during the period

On 5 August 2011, the Qantas Group acquired 100 per cent of the Wishlist Holdings Group, comprising the following entities:
- Wishlist Holdings Limited
- Loyalty Magic Pty. Ltd.

The Qantas Group incorporated the following entities during the period:
- J Stay Pty. Limited (19 August 2011)
- Jetstar International Group Australia Pty Limited (19 August 2011)
- Jetstar International Group Japan Co., Ltd (6 September 2011)

The following entities were voluntarily deregistered:
- QDS Richmond Pty Ltd (28 August 2011)
- QF Dash 8 Leasing Pty Limited (28 August 2011)

DIRECTORS' REPORT

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2011 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*	*Director since 9 August 2007 – appointed Chairman on 14 November 2007*
Alan Joyce *Chief Executive Officer*	*Director since 28 July 2008 – appointed Chief Executive Officer on 28 November 2008*
Peter Cosgrove, AC, MC	*Director since 6 July 2005*
Patricia Cross	*Director since 1 January 2004*
Richard Goodmanson	*Director since 19 June 2008*
Garry Hounsell	*Director since 1 January 2005*
William Meaney	*Director since 15 February 2012*
Corinne Namblard	*Director since 16 June 2011*
Paul Rayner	*Director since 16 July 2008*
John Schubert, AO	*Director since 23 October 2000*
James Strong, AO	*Director since 1 July 2006*
Barbara Ward, AM	*Director since 19 June 2008*

REVIEW OF OPERATIONS

The Qantas Group reported an Underlying PBT[1] of $202 million for the half-year ended 31 December 2011, a decrease of $215 million on the prior corresponding period result of $417 million.

The Qantas Group reported a Statutory PBT of $58 million[2].

Highlights of the half-year result include:

- Group earnings were built on the strength of the Qantas Group's portfolio of related businesses
  - Continuing record results for Jetstar and Qantas Frequent Flyer[3]
  - Qantas and Jetstar were the two most profitable domestic airlines
  - Revenue growth of 6 per cent
  - Yield and unit cost improvements
  - Operational achievements offset by significant increases in fuel costs and the financial impact of Industrial Action and customer recovery initiatives
- Improvement in net operating cash flow of 5 per cent
- Strategic initiatives to transform Qantas International and grow Jetstar in Asia

Resilient Earnings Result

The Underlying PBT result demonstrated the resilience provided by the Qantas Group's portfolio of businesses and its capacity to respond to challenges.

First half performance was significantly reduced by a material increase in fuel costs ($444 million) and the financial impact of Industrial Action including the subsequent grounding of the Qantas fleet ($194 million).

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[1] Underlying PBT is a non-statutory measure used by Management and the Group's chief operating decision making bodies as the primary measure to assess financial performance of the Group and individual Segments. All line items in the Review of Operations are reported on an Underlying basis

[2] A detailed reconciliation of Statutory and Underlying PBT is provided on page 11

[3] Normalised for prior period changes in accounting estimates (refer to page 9 for further details)

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Record results in Jetstar and Frequent Flyer

Despite these challenging conditions, the Group and each operating Segment were able to deliver a profitable first half result.

The flying businesses delivered improvements in yield and unit cost that helped to offset the impact of increasing fuel costs. Qantas remained the most profitable airline in the Australian domestic market, notwithstanding the grounding of the Qantas fleet, and the resultant favourable impact on its competitors.

Jetstar achieved a record first half result built on continuing profitable growth.

The ongoing growth and outstanding performance of the Frequent Flyer business was also rewarded with a record normalised result[1].

Segment Performance Summary	December 2011	December 2010	Change $M	Change %
Qantas	66	165	(99)	(60)
Jetstar	147	143	4	3
Qantas Frequent Flyer	119	189[1]	(70)	(37)
Qantas Freight	38	41	(3)	(7)
Corporate/Other Businesses/Eliminations	(93)	(86)	(7)	8
Underlying EBIT	**277**	**452**	**(175)**	**(39)**
Net finance costs	(75)	(35)	(40)	114
Underlying PBT	**202**	**417**	**(215)**	**(52)**

[1] The normalised result for Qantas Frequent Flyer for the half-year ended 31 December 2010 was $107 million. Refer to page 9 for a reconciliation of Qantas Frequent Flyer's normalised result to Underlying EBIT

Revenue growth of 6 per cent

Despite the significant impact of Industrial Action on the period, the Group achieved revenue growth of 6 per cent driven by continued growth in both yield and capacity.

Net passenger revenue increased by 4 per cent. Average yields, excluding foreign exchange (FX) movements, increased by 4 per cent reflecting management initiatives to recover fuel price increases and the resilience of the business, particularly in the domestic market. Domestic yield improved by 5 per cent and International yield improved by 3 per cent.

Capacity increased by 5 per cent following the expansion of the Group fleet from 266 aircraft as at 31 December 2010 to 301 aircraft as at 31 December 2011. This reflects continued growth in the Group's strong Qantas domestic franchise and the ongoing expansion of Jetstar both domestically and internationally.

The Group remains committed to maintaining and profitably building on its domestic market share of 65 per cent.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Group Underlying Income Statement Summary	December 2011 $M	December 2010 $M	Change $M	Change %
Net passenger revenue	6,452	6,188	264	4
Net freight revenue	407	447	(40)	(9)
Other	1,189	956	233	24
Revenue	**8,048**	**7,591**	**457**	**6**
Operating expenses (excluding Fuel) [1]	4,634	4,513	121	3
Fuel [1]	2,181	1,737	444	26
Depreciation and amortisation	679	606	73	12
Non-cancellable operating lease rentals	277	283	(6)	(2)
Expenses	**7,771**	**7,139**	**632**	**9**
Underlying EBIT	**277**	**452**	**(175)**	**(39)**
Net finance costs [1]	(75)	(35)	(40)	>100
Underlying PBT	**202**	**417**	**(215)**	**(52)**

1 Underlying operating expenses (excluding fuel), fuel and net finance costs differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 139 which relate to other reporting periods and other items identified by Management. Refer to page 11 for a reconciliation of Statutory and Underlying PBT

Excluding fuel, the Group's unit cost performance was favourable compared to the prior corresponding period. Net Underlying Unit Cost[4] improved 3 per cent. The Comparable Net Underlying Unit Cost[5] also improved by 3 per cent.

Underlying fuel costs increased by $444 million or 26 per cent, driven by significant increases in market prices. Hedging and a strong AUD provided some relief from the 37 per cent increase in average USD fuel prices compared to the prior corresponding period.

Operating statistics		December 2011	December 2010	Change	% Change
Available Seat Kilometres (ASKs) [1]	M	70,205	66,821	3,384	5
Revenue Passenger Kilometres (RPKs) [2]	M	56,680	54,592	2,088	4
Passenger Numbers	'000	23,691	22,948	743	3
Seat Factor	%	80.7	81.7	(1.0) pts	(1)
Yield (Excluding FX) [3]	c/RPK	11.2	10.8	0.4	4
Net Underlying Unit Cost [3,4]	c/ASK	5.58	5.76	(0.18)	(3)
Comparable Net Underlying Unit Cost [5]	c/ASK	5.48	5.65	(0.17)	(3)

1 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown
2 RPK – total number of passengers carried, multiplied by the number of kilometres flown
3 Jetstar product unbundling – yield and unit cost calculations are adjusted to treat fee revenue from Jetstar product bundles (launched in May 2011) as passenger revenue to ensure comparability between periods
4 Net Underlying Unit Cost – Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate per ASK
5 Comparable Net Underlying Unit Cost – Net Underlying Unit Cost adjusted for the impact of Industrial Action (first half of 2011/2012) and A380 disruptions (first half of 2010/2011) and movements in average sector length

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Improvement in Operating Cash Flows

Operating cash flows grew to $823 million for the half-year ended 31 December 2011, an increase of 5 per cent on the prior corresponding period result of $786 million. The result reflects the strong growth of passenger revenues, improvements in unit cost and disciplined management of working capital.

The Group reinvested $1.5 billion in fleet growth and renewal during the period. This included the purchase of 24 aircraft, including two Airbus A380s, progress payments on future deliveries and the initial investment into Jetstar Japan.

Cash Flow Summary	December 2011 $M	December 2010 $M	Change $M	Change %
Cash at Beginning	3,496	3,704	(208)	(6)
Net operating cash flows	**823**	**786**	**37**	**5**
Investing cash flows	(1,501)	(1,119)	(382)	34
Financing cash flows	525	(20)	545	<(100)
Effect of foreign exchange on cash	(1)	(14)	13	(93)
Cash at period end	**3,342**	**3,337**	**5**	**-**

Qantas Group cash was $3,342 million at 31 December 2011, a decrease of $154 million from 30 June 2011. Net debt including Off Balance Sheet Debt[2] increased $817 million to $7,787 million reflecting the continued growth of the business and the ongoing fleet renewal program.

The Qantas Group's approach to capital management remains conservative with the objective of supporting the Group's investment grade credit rating and providing strategic flexibility through the cycle. Significant investments in fleet renewal and business growth are balanced against the Group's ability to generate positive operating cash flows and the retention of a strong balance sheet and secure capital position.

As at 31 December 2011, the Group's gearing ratio was 56 per cent. The Qantas Group continues to retain its investment grade credit rating, one of only two airlines in the world to be rated investment grade by both Standard & Poors and Moody's.

Debt and Gearing Analysis		December 2011	June 2011	Change	% Change
Net Debt [1]	$M	3,753	2,971	782	26
Net Debt Including Off Balance Sheet Debt [2]	$M	7,787	6,970	817	12
Equity (Excluding Hedge Reserves)	$M	6,111	6,071	40	1
Gearing Ratio [3]		56:44	53:47		

1 Net Debt includes interest bearing liabilities and the fair value of hedges related to debt less cash and aircraft security deposits

2 Net Debt Including Off Balance Sheet Debt includes Net Debt and non-cancellable operating leases. This measure reflects the total debt funding used by the Group to support its operations. Non-cancellable operating leases are a representation assuming assets are owned and debt funded and is not consistent with the disclosure requirements of AASB117: Leases

3 Gearing Ratio is Net Debt including Off Balance Sheet Debt to Net Debt including Off Balance Sheet Debt and Equity (excluding hedge reserves). The gearing ratio is used by Management to represent the Qantas Group's entire capital position by measuring the proportion of the Group's total net funding provided using debt both on and off balance Sheet debt

Fleet

The Qantas Group remains committed to a fleet strategy that provides for long-term fleet renewal, simplification and disciplined growth. The fleet strategy is designed to support the strategic objectives of the Group's two strong complementary flying brands, whilst retaining significant flexibility to respond to changes in market conditions.

At 31 December 2011, the Qantas Group fleet comprised 301 aircraft.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Qantas Group Fleet		December 2011 Number	June 2011 Number	Change
Qantas	A380-800	12	10	2
	B747-400	19	20	(1)
	B747-400ER	6	6	-
	A330-200	8	8	-
	A330-300	10	10	-
	B767-300ER	24	25	(1)
	B737-400	15	19	(4)
	B737-800NG	56	46	10
	Fokker F100	3	2	1
	EMB 120	7	7	-
	B717-200	11	11	-
	Q200/Q300	21	21	-
	Q400	25	22	3
	Total	**217**	**207**	**10**
Jetstar [1]	A320-200	62	56	6
	A321-200	6	6	-
	A330-200	11	9	2
	Total	**79**	**71**	**8**
Qantas Freight	B737-300SF	4	4	-
	B767-300	1	1	-
	Total	**5**	**5**	**-**
	Total Group	**301**	**283**	**18**

[1] Jetstar fleet includes Jetstar Asia and excludes Jetstar Pacific

During the half-year, the Group acquired 24 new aircraft (23 purchased and one leased):

- Qantas – two Airbus A380s, 10 Boeing B737-800s, three Bombardier Q-400s and one Fokker F100
- Jetstar (including Jetstar Asia) – six A320-200s, two A330-200s

In addition, one leased B767-300 was purchased outright.

The Group retired six aircraft during the half-year (one B747-400, one B767-300 and four B737-400s). 11 aircraft are scheduled for retirement during the second half of the year.

Qantas

Qantas' Underlying EBIT was $66 million for the half-year ended 31 December 2011, a decrease of $99 million on the prior corresponding period result of $165 million. The result is driven by the $194 million financial impact of Industrial Action and subsequent grounding of the fleet.

		December 2011	December 2010	Change	% Change
Total Revenue and Other Income	$M	6,066	5,706	360	6
Seat Factor	%	81.1	82.4	(1.3) pts	(2)
Underlying EBIT	$M	66	165	(99)	(60)

Excluding the impact of Industrial Action, the Qantas Segment result demonstrates the inherent strengths of the business. Qantas achieved revenue growth of 6 per cent built on increases in capacity and improvements in yield, and through the broadening of QantasLink revenues to include the fly-in-fly-out charter capability of Network Aviation. Combined with unit cost improvements, the business was able to absorb or recover a 24 per cent increase in fuel costs.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Industrial Action

Industrial Action by the Australian Licensed Engineers Association (ALAEA), the Transport Workers Union (TWU) and the Australian International Pilots Association (AIPA) and the subsequent grounding of the Qantas fleet unfavourably impacted the half-year results by $194 million. The financial impact included lost passenger revenues and forward bookings prior to the grounding ($68 million and $27 million respectively), the direct impact of the grounding including lost revenues, refunds, third party carrier costs and accommodation ($70 million), and customer recovery initiatives ($29 million).

Qantas employed a range of customer recovery initiatives designed to restore confidence in the airline, compensate affected customers and to recognise the continuing loyalty of Qantas' most frequent travellers. These initiatives were able to substantially leverage Qantas premium products and the engagement of Qantas Frequent Flyer members. The success of these programs has resulted in the restoration of domestic forward bookings, the ongoing recovery of international patronage, and recovery of Qantas' operational and customer metrics.

Whilst the impact of the grounding was significant, had Management not taken decisive action, the ongoing financial impact of Industrial Action would have continued to escalate. This would have resulted in the further erosion of customer confidence and a protracted decline in forward bookings, a progressive grounding of parts of the fleet as maintenance schedules fell behind, and significant pressure on the Group's financial and operational wellbeing.

On 23 January 2012, Fair Work Australia ratified the agreement between Qantas and the ALAEA. The arbitration process continues with respect to the TWU and AIPA.

Qantas International transformation

Transformation of Qantas International continues. Restructuring of the Joint Services Agreement with British Airways will result in the elimination of unprofitable flying between Bangkok and Hong Kong to London and the early retirement of four B747-400 aircraft. These aircraft were impaired in the period resulting in a charge of $68 million. This charge is not included in Underlying PBT.

Qantas has also made significant progress on strengthening alliance partnerships and optimising the network. The Joint Business Agreement with American Airlines has received Anti Trust Immunity clearance. Network optimisation changes include increasing the frequency of Dallas services (six per week from January 2012 and daily from July 2012), the commencement of flights to Santiago replacing Buenos Aires services and the introduction of A380 services to Hong Kong.

Investment in product and service

Qantas Airlines continues to invest in customer experience leadership and innovation, whilst maintaining a focus on profitable growth opportunities. Highlights in the first half of 2011/2012 include:

- Roll-out of faster, smarter check-in technology – at all major capital city ports, a wide range of regional ports and for some trans-Tasman services;
- QantasLink named 2012 'Regional Airline of the Year' by Air Transport World;
- Delivery of superior On-Time Performance with domestic market leadership achieved in each month of 2011 not impacted by Industrial Action;
- Domestic product enhancements including Business Lounges, Qantas Clubs, in-flight offerings and introduction of priority boarding;
- Strong corporate travel performance with corporate revenue growth of 12 per cent; and
- Continued progress of the International fleet reconfiguration program. Two B747s upgraded to award winning A380 product standards are now in service with a further seven to follow.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

QFuture

QFuture is the key business change program within Qantas, designed to position the airline for profitable growth. It involves transformational change across the airline, with total benefits of $1.5 billion targeted over the three financial years from 2009/2010 to 2011/2012 to underpin unit cost reduction and margin improvement.

For the half-year, benefits of $180 million have been achieved. The majority of the benefits were contributed by cost savings and margin improvement initiatives across the Qantas Segment's Commercial, Engineering and IT divisions. This result is ahead of the benefits delivered in the prior corresponding period. Qantas remains on track to achieve its target of $500 million of benefits in 2011/2012 and $1.5 billion in benefits over three years.

Jetstar

Jetstar achieved a record Underlying EBIT result of $147 million for the half-year ended 31 December 2011, an increase of $4 million on the prior corresponding period result of $143 million. The result is driven by a 16 per cent increase in total revenue and continuing improvements in unit cost offsetting a 40 per cent increase in fuel costs.

		December 2011	December 2010	Change	% Change
Total Revenue and Other Income	$M	1,565	1,346	219	16
Seat Factor	%	79.9	79.6	0.3 pts	-
Underlying EBIT	$M	147	143	4	3

Overall capacity increased by 15 per cent compared to the prior corresponding period. This includes growth in domestic capacity of 9 per cent, international capacity of 8 per cent and Jetstar Asia of 47 per cent. Load improved to 79.9 per cent, a 0.3 point increase versus the prior corresponding period.

Unit Cost (excluding fuel) has improved by 3 per cent compared to the prior corresponding period.

Jetstar's result highlights the benefits of the Qantas Group's two complementary flying brands. It reflects Jetstar's strong competitive position in the Australian market and the platform that it provides for growth in leisure travel markets across Asia-Pacific.

Jetstar is committed to grow strategically in Asia through new affiliates in key locations. Jetstar Japan is the latest Jetstar branded operation in Asia with an operational launch planned for July 2012. Launch preparations are well underway with requests for key licenses and permits already lodged and a strong management team in place to manage final project phases and Jetstar Japan's future operation.

The first deliveries of the new B787-8 fleet are expected in mid-2013, and will be deployed in the Jetstar International network.

Qantas Frequent Flyer

Qantas Frequent Flyer's Underlying EBIT was $119 million for the half-year ended 31 December 2011. Normalised EBIT was 11 per cent higher than the prior corresponding period driven by growth in member billings.

		December 2011	December 2010	Change	% Change
Members	M	8.3	7.5	0.8	11
Billings	$M	600	518	82	16
Underlying EBIT	$M	119	189	(70)	(37)
Normalisation Adjustment	$M	-	(82)	82	(100)
Normalised EBIT [1]	$M	119	107	12	11

[1] Normalised EBIT is a non-statutory measure which creates a comparable basis for the presentation of results. It adjusts Qantas Frequent Flyer Underlying EBIT for the effect of change in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009. The effect of this difference was that revenue for the half-year ending 31 December 2010 was $82 million higher than it would have been had the deferred value per point been the same as that applied in the current period

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Qantas Frequent Flyer delivered a record normalised result for the period. The result was built on strong financial services and retail billings, continuing growth of the Frequent Flyer membership base, deepening member engagement through new product and service initiatives with key business partners.

Membership grew to 8.3 million members, an increase of 11 per cent on the prior corresponding period. Billings growth was higher with an increase of 16 per cent compared to the prior corresponding period as members accessed a broader range of opportunities to earn and redeem points. Members can now earn points with over 500 partners and can redeem points by flying to over 1,000 destinations or over 2,000 products in the Frequent Flyer on-line store.

Qantas Frequent Flyer's business provides the Qantas Group with a unique opportunity to profitably leverage the strength of the Group's core brands. It provides a high quality cash earnings stream that improves the quality, diversification and resilience of the Group's earnings and a complementary channel for growth. The development of epiQure by Qantas Frequent Flyer food and wine club and the acquisition of Wishlist demonstrate the business' ability to develop new revenue streams in on-line retail and employee recognition and rewards.

Investment in Product and Service

Qantas Frequent Flyer continued its strategy to deepen member and partner engagement by expanding its range of products and services across a growing portfolio of coalition partners.

Significant Qantas program enhancements include improved tier and cabin benefits, a new "Platinum One" level of recognition for the most valuable frequent flyers, improved access to classic award seats and upgrades and expanded Jetstar earn and burn options.

New partners and products announced in the period include a loyalty alliance with Optus, and the launch of CBA Diamond Direct, Woolworths Qantas card and NAB Qantas Business card.

Qantas Freight

Qantas Freight's Underlying EBIT was $38 million for the half-year ended 31 December 2011, a decrease of $3 million on the prior corresponding period result of $41 million. The result was driven by the downturn in global and regional freight markets and significant increases in fuel costs.

		December 2011	December 2010	Change	% Change
Total Revenue and Other Income	$M	526	545	(19)	(3)
Underlying EBIT	$M	38	41	(3)	(7)
Load Factor	%	54.6	60.3	(5.7) pts	(9)

The Qantas Freight result was impacted by an industry wide decline in demand during the period, particularly on trade lanes between Asia and the developed world. Network load factor decreased by 5.7 points to 54.6 per cent, but total Freight revenue fell by only 3 per cent due to increased surcharges and contract revenue. Capacity was slightly lower than the prior corresponding period, reflecting reduced B747 freighter flying to match demand.

The domestic express freight market has delivered strong results. Australia air Express and Star Track Express, continued to improve on prior corresponding period following the renewal of Qantas' joint venture agreement with Australia Post and the successful reconfiguration of the businesses in 2011.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Reconciliation of Underlying PBT to Statutory PBT

Statutory PBT has decreased to $58 million from $322 million.

Underlying PBT

Underlying PBT is a non-statutory measure, and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Executive 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 Segment and the Group.

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

Statutory Profit reconciliation	December 2011 $M	December 2010 $M	Change $M	Change %
Underlying PBT	**202**	**417**	**(215)**	**(52)**
Items not included in Underlying PBT				
- AASB 139 mark-to-market movements relating to other reporting periods	(7)	(45)	38	(84)
- Net impairment of property, plant & equipment	(72)	-	(72)	>100
- Net impairment and net losses on disposal of investments	(19)	(24)	6	(25)
- Redundancies, restructuring and legal provisions	(46)	(26)	(20)	77
Statutory PBT	**58**	**322**	**(264)**	**(82)**

Impacts of AASB 139 mark to market movements which relate to other reporting periods

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

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

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

The International Accounting Standards Board are currently redrafting IAS 39 (International equivalent of AASB 139) to address anomalies in the accounting treatment of hedge transactions. Qantas has lobbied for this redraft and is actively pursuing an outcome that aligns with the principles and methodology applied by Qantas in calculating Underlying PBT.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

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 outside the ordinary course of business.

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 30 and forms part of the Directors' Report for the half-year ended 31 December 2011.

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 2011, 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 2011 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
16 February 2012

CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December 2011

	Note	December 2011 $M	December 2010 $M
Revenue and other income			
Net passenger revenue		6,452	6,188
Net freight revenue		407	447
Other	3	1,189	956
		8,048	**7,591**
Expenditure			
Manpower and staff related		1,918	1,880
Fuel		2,117	1,714
Aircraft operating variable		1,562	1,466
Depreciation and amortisation		679	606
Non-cancellable operating lease rentals		277	283
Ineffective and non-designated derivatives		75	28
Share of net profit of associates and jointly controlled entities		(15)	(17)
Other	3	1,298	1,267
		7,911	**7,227**
Statutory profit before income tax expense and net finance costs		**137**	**364**
Finance income		98	101
Finance costs		(177)	(143)
Net finance costs		**(79)**	**(42)**
Statutory profit before income tax expense		**58**	**322**
Income tax expense	4	(16)	(83)
Statutory profit for the period		**42**	**239**
Attributable to:			
Members of Qantas		42	241
Non-controlling interests		-	(2)
Statutory profit for the period		**42**	**239**
Earnings per share attributable to members of Qantas:			
Basic/diluted earnings per share (cents)		1.9	10.6

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 2011

	December 2011 $M	December 2010 $M
Statutory profit for the period	**42**	**239**
Effective portion of changes in fair value of cash flow hedges, net of tax	(24)	(163)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1]	(52)	11
Recognition of effective cash flow hedges on capitalised assets, net of tax	73	56
Foreign currency translation of controlled entities	-	(20)
Foreign currency translation of associates	(1)	(9)
Other comprehensive income for the period	**(4)**	**(125)**
Total comprehensive income for the period	**38**	**114**
Total comprehensive income attributable to:		
Members of Qantas	38	117
Non-controlling interests	-	(3)
Total comprehensive income for the period	**38**	**114**

[1]These amounts were allocated against revenue of $4 million (2010: ($14 million)), fuel expenditure of ($70 million) (2010: $2 million) and income tax expense of $22 million (2010: income tax benefit of $5 million) in the Consolidated Income Statement.

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	December 2011 $M	June 2011 $M
Current assets			
Cash and cash equivalents		3,342	3,496
Receivables		1,006	1,027
Other financial assets	6	166	318
Inventories		394	372
Assets classified as held for sale		44	20
Other		446	408
Total current assets		**5,398**	**5,641**
Non-current assets			
Receivables		465	423
Other financial assets	6	47	70
Investments accounted for using the equity method	5	487	476
Property, plant and equipment		14,364	13,652
Intangible assets		618	593
Other		3	3
Total non-current assets		**15,984**	**15,217**
Total assets		**21,382**	**20,858**
Current liabilities			
Payables		1,860	1,738
Revenue received in advance		2,940	3,067
Interest-bearing liabilities	7	654	577
Other financial liabilities	6	202	397
Provisions		478	456
Current tax liabilities		1	-
Total current liabilities		**6,135**	**6,235**
Non-current liabilities			
Revenue received in advance		1,140	1,111
Interest-bearing liabilities	7	6,064	5,454
Other financial liabilities	6	416	493
Provisions		656	647
Deferred tax liabilities		783	767
Total non-current liabilities		**9,059**	**8,472**
Total liabilities		**15,194**	**14,707**
Net assets		**6,188**	**6,151**
Equity			
Issued capital		4,729	4,729
Treasury shares		(72)	(72)
Reserves		78	85
Retained earnings		1,449	1,405
Equity attributable to the members of Qantas		**6,184**	**6,147**
Non-controlling interests		4	4
Total equity		**6,188**	**6,151**

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 2011

December 2011 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2011	4,729	(72)	65	80	(60)	1,405	4	6,151
Total comprehensive income for the period								
Statutory profit for the period	-	-	-	-	-	42	-	42
Other comprehensive income								
- Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(24)	-	-	-	(24)
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(52)	-	-	-	(52)
- Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	73	-	-	-	73
- Foreign currency translation of associates	-	-	-	-	(1)	-	-	(1)
Total other comprehensive income	**-**	**-**	**-**	**(3)**	**(1)**	**-**	**-**	**(4)**
Total comprehensive income for the period	**-**	**-**	**-**	**(3)**	**(1)**	**42**	**-**	**38**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Own shares acquired	-	(16)	-	-	-	-	-	(16)
Share-based payments	-	-	15	-	-	-	-	15
Shares vested and transferred to employees	-	16	(16)	-	-	-	-	-
Shares unvested and lapsed	-	-	(2)	-	-	2	-	-
Total contributions by and distributions to owners	**-**	**-**	**(3)**	**-**	**-**	**2**	**-**	**(1)**
Total transactions with owners	**-**	**-**	**(3)**	**-**	**-**	**2**	**-**	**(1)**
Balance as at 31 December 2011	**4,729**	**(72)**	**62**	**77**	**(61)**	**1,449**	**4**	**6,188**

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 2011

December 2010 $M	**Issued Capital**	**Treasury Shares**	**Employee Compensation Reserve**	**Hedge Reserve**	**Foreign Currency Translation Reserve**	**Retained Earnings**	**Non-controlling Interests**	**Total Equity**
Balance as at 1 July 2010	4,729	(54)	53	85	(29)	1,155	42	5,981
Total comprehensive income for the period								
Statutory profit for the period	-	-	-	-	-	241	(2)	239
Other comprehensive income								
- Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(163)	-	-	-	(163)
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	11	-	-	-	11
- Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	56	-	-	-	56
- Foreign currency translation of controlled entities	-	-	-	-	(19)	-	(1)	(20)
- Foreign currency translation of associates	-	-	-	-	(9)	-	-	(9)
Total other comprehensive income	**-**	**-**	**-**	**(96)**	**(28)**	**-**	**(1)**	**(125)**
Total comprehensive income for the period	**-**	**-**	**-**	**(96)**	**(28)**	**241**	**(3)**	**114**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Own shares acquired	-	(64)	-	-	-	-	-	(64)
Share-based payments	-	-	38	-	-	-	-	38
Shares vested and transferred to employees	-	14	(14)	-	-	-	-	-
Total contributions by and distributions to owners	**-**	**(50)**	**24**	**-**	**-**	**-**	**-**	**(26)**
Change in ownership interests in subsidiaries								
Deconsolidation of controlled entity	-	-	-	-	-	-	(36)	(36)
Disposal of controlled entity	-	-	-	-	(3)	-	-	(3)
Total change in ownership interests in subsidiaries	**-**	**-**	**-**	**-**	**(3)**	**-**	**(36)**	**(39)**
Total transactions with owners	**-**	**(50)**	**24**	**-**	**(3)**	**-**	**(36)**	**(65)**
Balance as at 31 December 2010	**4,729**	**(104)**	**77**	**(11)**	**(60)**	**1,396**	**3**	**6,030**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2011

	Note	December 2011 $M	December 2010 $M
Cash flows from operating activities			
Cash receipts in the course of operations		8,358	7,582
Cash payments in the course of operations		(7,502)	(6,770)
Interest received		94	95
Interest paid		(142)	(120)
Dividends received from associates and jointly controlled entities		15	6
Income taxes paid		-	(7)
Net cash from operating activities		**823**	**786**
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(1,460)	(1,032)
Interest paid and capitalised on qualifying assets		(44)	(43)
Proceeds from disposal of property, plant and equipment		34	25
Proceeds from sale and operating leaseback of non-current assets		8	10
Payments for controlled entities acquired, net of cash acquired	9(a)	(11)	-
Payments for investment in associate	9(b)	(28)	-
Proceeds from disposal of controlled entity		-	21
Deconsolidation of controlled entity		-	(100)
Net cash used in investing activities		**(1,501)**	**(1,119)**
Cash flows from financing activities			
Payments for treasury shares		(16)	(64)
Proceeds from borrowings		692	264
Repayment of borrowings		(267)	(223)
Proceeds from sale and finance leaseback of non-current assets		117	-
Net (payments)/receipts from aircraft security deposits		(1)	4
Payments for swaps		-	(1)
Net cash from/(used in) financing activities		**525**	**(20)**
Net decrease in cash and cash equivalents held		**(153)**	**(353)**
Cash and cash equivalents held at the beginning of the period		3,496	3,704
Effects of exchange rate changes on cash and cash equivalents		(1)	(14)
Cash and cash equivalents held at the end of the period		**3,342**	**3,337**

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2011

Note 1. Statement of Significant Accounting Policies

(a) Reporting entity

Qantas Airways Limited (Qantas) is a company domiciled in Australia. The Consolidated Interim Financial Report of Qantas as at and for the half-year ended 31 December 2011 comprises Qantas and its controlled entities (Qantas Group) and the Qantas Group's interest in associates and jointly controlled entities.

The Consolidated Annual Financial Report of the Qantas Group as at and for the year ended 30 June 2011 is available at www.qantas.com or upon request from the registered office of Qantas at Level 8, 241 O'Riordan Street, Mascot NSW 2020, Australia.

(b) Statement of compliance

The Consolidated Interim Financial Report is presented in Australian dollars and is a general purpose Financial Report which 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 2011. This report should also be read in conjunction with any public announcements made by Qantas during the half-year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

This Consolidated Interim Financial Report was approved by the Board of Directors on 16 February 2012.

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.

(c) Significant accounting policies

The 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 2011.

(d) Comparatives

Where applicable, various comparative balances have been reclassified to align with current period presentation. These amendments have no material impact on the Consolidated Interim Financial Report.

(e) Estimates

The preparation of the Consolidated Interim Financial Report 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. 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 the same as those applied to the Consolidated Annual Financial Report for the year ended 30 June 2011, except for:

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2011

Note 1. Statement of Significant Accounting Policies (continued)

(e) Estimates (continued)

Change in accounting estimates – Discount Rates

Qantas has changed its estimate of the discount rates used to calculate the present value of provisions and employee benefits in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and AASB 119: Employee Benefits respectively.

AASB 137 requires that where the effect of the time value of money is material, provisions should be discounted to their present value at the end of the reporting period using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. AASB 119 requires employee benefit provisions to be discounted to their present value using a discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds shall be used.

The discount rates were re-estimated due to changes in market yields and the Group's assessment of the time value of money and risk in accordance with AASB 137 and AASB 119. In addition, when discounting using Government bond yields in accordance with AASB 119, Qantas now references the State Government bond yields rather than Federal Government bond yields. State Government bonds yields have been weighted to reflect the geographic location of the Group's employees included in the long service leave provision.

The changes in discount rates resulted in a decrease in the Workers' Compensation provision by $25 million and an increase in the long service leave provision by $16 million. No other provisions were materially impacted by a change in the estimate of discount rates.

The net effect of these changes was a $9 million reduction in provisions as at 31 December 2011.

Change in accounting estimates – Qantas Frequent Flyer

Qantas Frequent Flyer changed the accounting estimates of the fair value of points and breakage expectation effective 1 January 2009. The effect of this change was applied prospectively from 1 January 2009 for new points issued. Unredeemed points as at 1 January 2009 remained deferred at the previous estimate and were redeemed at this value until the points were extinguished.

The unredeemed points as at 1 January 2009 were extinguished during the half-year ended 31 December 2011 (April 2011 for the Qantas Frequent Flyer segment) on a first-in-first-out basis. As a result, the revenue during the half-year ended 31 December 2011 was recognised at a lower average value per point redeemed compared to the half-year ended 31 December 2010.

The effect of this difference was that revenue for the half-year ended 31 December 2011 was $5 million (31 December 2010: $89 million) higher than it would have been had the 1 January 2009 unredeemed points been redeemed at the weighted average price per point prevailing at the time of redemption.

Note 2. Underlying PBT and Operating Segments

(a) Underlying PBT

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

The primary reporting measure of the Qantas, Jetstar, Qantas Frequent Flyer and Qantas Freight 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, Jetstar, Qantas Frequent Flyer and Qantas Freight operating segments.

Refer to Note 2(e) for a detailed description of these primary reporting measures and a reconciliation of Statutory PBT to Underlying PBT.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2011

Note 2. Underlying PBT and Operating Segments (continued)

(b) Operating Segments

The Qantas Group comprises the following operating segments:

1. Qantas – representing the Qantas passenger flying businesses and related businesses
2. Jetstar – representing the Jetstar passenger flying businesses, including Jetstar Asia and the investments in Jetstar Pacific Airlines Aviation Joint Stock Company and Jetstar Japan Co., Ltd.
3. Qantas Frequent Flyer – representing the Qantas Frequent Flyer customer loyalty program
4. Qantas Freight – representing the air cargo and express freight businesses
5. Corporate – representing the centralised management, governance and financing of the Qantas Group

Fuel and foreign exchange hedge gains/losses are allocated to segments based on the timing of underlying transactions.

Intersegment revenue has been determined on an arm's length basis or a cost plus margin basis depending on the nature of the revenue.

(c) Analysis by Operating Segment

December 2011 $M	Qantas	Jetstar	Qantas Frequent Flyer	Qantas Freight	Corporate	Eliminations	Consolidated Underlying
Revenue and other income							
External segment revenue	5,483	1,479	512	522	23	29	8,048
Intersegment revenue	583	86	52	4	(26)	(699)	-
Total segment revenue and other income	**6,066**	**1,565**	**564**	**526**	**(3)**	**(670)**	**8,048**
Share of net profit/(loss) of associates and jointly controlled entities	3	(3)	-	15	-	-	15
EBITDAR[1]	**824**	**328**	**120**	**47**	**(96)**	**10**	**1,233**
Non-cancellable operating lease rentals	(134)	(142)	-	(1)	-	-	(277)
Depreciation and amortisation	(624)	(39)	(1)	(8)	(7)	-	(679)
Underlying EBIT	**66**	**147**	**119**	**38**	**(103)**	**10**	**277**
Underlying net finance costs					(75)	-	(75)
Underlying PBT					**(178)**[2]	**10**	**202**

[1] EBITDAR (Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable operating lease rentals and net finance costs) includes the half-year impact of the change in accounting estimates for discount rates of $9 million (Qantas $9 million), and Frequent Flyer accounting (Elimination $5 million) as described in Note 1(e).

[2] The Corporate segment is the only operating segment with Underlying PBT as the primary reporting measure. The primary reporting measure of other segments is Underlying EBIT.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2011

Note 2. Underlying PBT and Operating Segments (continued)

(c) Analysis by Operating Segment (continued)

December 2010 **$M**	**Qantas**	**Jetstar**	**Qantas Frequent Flyer**	**Qantas Freight**	**Jetset Travelworld Group**[1]	**Corporate**	**Eliminations**	**Consolidated Underlying**
Revenue and other income								
External segment revenue	5,159	1,260	538	542	28	6	58	7,591
Intersegment revenue	547	86	45	3	6	4	(691)	-
Total segment revenue and other income	**5,706**	**1,346**	**583**	**545**	**34**	**10**	**(633)**	**7,591**
Share of net profit/(loss) of associates and jointly controlled entities	8	(1)	-	10	-	-	-	17
EBITDAR[2]	**865**	**305**	**190**	**49**	**5**	**(78)**	**5**	**1,341**
Non-cancellable operating lease rentals	(152)	(131)	-	-	-	-	-	(283)
Depreciation and amortisation	(548)	(31)	(1)	(8)	(2)	(16)	-	(606)
Underlying EBIT	**165**	**143**	**189**	**41**	**3**	**(94)**	**5**	**452**
Underlying net finance costs						(35)	-	(35)
Underlying PBT						**(129)**[3]	**5**	**417**

[1] As a result of the merger of Jetset Travelworld Group with Stella Travel Services, Jetset Travelworld Group is no longer an operating segment as of 1 October 2010. Consequently, the results of the Jetset Travelworld Group segment for the half-year ended 31 December 2010 represent the results for the period from 1 July 2010 to 30 September 2010. From 1 October 2010, the equity accounted result of the Group's investment in Jetset Travelworld Group is included in the Qantas segment.

[2] EBITDAR includes the half-year impact of the change in accounting estimates in relation to Frequent Flyer accounting (Qantas Frequent Flyer $82 million and Eliminations $7 million) as described in Note 1(e).

[3] The Corporate segment is the only operating segment with Underlying PBT as the primary reporting measure. The primary reporting measure of other segments is Underlying EBIT.

(d) Underlying PBT per Share

	December 2011 cents	**December 2010 cents**
Basic/diluted Underlying PBT per share	8.9	18.4

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2011

Note 2. Underlying PBT and Operating Segments (continued)

(e) Description of Underlying PBT and Reconciliation to Statutory PBT

Underlying PBT is a non-statutory measure, and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Executive 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 Group.

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

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

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

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

This adjustment is calculated as follows:

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

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

(ii) Other items not included in Underlying PBT

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

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

(iii) Underlying EBIT

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2011

Note 2. Underlying PBT and Operating Segments (continued)

(e) Description of Underlying PBT and Reconciliation to Statutory PBT (continued)

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

	Note	December 2011 $M	December 2010 $M
Statutory profit before income tax expense (Statutory PBT)		**58**	**322**
Ineffectiveness and non-designated derivatives relating to other reporting periods			
- Exclude current year derivative mark-to-market movements relating to underlying exposures in future years		58	(4)
- Exclude current year derivative mark-to-market movements relating to capital expenditure		(4)	61
- Include prior years' derivative mark-to-market movements relating to underlying exposures in the current year		(50)	(18)
- Include adjustment to depreciation expense relating to excluded capital expenditure mark-to-market movements		(1)	(1)
- Exclude ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs		4	7
		7	45
Other items not included in Underlying PBT			
- Net impairment of property, plant and equipment[1]		72	-
- Impairment of investment		19	-
- Redundancies and restructuring		46	-
- Legal provisions		-	26
- Net loss on disposal of investments and related transaction costs		-	24
		137	50
Underlying PBT	2(c)	**202**	**417**

[1] As disclosed in Note 3, net impairment of property, plant and equipment for the period ended 31 December 2011 was $83 million, of which $72 million is presented as other items not included in Underlying PBT.

(f) Analysis by Geographical Areas

Passenger and freight revenue is attributed to a geographic region based on the point of sale. Other revenue/income is not allocated to a geographic region as it is impractical to do so.

	December 2011 $M	December 2010 $M
Revenue and other income by geographic areas		
Net passenger and freight revenue		
Australia	4,965	4,740
Overseas	1,894	1,895
	6,859	6,635
Other revenue/income (refer to Note 3)	1,189	956
	8,048	**7,591**

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2011

Note 3. Other Revenue/Income and Expenditure

	December 2011 $M	December 2010 $M
Other revenue/income		
Passenger service fees	196	157
Contract work revenue	192	181
Ancillary passenger revenue	168	37
Frequent Flyer store and other redemption revenue[1]	100	103
Frequent Flyer marketing revenue[2]	110	95
Frequent Flyer membership fees and other revenue	4	5
Lease revenue	104	92
Qantas Club membership fees	42	42
Freight terminal fee revenue	40	38
Charter revenue	35	6
Retail, advertising and other property revenue	29	27
Liquidated damages	28	2
Tours and travel revenue	24	63
Other	117	108
	1,189	**956**
Other expenditure		
Selling and marketing	336	312
Property	208	199
Computer and communication	198	220
Capacity hire	129	134
Net impairment of property, plant and equipment	83	-
Airport security charges	67	69
Contract work material	37	52
Impairment of investment	19	-
Other	221	281
	1,298	**1,267**

[1] Total Frequent Flyer redemption revenue less redemptions on Qantas Group's flights which are reported as net passenger revenue in the Consolidated Income Statement.

[2] Net of intra-group marketing revenue within the Qantas Group.

Note 4. Income Tax Expense

	December 2011 $M	December 2010 $M
Statutory profit before income tax expense	58	322
Income tax using the domestic corporate tax rate of 30 per cent	17	97
Add/(less) adjustments for:		
- Utilisation of carry forward tax losses	-	(5)
- Prior period adjustments	(2)	(7)
- Other items	1	(2)
Income tax expense	**16**	**83**

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2011

Note 5. Investments Accounted for Using the Equity Method

	December 2011 $M	June 2011 $M
Investment in associates		
- Jetset Travelworld Limited	115	114
- Other	75	51
Investment in jointly controlled entities		
- AUX Investment Pty Limited	297	292
- Other	-	19
	487	**476**

	Ownership interest December 2011 %	Ownership interest December 2010 %
Air Pacific Limited	46	46
AUX Investment Pty Limited	50	50
Fiji Resorts Limited	21	21
Hallmark Aviation Services L.P.	49	49
Harvey Holidays Pty Ltd[1]	-	50
HT & T Travel Philippines, Inc.	28	28
Holiday Tours and Travel (Thailand) Ltd	37	37
Holiday Tours and Travel Vietnam Co. Ltd	37	37
Jetset Travelworld Limited	29	29
Jetstar Japan Co., Ltd.[2]	33	-
Jetstar Pacific Airlines Aviation Joint Stock Company	27	27
LTQ Engineering Pty Limited	50	50
PT Holidays Tours & Travel	37	37
Tour East (T.E.T) Ltd	37	37

[1] On 30 June 2011 the Qantas Group sold its 50 per cent interest in Harvey Holidays Pty Ltd.

[2] Refer to Note 9(b) for further details.

Note 6. Other Financial Assets and Liabilities

Other financial assets and liabilities includes derivative instruments used to hedge financial exposures. The movement is driven by changes in market variables, including foreign exchange and fuel price, as well as changes in underlying hedge positions. During the half-year ended 31 December 2011 fluctuations in foreign exchange rates and crude oil prices resulted in substantial changes in other financial assets and liabilities. As a result, the net other financial assets and liabilities have decreased from a net liability of $502 million at 30 June 2011 to a net liability of $405 million at 31 December 2011.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2011

Note 7. Interest-bearing Liabilities

	December 2011 $M	June 2011 $M
Current		
Bank loans – secured	500	446
Other loans – unsecured	97	80
Lease and hire purchase liabilities – secured	57	51
	654	**577**
Non-current		
Bank loans – secured	3,493	3,131
Bank loans – unsecured	875	874
Other loans – unsecured	1,151	1,042
Lease and hire purchase liabilities – secured	545	407
	6,064	**5,454**

The movements in interest-bearing liabilities include new borrowings drawn during the half-year ended 31 December 2011. Other movements in interest-bearing liabilities include the repayment and revaluation of existing borrowings. Foreign exchange revaluations of borrowings are partly offset by the revaluation of interest rate derivatives which are included in other financial assets and liabilities.

Note 8. Dividends

No dividends were declared or paid during the half-year ended 31 December 2011 (2010: nil).

Note 9. Acquisitions of Controlled Entities and Associates

(a) Wishlist Holdings Group

On 5 August 2011 the Qantas Group acquired 100 per cent of the Wishlist Holdings Group for $11 million (net of cash acquired). From 31 July 2011 (date of effective control) the Wishlist Holdings Group has been consolidated into the Qantas Group. Other than goodwill of $5 million (on a provisional basis) and other intangible assets of $8 million, there were no other material effects of this transaction on the Qantas Group's financial position. The contribution of this business to the Consolidated Income Statement for the period ended 31 December 2011 was immaterial.

(b) Jetstar Japan Co., Ltd.

Jetstar Japan Co., Ltd., a venture between Qantas, Japan Airlines Co., Ltd and Mitsubishi Corporation, was incorporated on 5 September 2011. The Qantas Group owns a 33 per cent voting interest representing a 42 per cent economic interest in this venture.

In October 2011 the Group made an initial investment of JPY2 billion (A$28 million) to fund the operational start-up costs and working capital in Jetstar Japan Co., Ltd. The Group's investment in Jetstar Japan Co., Ltd. is accounted for as an investment in associate and equity accounted.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2011

Note 10. Commitments

(a) Capital Expenditure Commitments

	December 2011 $M	June[2] 2011 $M
Capital expenditure commitments contracted but not provided for in the Consolidated Financial Statements, payable:		
Within 12 months	1,419 [1]	1,982
Later than 12 months but not later than five years	7,667	7,568
Later than five years	6,217	1,254
	15,303	**10,804**

[1] Represents capital expenditure commitments for the second half of the financial year ending 30 June 2012 and the first half of the financial year ending 30 June 2013.

[2] Restated to exclude planned maintenance costs (including in-house costs) which are treated as capital expenditure for accounting purposes, and hedging commitments which are already recognised on the Consolidated Balance Sheet.

Qantas provides aircraft sourcing for some of its affiliates. As such, included in the capital expenditure commitments above are 24 Airbus A320 aircraft which Jetstar Japan have committed to purchase from the Qantas Group's forward order book.

In addition, Qantas has a number of cancellation and deferral rights within its aircraft purchase contracts which can reduce or defer capital expenditure. The Group also has further opportunities to place ordered aircraft with its affiliates.

(b) Operating Lease Commitments as Lessee

	December 2011 $M	June 2011 $M
Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements		
Aircraft and engines – payable:		
Within 12 months	627	632
Later than 12 months but not later than five years	1,597	1,718
Later than five years	351	450
	2,575	2,800
Non-aircraft – payable:		
Within 12 months	196	171
Later than 12 months but not later than five years	543	527
Later than five years	383	404
Provision for potential under-recovery of rentals on unused premises available for sub-lease (onerous contract provision)	(5)	(7)
	1,117	1,095
	3,692	**3,895**

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2011

Note 11. Contingent Liabilities

Freight and passenger third party class actions

Qantas is a party to a number of third party class actions relating to its freight and passenger divisions. Qantas continues to have a number of defences to these class actions. Qantas expects the outcome of these class actions will be known over the course of the next few years.

Note 12. Post Balance Date Events

Except for the matter disclosed below, there has not arisen in the interval between 31 December 2011 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 2011.

On 10 February 2012 the High Court granted special leave to the Australian Taxation Office to appeal to the High Court in respect of the GST treatment of domestic fares where the passenger did not travel. Qantas does not hold a receivable with respect to this claim.

KPMG

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 2011 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

16 February 2011

DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

(a) the Consolidated Financial Statements and notes set out on pages 13 to 29, 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 2011 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
16 February 2012

Independent auditor's review report to the members of Qantas Airways Limited

Report on the financial report

We have reviewed the accompanying half-year financial report of Qantas Airways Limited, which comprises the Consolidated Balance Sheet as at 31 December 2011, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date, notes 1 to 12 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 half-year financial report

The Directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the Directors determine is necessary to enable the preparation of the half-year 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 half-year 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 half-year 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 2011 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 a half-year 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 half-year 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 2011 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

KPMG

D McLennan

Duncan McLennan
Partner

Sydney

16 February 2012

OPERATIONAL STATISTICS

For the half-year ended 31 December 2011

(unaudited)		Half-year ended December 2011	Half-year ended December 2010	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC - SCHEDULED SERVICES				
Passengers carried	000	8,728	9,014	(3.2)%
Revenue passenger kilometres (RPK)	m	12,861	13,091	(1.8)%
Available seat kilometres (ASK)	m	15,838	15,969	(0.8)%
Revenue seat factor	%	81.2	82.0	(0.8)pts
QANTASLINK - SCHEDULED SERVICES				
Passengers carried	000	2,624	2,501	4.9%
Revenue passenger kilometres (RPK)	m	1,755	1,687	4.0%
Available seat kilometres (ASK)	m	2,515	2,378	5.8%
Revenue seat factor	%	69.8	71.0	(1.2)pts
JETSTAR DOMESTIC - SCHEDULED SERVICES				
Passengers carried	000	5,416	4,921	10.1%
Revenue passenger kilometres (RPK)	m	6,543	5,711	14.6%
Available seat kilometres (ASK)	m	7,663	7,019	9.2%
Revenue seat factor	%	85.4	81.4	4.0pts
QANTAS INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	3,060	3,052	0.3%
Revenue passenger kilometres (RPK)	m	25,971	25,821	0.6%
Available seat kilometres (ASK)	m	31,714	30,902	2.6%
Revenue seat factor	%	81.9	83.6	(1.7)pts
JETSTAR INTERNATIONAL – SCHEDULED SERVICES				
Passengers carried	000	2,308	2,069	11.6%
Revenue passenger kilometres (RPK)	m	6,485	6,173	5.1%
Available seat kilometres (ASK)	m	8,542	7,882	8.4%
Revenue seat factor	%	75.9	78.3	(2.4)pts
JETSTAR ASIA				
Passengers carried	000	1,555	1,391	11.8%
Revenue passenger kilometres (RPK)	m	3,065	2,109	45.3%
Available seat kilometres (ASK)	m	3,933	2,671	47.2%
Revenue seat factor	%	77.9	78.9	(1.0)pts
QANTAS GROUP OPERATIONS				
Passengers carried	000	23,691	22,948	3.2%
Revenue passenger kilometres (RPK)	m	56,680	54,592	3.8%
Available seat kilometres (ASK)	m	70,205	66,821	5.1%
Revenue seat factor	%	80.7	81.7	(1.0)pts
Aircraft in service at end of period	#	301	266	35 aircraft
QANTAS FREQUENT FLYER				
Billing	$m	600	518	15.8%
Awards redeemed	m	2.4	2.1	14.3%
Total members	m	8.3	7.5	10.7%
FINANCIAL				
Yield (passenger revenue per RPK)	c	11.2	10.8	3.7%
EMPLOYEES				
Average full-time equivalent employees (FTE)	#	33,439	32,915	1.6%
RPK per FTE (annualised)	000	3,390	3,317	2.2%
ASK per FTE (annualised)	000	4,199	4,060	3.4%

CONSOLIDATED DEBT, GEARING AND CAPITALISATION OF NON-CANCELLABLE OPERATING LEASES

As at 31 December 2011

(unaudited)	December 2011 $M	June 2011 $M
Balance sheet equity	6,188	6,151
Less: hedge reserve	77	80
Equity excluding hedge reserve	**6,111**	**6,071**
On balance sheet debt		
Current interest-bearing liabilities	654	577
Non-current interest-bearing liabilities	6,064	5,454
Cash and cash equivalents	(3,342)	(3,496)
Aircraft security deposits	(11)	(10)
Fair value of hedges relating to debt[1]	388	446
Net on balance sheet debt	**3,753**	**2,971**
Off balance sheet debt		
Non-cancellable operating leases[2]	4,034	3,999
Net debt including off balance sheet debt[3]	**7,787**	**6,970**
Net debt including off balance sheet debt to net debt including off balance sheet debt and equity (excluding hedge reserve)	**56 : 44**	**53 : 47**

[1] Fair value of hedges related to debt are included in Other Financial Assets and Liabilities on the Consolidated Balance Sheet in accordance with AASB 139: Financial Instruments: Recognition and Measurement.

[2] Non-cancellable operating leases are a representation assuming assets are owned and debt funded and are not consistent with the disclosure requirements of AASB 117: Leases.

[3] The inclusion of non-cancellable operating leases within the gearing calculation reflects the total debt funding used by the Group to support its operations.

ADJUSTED NET BORROWING COSTS

For the half-year ended 31 December 2011

(unaudited)	December 2011 $M	December 2010 $M
Borrowing costs		
Finance income	(98)	(101)
Finance costs	177	143
Unwind of discount on non-current provisions	(16)	(14)
Unwind of discount on non-current receivables	6	9
Capitalised interest	44	43
Ineffective and non-designated derivatives relating to other reporting periods	(4)	(7)
Implied interest on non-cancellable operating leases	154	165
Adjusted net borrowing costs	**263**	**238**
Average net debt including off balance sheet debt	**7,190**	**6,263**
Adjusted net borrowing costs as a percentage of average net debt including off balance sheet debt	**7.3%**	**7.6%**