



QANTAS AIRWAYS LIMITED AND ITS CONTROLLED ENTITIES

**PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

ABN: 16 009 661 901

ASX CODE: QAN

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Results for announcement to the market

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

	June 2016 \$M	June 2015 \$M	Change \$M	Change %
Revenue and other income	16,200	15,816	384	2.4
Statutory profit after tax	1,029	560	469	83.8
Statutory profit after tax attributable to members of Qantas	1,029	557	472	84.7
Underlying profit before tax	1,532	975	557	57.1

DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

(A) DIVIDENDS DECLARED AND PAID

No interim dividend was paid in relation to the year ended 30 June 2016.

The Directors have declared a fully franked final dividend of seven cents per ordinary share for the current year, totalling \$134 million (2015: nil). The record date for determining entitlements to the final dividend is 8 September 2016. The dividend will be paid on 12 October 2016.

(B) OTHER SHAREHOLDER DISTRIBUTIONS

In addition to the dividend totalling \$134 million above, the directors have announced an on-market share buy-back of up to \$366 million. Shareholder approval will be sought at the Annual General Meeting on 21 October 2016 to buy back more than 10 per cent of shares on issue within a 12 month period.

In line with the Group's Financial Framework, the Qantas Group has returned over \$1 billion in surplus capital to shareholders in 2015/16.

In November 2015, the Group undertook a capital management initiative for Qantas shareholders comprising a distribution to shareholders of 23 cents per share and a related share consolidation. This resulted in a capital return of \$505 million being paid to shareholders and an equal and proportionate share consolidation through the conversion of each share into 0.939 shares resulting in 134 million less shares on issue.

On 10 June 2016, the Qantas Group completed a \$500 million on-market share buy-back which was announced in February 2016. The Group purchased 143 million shares for a weighted average price of \$3.4819.

The \$500 million on-market share buy-back combined with the \$505 million capital return and associated share consolidation has resulted in the ordinary shares on issue decreasing by 12.6 per cent between 30 June 2015 and 30 June 2016.

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

EXPLANATION OF RESULTS

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

OTHER INFORMATION

		June 2016	June 2015
Net assets per ordinary share	\$	1.70	1.57
Net tangible assets per ordinary share	\$	1.20	1.05
Basic/diluted earnings per share (cents)	cents	49.4	25.4

Results for announcement to the market continued

OTHER INFORMATION (CONTINUED)

Entities over which control, joint control or significant influence was gained or lost during the year
QF A333 Leasing 4 Pty Ltd (deregistered on 24 February 2016)
QF A333 Leasing 3 Pty Ltd (deregistered on 24 February 2016)
QF Dash 8 Leasing No.3 Pty Ltd (deregistered on 24 February 2016)
QF Dash 8 Leasing No.2 Pty Ltd (deregistered on 24 February 2016)
QF B738 2011 No.1 Pty Ltd (deregistered on 24 February 2016)
QF B738 2011 No.3 Pty Ltd (deregistered on 24 February 2016)
QF B738 2011 No.4 Pty Ltd (deregistered on 24 February 2016)
QF B738 2011 No.5 Pty Ltd (deregistered on 24 February 2016)

OWNERSHIP INTEREST IN INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	June 2016	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	19	29
Jetstar Hong Kong Airways Limited ²	–	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.

ASIC GUIDANCE

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. To comply with Regulatory Guide 230 issued by ASIC in December 2011, Qantas is required to make a clear statement about whether information disclosed in documents other than the financial report has been audited or reviewed in accordance with Australian Auditing Standards.

In line with previous years and in accordance with the Corporations Act 2001, the Review of Operations is unaudited. The Review of Operations contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2016, which is being audited and is expected to be made available in early September 2016.

Review of Operations

For the year ended 30 June 2016

RESULT HIGHLIGHTS

Underlying Profit Before Tax

1,532 \$M

FY16	1,532
FY15	975
FY14	(646)
FY13	186
FY12	95

Statutory Profit After Tax

1,029 \$M

FY16	1,029
FY15	560
FY14	(2,843)
FY13	2
FY12	(244)

The Qantas Group reported an Underlying Profit Before Tax¹ of \$1,532 million for the 12 months ended 30 June 2016, an improvement of \$557 million from 2014/15 and a record result. The Group's Statutory Profit After Tax of \$1,029 million included \$108 million of costs which were not included in Underlying PBT¹ primarily driven by redundancies, restructuring and other costs associated with the ongoing Qantas Transformation Program.

The Group is delivering against its strategy to maximise long-term shareholder value; building on our leading position in domestic Australia, growing non-cyclical earnings at Qantas Loyalty, aligning Qantas and Jetstar with the rise of Asia and investing in our people and our customers. Over 2015/16, strategic highlights included:

- Record results for the Group and its segments²
- Group Domestic EBIT³ up 30 per cent with enhanced dual brand coordination
- Reduction in ex-fuel unit cost⁴ of three per cent
- Building a resilient and sustainable Qantas International through continued unit cost improvement
- Diversification of earnings with eight years of double-digit EBIT growth at Qantas Loyalty⁵
- Building a pan-Asia brand at Jetstar, with an \$85 million improvement in profitability from Jetstar Airlines in Asia
- Record levels of customer advocacy⁶ with targeted investment in service and product
- Record people engagement with continued focus on culture and leadership

The Qantas Transformation Program continues to underpin a maintainable earnings uplift, delivering \$557 million of benefits over the financial year – ahead of a targeted \$450 million of benefits. Ex-fuel unit cost was reduced by three per cent, and the Group's revenue increased by two per cent, reflecting the cost reduction and revenue generation initiatives in the program. As a result of the program exceeding targets to date, the Group has raised the target of Qantas Transformation to \$2.1 billion of benefits delivered by the end of financial year 2016/17, up from \$2 billion.

The Group's Financial Framework is at the centre of all capital allocation decisions, providing for balance sheet strength, investment in growth, and shareholder returns. Some key achievements under the Financial Framework include:

- Net debt⁷ of \$5.6 billion within target range of \$4.8 billion to \$6 billion⁸
- Investment grade credit metrics and rating from Standard and Poor's and Moody's Investor Services
- Cost of capital minimised by using cash in excess of short-term requirements to refinance operating leases
- \$1 billion returned to shareholders in 2015/16 through a capital return and on-market share buy-back
- \$500 million in additional capital management initiatives announced including resumption of dividend payments with a seven cents per share ordinary dividend totalling \$134 million and the announcement of a \$366 million on-market buy-back

The Group achieved a strong increase in earnings in mixed global trading conditions, with margin expansion realised through total unit cost⁹ improvement of six per cent partially offset with a two per cent decrease in unit revenue¹⁰.

1 Underlying Profit Before Tax (Underlying PBT) is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight 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/(Loss) Before Tax.

2 Based on Underlying Profit Before Tax (PBT) for the Qantas Group and Underlying EBIT (Earnings before net interest and income tax expense) for Qantas Domestic, Qantas International, Jetstar Group and Qantas Loyalty.

3 Underlying EBIT of Qantas Domestic and Jetstar Domestic.

4 Ex-fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in: employee provision discount rates and other assumptions changes, foreign exchange rates, share of net profit/(loss) of investments accounted for under the equity method and block codeshare flying agreements per ASK. The adjustment for foreign exchange rates is made to the comparative year to enable comparability.

5 When normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.

6 Record NPS achieved at Qantas Domestic, Qantas International and Qantas Loyalty.

7 Net debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Capitalised operating lease liability is measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis akin to a finance lease.

8 Target range calculated based on current average invested capital.

9 Total Unit cost is calculated as Underlying PBT less ticketed passenger revenue per available seat kilometre (ASK).

10 Unit Revenue is calculated as ticketed passenger revenue per ASK.

Review of Operations continued

For the year ended 30 June 2016

Domestic Australia experienced a stable operating environment in non-resources sectors:

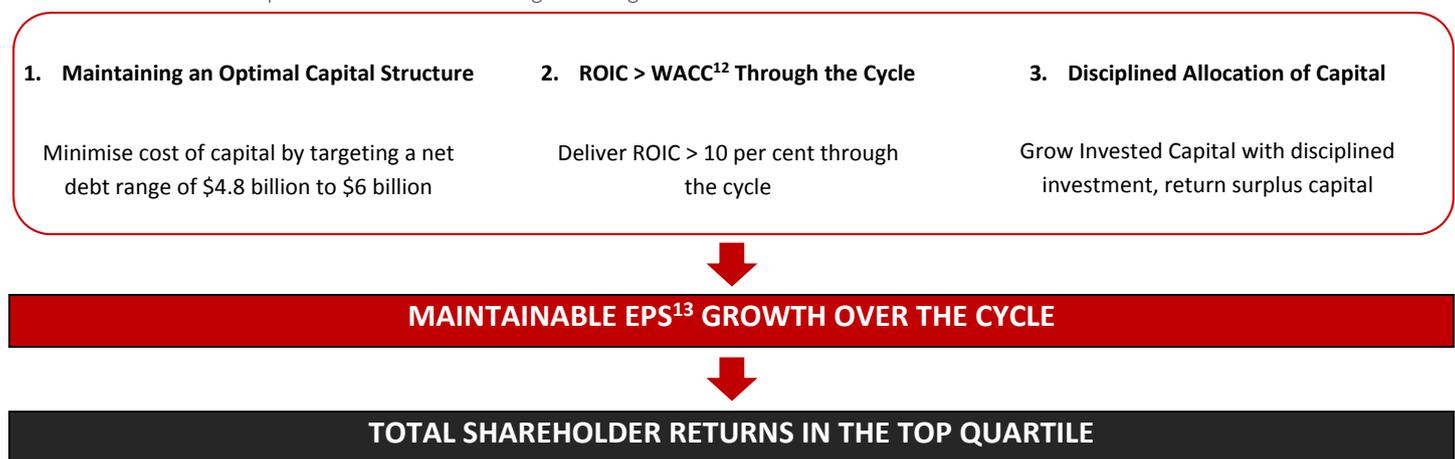
- Lower AUD and increased inbound visitor arrivals supporting domestic traffic growth
- Resource related traffic and revenue down compared to 2014/15
- Fourth quarter 2015/16 general demand weakness

The Group’s international operating environment was more competitive, with competitor capacity growth and sharper pricing activity seen on key routes:

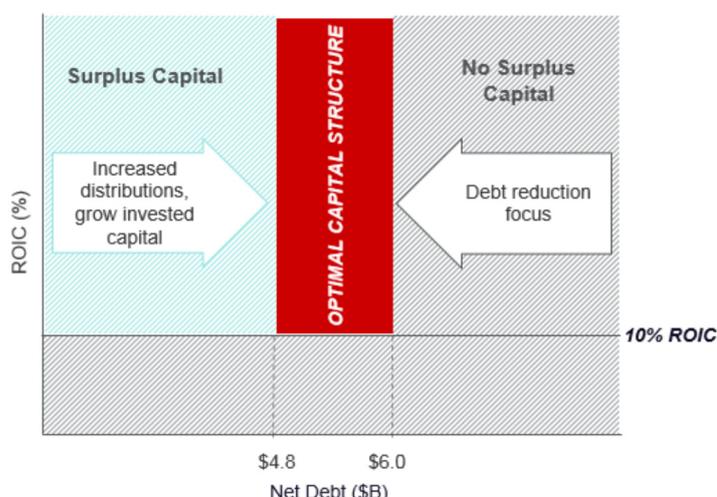
- Increased industry capacity growth on the back of higher operating margins
- Industry-wide pricing activity passing on a portion of fuel benefit
- Geopolitical uncertainty impacting northern hemisphere travel
- Qantas and Jetstar capacity growth focused on higher demand markets in Asia

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

Qantas’ Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings per share growth over the cycle, which in turn should translate into Total Shareholder Returns (TSR) in the top quartile of the ASX100 and a basket of global airlines¹¹, the Financial Framework has three clear priorities and associated long-term targets:



Maintaining an Optimal Capital Structure



- The Group’s Financial Framework targets an optimal capital structure with a net debt range of between \$4.8 billion and \$6 billion, based on the current Average Invested Capital of approximately \$9 billion. This capital structure lowers the Group’s cost of capital, preserves financial strength, and therefore enhances long-term shareholder value.
- Capital allocation decisions, including distributions to shareholders, are sized to remain within the target net debt range on a forward basis.
- The Group’s optimal capital structure is consistent with investment grade credit metrics from Standard & Poor’s and Moody’s Investor Services.

¹¹ Target Total Shareholder Returns within the top quartile of the ASX100 and global listed airline peer group as stated in the 2015 Annual Report, with reference to the 2015-2017 Long Term Incentive Plan (LTIP).
¹² Weighted Average Cost of Capital (WACC) is calculated on a pre-tax basis.
¹³ Earnings per share.

Review of Operations continued

For the year ended 30 June 2016

ROIC > WACC Through the Cycle

Return on Invested Capital

23 %



Return on Invested Capital (ROIC) of 22.7 per cent, up from 16.2 per cent in the prior year, was achieved through generating higher returns from existing assets. Average Invested Capital in 2015/16 of \$8.9 billion was slightly below Average Invested Capital of \$9.1 billion in 2014/15 with disciplined capital expenditure. With increased fleet utilisation, cost reduction through the Qantas Transformation Program and lower fuel prices, returns were well above the Group's threshold target of ROIC greater than 10 per cent.

Disciplined Allocation of Capital



Funds from Operations (FFO)¹⁴ increased to \$3.1 billion in 2015/16. FFO were applied to:

- \$1.1 billion of debt repayments¹⁵
- \$1 billion of net capital expenditure¹⁶ in line with guidance
- \$1 billion distributed to shareholders in 2015/16 through a share buy-back and capital return

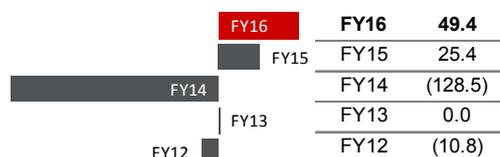
\$778 million cash in excess of short-term liquidity requirements was used to refinance 29 aircraft out of maturing operating leases. Using the Group's existing cash balance in this way achieved the following benefits:

- Reduced gross debt and cost of carry, minimal impact to net debt
- Greater fleet and maintenance planning flexibility
- Reduced exposure to USD lease rentals
- Increased value of unencumbered assets to over US\$3.9 billion¹⁷

Maintainable EPS Growth over the Cycle

Earnings Per Share

49.4 cents



Earnings per share almost doubled to 49.4 cents, with an 84 per cent improvement in Statutory Profit After Tax and a 12.6 per cent reduction in shares on issue. Shares on issue were reduced through the \$505 million capital return and related share consolidation as well as the \$500 million on-market share buy-back, both of which were completed in 2015/16.

UNDERLYING PBT

The Qantas Group's full-year 2015/16 Underlying PBT increased to \$1,532 million, compared to an Underlying PBT of \$975 million in 2014/15. The significant improvement in earnings was driven by the delivery of a reduction in ex-fuel unit cost, fuel efficiency initiatives, and revenue benefits from the Qantas Transformation Program and the benefits of lower fuel prices captured by the Group's disciplined hedging program.

¹⁴ Funds from Operations of \$3.1 billion is equal to operating cash flows in the Consolidated Cash Flow Statement adjusted for the principal portion of operating leased aircraft rental payments. The principal portion of aircraft operating lease rentals are considered a debt repayment in the Group's financial framework. After this adjustment, the interest portion of lease rental payments continues to be recognised as an outflow in Funds from Operations.

¹⁵ Debt repayments of \$1.1 billion refers to repayment of on balance sheet borrowings and capitalised operating lease liability repayments (excluding cash flows relating to aircraft operating lease refinancing). Debt reduction is equal to the total of financing cash flows in the statement of cash flows excluding shareholder distributions and payments for treasury shares, principal portion of operating leased aircraft rental payments and reduction of capitalised operating leases from the return of leased aircraft.

¹⁶ Net capital expenditure of \$1 billion is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) less the impact to invested capital of returning operating lease aircraft.

¹⁷ Based on AVAC market values.

Review of Operations continued

For the year ended 30 June 2016

Net passenger revenue increased by three per cent, reflecting improved passenger loads in most markets and the Group's capacity growth of five per cent. This stronger revenue performance was supported by network changes and capacity management which led to increased fleet utilisation. A reduction in the Group's fuel expense resulted from lower AUD fuel prices and fuel efficiency measures in the Qantas Transformation Program.

		June 2016 \$M	June 2015 \$M	Change \$M	Change %
Group Underlying Income Statement Summary¹⁸					
Net passenger revenue		13,961	13,604	357	3
Net freight revenue		850	936	(86)	(9)
Other revenue		1,389	1,276	113	9
Total Revenue		16,200	15,816	384	2
Operating expenses (excluding fuel)		(9,529)	(9,064)	(465)	(5)
Fuel		(3,235)	(3,899)	664	17
Depreciation and amortisation		(1,224)	(1,096)	(128)	(12)
Non-cancellable aircraft operating lease rentals		(461)	(495)	34	7
Share of net loss of investments accounted for under the equity method		–	(29)	29	100
Total Expenditure		(14,449)	(14,583)	134	1
Underlying EBIT		1,751	1,233	518	42
Net finance costs		(219)	(258)	39	15
Underlying PBT		1,532	975	557	57
Operating Statistics					
		June 2016	June 2015	Change	Change %
Available Seat Kilometres (ASK) ¹⁹	M	148,691	142,287	6,404	5
Revenue Passenger Kilometres (RPK) ²⁰	M	119,054	112,543	6,511	6
Passengers carried	'000	51,426	49,181	2,245	5
Revenue seat factor ²¹	%	80.1	79.1	1pts	1
Unit Revenue (RASK)	c/ASK	8.08	8.21	(0.13)	(2)
Total unit cost	c/ASK	(7.05)	(7.54)	0.49	6
Ex-Fuel unit cost	c/ASK	(4.81)	(4.97)	0.16	3

Group capacity (Available Seat Kilometres) increased by five per cent, and demand (Revenue Passenger Kilometres) increased by six per cent, resulting in a one percentage point increase in Revenue Seat Factor. Unit revenue (Revenue per Available Seat Kilometres) decreased two per cent in 2015/16 with growth in the first-half of 2015/16 and a decrease in unit revenue in the second-half of 2015/16 as a proportion of the benefit from lower fuel prices was passed on in pricing in the international market. The Group's ex-fuel unit cost improved by three per cent.

CONTINUED DELIVERY OF BUSINESS TRANSFORMATION

The Group's balanced scorecard through the Qantas Transformation Program ensures a net benefit for the customer experience in addition to permanent reduction of costs. This was seen in customer and brand highlights for the year including:

- Record customer advocacy (NPS) results at Qantas Domestic, Qantas International and Qantas Loyalty
- Reconfiguration of the A330 fleet, progressively adding 'Business Suites' with lie-flat beds on A330 family aircraft
- Reconfiguration of the B737 fleet with 54²² completed to date, upgrading cabin interiors and in-flight entertainment at the same time as increasing seat count for efficiency gains
- B787 aircraft with enhanced customer offering in the Jetstar International fleet with the last three of 11 delivered during the year
- Continuation of global lounge upgrade program, with new lounges announced for London Heathrow and Brisbane
- Digital innovation focused on improving speed and ease of travel including auto check-in on mobile and the announced wi-fi roll-out for Qantas Domestic

¹⁸ 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.

¹⁹ ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.

²⁰ RPK – total number of passengers carried, multiplied by the number of kilometres flown.

²¹ Revenue Seat Factor – RPK divided by ASK. Also known as seat factor, load factor or load.

²² As at 24 August 2016.

Review of Operations continued

For the year ended 30 June 2016

The Group has delivered total benefits from the Qantas Transformation Program of \$1.66 billion as at 30 June 2016, leading to an increase in the 2017 target to \$2.1 billion. Since implementing the program in financial year 2014, ex-fuel expenditure has been reduced by nine per cent and all major milestones have been met on time or exceeded.

In 2015/16 Transformation benefits achieved of \$557 million consisted of:

- Cost reduction of \$451 million, including \$51 million of fuel efficiency benefits
- Net revenue benefits of \$106 million

The target metrics and progress to date as at 2015/16 include:

	Target		Progress to Date	
	Metric	Timeframe		
ACHIEVING OUR TARGETS	Accelerated Transformation Benefits	\$2.1 billion gross benefits >10 per cent ²³ Group ex-fuel expenditure reduction	2016/17	\$1.66 billion benefits realised Ex-fuel expenditure reduced by 9 per cent ²⁴
		5,000 FTE	2016/17	4,605 FTE reduction ²⁵
	Deleverage Balance Sheet	>\$1 billion debt reduction ²⁶	2014/15	Delivered on schedule
		Debt/EBITDA ²⁷ <3.5 times FFO/net debt ²⁸ > 45 per cent	2016/17	Delivered ahead of schedule
	Cash Flow	Sustainable positive free cash flow ²⁹	2014/15 onwards	Delivered on schedule
	Fleet Simplification	11 fleet types to seven	2015/16	Eight fleet types Retaining two x non-reconfigured B747
Customer and Brand	Customer Advocacy (NPS)	Ongoing	NPS record achieved at Qantas Domestic, Qantas International and Qantas Loyalty ³⁰	
	Maintain premium on-time performance Qantas Domestic	Ongoing	Premium on-time performance maintained with increase to 89.7 per cent ³¹	

The Group-wide policy of implementing an 18-month wages freeze, whilst not part of the Qantas Transformation Program, is helping to offset inflation, build a more competitive and sustainable wages position going forward and closes the gap to our major domestic competitors. Thirty agreements have been closed with the wages freeze, with all of the major unions representing employee groups having signed up to the policy in at least one agreement.

In July 2015, Qantas announced that employees covered by the wages freeze policy will receive a bonus payment worth five per cent of their base annual salary. In August 2016, the Group announced a non-executive bonus payment of \$3,000 for full-time and \$2,500 for part-time employees, subject to the employee group having signed up to the 18-month wages freeze.

23 Target assumes steady foreign exchange rates and capacity.

24 Includes underlying operating expenses (excluding fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable aircraft operating lease rentals, adjusted for movements in FX rates and capacity. 2015/16 vs annualised first-half 2014/15.

25 Actioned Full Time Equivalent employee reduction as at 30 June 2016. ~30 FTEs still to exit as at 30 June 2016.

26 Reduction in net debt including capitalised operating lease liabilities.

27 Management's estimate based on Moody's methodology.

28 Management's estimate based on Standard and Poor's methodology.

29 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 payments to shareholders.

30 Measured as Net Promoter Score. Average 2015/16 compared to average 2014/15.

31 Qantas mainline operations (excluding QantasLink) for the period 2015/16 compared to average 2014/15. Source: BITRE.

Review of Operations continued

For the year ended 30 June 2016

BUILDING ON THE GROUP'S LONG-TERM COMPETITIVE ADVANTAGES

The Qantas Group's integrated portfolio strategy is designed to diversify earnings and mitigate risk, with the dual brands of Qantas and Jetstar and their presence in attractive markets across the Asia Pacific providing long-term growth opportunities. The starting point for the Group's strategy is understanding the global forces that will impact Qantas over the long-term – the megatrends that present both risk and opportunity – and ensuring the Group is well positioned to respond.

Qantas has engaged with stakeholders including shareholders, sustainability thought leaders, industry partners and suppliers to identify and prioritise the global forces of most relevance to the Group. With this long-term context in mind, the Group's strategic priorities allow us to navigate the right path, building on our long-term competitive advantages while recognising and responding to the risks and opportunities arising from emerging global forces.



RAPIDLY IMPROVED CASH GENERATION

	June 2016 \$M	June 2015 \$M	Change \$M	Change %
Cash Flow Summary				
Operating cash flows	2,819	2,048	771	38
Investing cash flows (excluding aircraft operating lease refinancing)	(1,145)	(944)	(201)	21
Net free cash flow	1,674	1,104	570	52
Aircraft operating lease refinancing	(778)	–	(778)	>100
Financing cash flows	(1,825)	(1,218)	(607)	50
Cash at beginning of year	2,908	3,001	(93)	(3)
Effect of foreign exchange on cash	1	21	(20)	(95)
Cash at end of year	1,980	2,908	(928)	(32)
Debt Analysis				
Net on balance sheet debt ³²	2,880	2,594	286	11
Capitalised operating lease liabilities ³³	2,766	3,806	(1,040)	(27)
Net debt³⁴	5,646	6,400	(754)	(12)
FFO/net debt	%	52	45	7pts
Debt/EBITDA	times	2.5	3.0	(0.5) times

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.

³³ Capitalised operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate.

³⁴ Net debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.

Review of Operations continued

For the year ended 30 June 2016

Operating cash flows of \$2.8 billion saw a strong increase from the prior year, reflecting cost and revenue benefits realised through the Qantas Transformation Program, and lower AUD fuel prices. When adjusted for the principal portion of operating rental payments, Funds from Operations were \$3.1 billion.

Net capital expenditure of \$1.0 billion included investment in replacement fleet such as the Boeing 787 for Jetstar International and customer experience initiatives including airport lounges and the continuation of Airbus A330 and Boeing 737 cabin reconfigurations. Qantas generated \$1.7 billion of net free cash flow in the period facilitating net debt reduction and returns to shareholders of \$1 billion in the financial year.

With reduced financial leverage and minimal near-term refinancing risk, the Group has optimised the mix of liquidity with less requirement for short-term liquidity held in cash. The Group used cash in excess of its short-term requirements to purchase aircraft out of maturing operating leases, reducing the cash at period end and increasing the value of the Group's pool of unencumbered aircraft to over US\$3.9 billion. Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to any change in market conditions.

At 30 June 2016, the Group's leverage metrics were well within investment grade (BBB/Baa range) with FFO/net debt of 52 per cent (2014/15: 45 per cent) and Debt/adjusted EBITDA of 2.5 times (2014/15: 3.0 times).

FLEET

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

At 30 June 2016, the Qantas Group fleet³⁵ totalled 303 aircraft. During 2015/16, the Group purchased six aircraft and reclassified one aircraft from assets held for sale back into the fleet:

- Qantas – two B717-200s, one Bombardier Q300 and one Fokker 100
- Jetstar – three B787-8s

The Group removed three aircraft from service in 2015/16 including two lease returns. These included two A330-200s and one B747-400. The Qantas Group's scheduled passenger fleet average age is now 8.6 years³⁶, within the targeted 8-10 year range. The benefits of fleet investment include improved customer satisfaction, improved environmental outcomes, operational efficiencies and cost reductions.

SEGMENT PERFORMANCE

Segment Performance Summary	June 2016 \$M	June 2015 \$M	Change \$M	Change %
Qantas Domestic	578	480	98	20
Qantas International	512	267	245	92
Qantas Freight	64	114	(50)	(44)
Jetstar Group	452	230	222	97
Qantas Loyalty	346	315	31	10
Corporate	(168)	(163)	(5)	3
Unallocated/Eliminations	(33)	(10)	(23)	>100
Underlying EBIT	1,751	1,233	518	42
Net finance costs	(219)	(258)	39	(15)
Underlying PBT	1,532	975	557	57

³⁵ Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan and Jetstar Pacific.

³⁶ Based on Group's scheduled passenger fleet, excluding freighter aircraft and Network Aviation.

Review of Operations continued

For the year ended 30 June 2016

QANTAS DOMESTIC

Revenue

5,710 \$M

FY16	FY16	5,710
FY15	FY15	5,828
FY14	FY14	5,848
FY13	FY13	6,218
FY12	FY12	6,063

Underlying EBIT

578 \$M

FY16	FY16	578
FY15	FY15	480
FY14	FY14	30
FY13	FY13	365
FY12	FY12	463

Metrics		June 2016	June 2015	Change
Operating margin ³⁷	%	10.1	8.2	1.9pts
ASKs	M	36,260	36,638	(1.0)%
Seat factor	%	75.2	74.2	1.0pts

Qantas Domestic reported a record Underlying EBIT of \$578 million, a stand out performance in a year that saw a continued drop off in revenue from the resources sector and general demand weakness in the final quarter 2015/16. Operating margin increased to 10.1 per cent, with ex-fuel unit cost³⁸ improvement offsetting a decrease in revenue that was driven by the downturn in the Australian resources sector. Key drivers of the result included:

- Unit revenue was flat while ex-resources unit revenue³⁹ increased by one per cent
- Ex-fuel unit cost improvement of one per cent on capacity decrease of one per cent

Qantas Transformation delivered an increase in aircraft utilisation of two per cent⁴⁰. In response to the two-speed Australian economy⁴⁰, with passenger growth on east coast and leisure markets and contraction in intra-Western Australia and other resources markets, Qantas Domestic continued to shift aircraft to higher-growth markets. Resource-related passenger revenue was down \$121 million⁴¹ in the year, not including a reduction in charter activity.

Qantas Domestic saw strong improvement in all key operational metrics including:

- Record on-time performance increasing to 89.7 per cent from 88.3 per cent in 2014/15⁴²
- Customer advocacy (NPS)⁴³ increased five percentage points to a record result with investment in B737 and A330 cabin upgrades
- 15 x A330-200 and 54 x B737 reconfigurations completed⁴⁴
- Passenger seat factor increased one percentage point to 75.2 per cent

QANTAS INTERNATIONAL

Revenue

5,750 \$M

FY16	FY16	5,750
FY15	FY15	5,467
FY14	FY14	5,297
FY13	FY13	5,496
FY12	FY12	5,770

Underlying EBIT

512 \$M

FY16	FY16	512
FY15	FY15	267
FY14	FY14	(497)
FY13	FY13	(246)
FY12	FY12	(484)

METRICS		June 2016	June 2015	Change
Operating margin	%	8.9	4.9	4.0pts
ASKs	M	63,599	59,263	7.3%
Seat factor	%	81.7	81.5	0.2pts

37 Operating margin calculated as Underlying EBIT divided by total segment revenue.

38 Ex-fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in: employee discount rates and other assumptions, and foreign exchange rates.

39 Ex-resources unit revenue is unit revenue other than specific routes that are classified as resources.

40 Average block hours per aircraft per day compared to 2014/15.

41 Regular Public Transport (RPT) resources routes revenue compared to 2014/15.

42 On time performance (OTP) of Qantas Mainline (excluding QantasLink) operations. Measured as departures within 15 minutes of scheduled departure time. Source: BITRE.

43 Average 2015/16 net promoter score based on internal Qantas reporting.

44 As at 24 August 2016.

Review of Operations continued

For the year ended 30 June 2016

Qantas International achieved a record Underlying EBIT of \$512 million, a \$1 billion turnaround since 2013/14 that reflects the successful restructure of the segment's cost base, network and alliance partners, and a more dynamic approach to scheduling that has created new revenue opportunities. Highlights of the 2015/16 result included:

- Revenue increased five per cent with capacity growth and seat factor improvement
- Unit Revenue decline of one per cent for 2015/16 with a second-half 2015/16 decline of five per cent amid competitive market pricing
- Ex-fuel unit cost⁴⁵ improvement of four per cent driving margin uplift
- Qantas Transformation delivering utilisation increase of five per cent⁴⁶

Aircraft were reallocated from Qantas Domestic to Qantas International in response to shifting demand, facilitating additional services to higher growth markets in Asia. Over the course of the financial year Qantas International added services to Japan, China, Singapore and Bali, consistent with its strategic objective of aligning with the region's passenger growth.

Qantas International continued to broaden its network and strengthen offshore distribution with new alliance partnerships announced with American Airlines and China Eastern⁴⁷. The early integration of each alliance tracked according to plan, with synergies to begin being realised in 2016/17.

Record customer advocacy⁴⁸ results at the segment were the result of continued investment in product and service with all 10 International A330-300 cabin reconfigurations completed.

JETSTAR GROUP

Revenue

3,636 \$M

FY16	FY16	3,636
FY15	FY15	3,464
FY14	FY14	3,222
FY13	FY13	3,288
FY12	FY12	3,076

Underlying EBIT

452 \$M

FY16	FY16	452
FY15	FY15	230
FY14	FY14	(116)
FY13	FY13	138
FY12	FY12	203

METRICS		June 2016	June 2015	Change
Operating margin	%	12.4	6.6	5.8pts
ASKs	M	48,832	46,386	5.3%
Seat factor	%	81.5	79.9	1.6pts

Jetstar Group reported a record Underlying EBIT of \$452 million, almost double the segment's prior record result in 2014/15. The result saw a strong contribution from across the Jetstar Group's domestic and international businesses, with highlights including:

- Jetstar Domestic result up 62 per cent to \$242 million, leveraging brand and network advantage
- Strong Jetstar International profit with B787-8 efficiencies and growth in core Asia-Pacific markets
- Operating margin⁴⁹ improvement, up 5.8 pts to 12.4 per cent
- Controllable unit cost⁵⁰ reduction of three per cent
- Successful launch of New Zealand regional operations

A stand out of the Jetstar Group result was the performance of Jetstar Airlines in Asia⁵¹ which delivered an \$85 million improvement in profitability compared to 2014/15. Jetstar Japan reported its maiden full year profit with international expansions and realising scale benefits. Jetstar Asia in Singapore had a strong result with the launch of four new destinations (including charters into China) and total unit cost reduction, notwithstanding a challenging competitive market. Jetstar Pacific in Vietnam's earnings were lower in a highly competitive low fares market in the country, but continues to represent an attractive growth option for the Group in South East Asia.

Jetstar's focus on driving customer advocacy and ancillary revenue growth continued with investment in innovative service training and digital sales. A re-design of jetstar.com, including data-driven ancillary product offering, has enhanced the customer experience.

45 Ex-fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in: employee provision discount rates and other assumptions, foreign exchange rates, and block codeshare flying agreements per ASK.

46 Calculated as average block hours per aircraft per day. Compared to 2014/15.

47 American Airlines partnership is subject to regulatory approval.

48 Average 2015/16 Net Promoter Score, based on internal Qantas reporting.

49 Operating margin calculated as Underlying EBIT divided by total segment revenue.

50 Controllable unit cost excludes Jetstar New Zealand Regionals which commenced in December 2015, and is calculated as Underlying expenses less fuel, adjusted for changes in foreign exchange rates, share of net profit/(loss) of investments accounted for under the equity method, charter revenue and changes in sector length per ASK.

51 Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific.

Review of Operations continued

For the year ended 30 June 2016

QANTAS LOYALTY

Revenue

1,454 \$M

FY16	FY16	1,454
FY15	FY15	1,362
FY14	FY14	1,306
FY13	FY13	1,205
FY12	FY12	1,157

Underlying EBIT

346 \$M

FY16	FY16	346
FY15	FY15	315
FY14	FY14	286
FY13	FY13	260
FY12	FY12	231

METRICS		June 2016	June 2015	Change
Operating margin	%	23.8	23.1	0.7pts
Deferred revenue growth	M	56	108	(48)%
QFF members	M	11.4	10.8	5.4%

Qantas Loyalty reported a record Underlying EBIT of \$346 million, the eighth consecutive year of double-digit earnings growth⁵². Diversifying the Group's non-cyclical earnings at Qantas Loyalty remains a key pillar of the Group's long-term strategy. Highlights in 2015/16 included:

- Revenue up 6.7 per cent; strong margins maintained
- 3.8 per cent growth in Qantas Frequent Flyer co-branded credit cards, outpacing industry⁵³
- Continued growth of core Qantas Frequent Flyer coalition
- 44 per cent of revenue growth coming from Loyalty businesses other than Qantas Frequent Flyer
- Record customer advocacy after program enhancements

The Qantas Frequent Flyer and Aquire programs continued to attract new partners or extensions with existing ones. Significantly for Qantas Frequent Flyer, a new Woolworths proposition was announced that includes better member earn rates than under previous proposition. Core to the Loyalty strategy is diversification into new businesses that leverage the assets of the 11.4 million member base, in-house marketing expertise and digital capability. New ventures announced in the year were:

- Qantas Assure health insurance on target to deliver 2-3 per cent market share with a differentiated offering
- Investment in Data Republic – Australia's first secure public data exchange platform

QANTAS FREIGHT

Revenue

982 \$M

FY16	FY16	982
FY15	FY15	1,067
FY14	FY14	1,084
FY13	FY13	1,056
FY12	FY12	1,013

Underlying EBIT

64 \$M

FY16	FY16	64
FY15	FY15	114
FY14	FY14	24
FY13	FY13	36
FY12	FY12	45

METRICS		June 2016	June 2015	Change
Operating margin	%	6.5	10.7	(4.2)pts
International capacity ⁵⁴	B	3.3	3.2	4.7%
International load ⁵⁵	%	53.4	57.0	(3.6)pts

⁵² Qantas Loyalty record Underlying EBIT result compared to prior periods normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.

⁵³ Based on number of personal credit card accounts with interest free periods; growth comparison for 12 months to June 2016; RBA credit and card charges statistics.

⁵⁴ International capacity measured as international available freight tonne kilometres.

⁵⁵ International load is measured as international revenue freight tonne kilometres divided by International available freight tonne kilometres.

Review of Operations continued

For the year ended 30 June 2016

Qantas Freight reported an Underlying EBIT of \$64 million, a \$50 million decrease from the prior year in line with guidance provided at the Group's full year 2014/15 results. The performance reflected challenging global cargo markets, and more in keeping with historical performance. Key drivers of the result included:

- Revenue performance reflecting flat demand against a six per cent global capacity increase
- Conclusion of favourable Australian air Express legacy agreements in 2014/15
- Continued cost reduction through Qantas Transformation

Qantas Freight retains a leading position in the Australian cargo market with Australia Post and Toll Group, Australia's largest air freight customers, under contract. With yields likely remaining under pressure, the segment is focused on delivering on strategic objectives to ensure sustainable performance in the future:

- Integrated ground to air operations
- Continued cost reduction through Qantas Transformation
- Developing growth opportunities into China through tactical freight deployment to Zhengzhou and Chongqing
- Agile scheduling to adapt to changing markets – for example new freighter stop-off into Dallas

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax of \$1,424 million for the year ended 30 June 2016 is \$635 million higher than the prior year.

Underlying PBT

Underlying PBT is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas International, Qantas Domestic, Jetstar Group, Qantas Loyalty 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. Underlying PBT is derived by adjusting Statutory Profit Before Tax for the impacts of ineffectiveness and non-designated derivatives relating to other reporting periods and certain other items which are not included in Underlying PBT.

	2016 \$M			2015 \$M				
	Statutory	Ineffectiveness relating to other reporting periods	Other items not included in Underlying PBT	Underlying	Statutory	Ineffectiveness relating to other reporting periods	Other items not included in Underlying PBT	Underlying
Net passenger revenue	13,961	–	–	13,961	13,604	–	–	13,604
Net freight revenue	850	–	–	850	936	–	–	936
Other	1,389	–	–	1,389	1,276	–	–	1,276
Revenue and other income	16,200	–	–	16,200	15,816	–	–	15,816
Manpower and staff related	3,849	–	(22)	3,827	3,604	–	(13)	3,591
Fuel	3,250	(15)	–	3,235	3,937	(38)	–	3,899
Aircraft operating variable	3,362	–	(5)	3,357	3,206	–	(3)	3,203
Depreciation and amortisation	1,224	–	–	1,224	1,096	–	–	1,096
Non-cancellable aircraft operating lease rentals	461	–	–	461	495	–	–	495
Share of net (profit)/loss of investments accounted for under the equity method	–	–	–	–	40	–	(11)	29
Other	2,411	–	(66)	2,345	2,390	–	(120)	2,270
Expenses	14,557	(15)	(93)	14,449	14,768	(38)	(147)	14,583
Earnings Before Interest & Tax	1,643	15	93	1,751	1,048	38	147	1,233
Net finance costs	(219)	–	–	(219)	(259)	1	–	(258)
PBT	1,424	15	93	1,532	789	39	147	975

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

i. Ineffectiveness and non-designated derivatives relating to other reporting periods

The difference between Statutory Profit Before Tax and Underlying PBT results from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

Review of Operations continued

For the year ended 30 June 2016

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, impairments of assets and other transactions outside the ordinary course of business. Other items not included in Underlying PBT of \$93 million includes transformation costs relating to the Qantas Transformation Program of \$183 million, the wage freeze employee bonus of \$91 million relating to the Enterprise Bargaining Agreements (EBAs) announced on 3 July 2015 and other costs of \$20 million offset by the net gain on disposal of property, plant and equipment of \$201 million relating to the disposal of Sydney Airport Terminal Three and related assets to Sydney Airport Corporation Limited announced on 18 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. The nature of these risks has not changed with the focus remaining on improving the controls in place to manage or mitigate these risks.

- **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 cost base comparable to direct competitors.
 - The Australian domestic aviation market is a highly competitive environment. The Qantas Group's market-leading domestic position and dual-brand strategy allow Qantas to effectively mitigate the impact of any market changes. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic is focused on removing the cost base disadvantage to its competitor through Qantas Transformation initiatives while maintaining a revenue premium. Jetstar is working to maintain its lowest seat cost and yield advantage. These priorities deliver Qantas Domestic and Jetstar Domestic the highest operating margins in their respective markets enabling the Group to retain market share of Underlying EBIT in excess of capacity share.
- **Fuel and foreign exchange volatility:** The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2016/17 the Group's hedging profile is positioned such that the worst case total fuel cost is \$3.2⁵⁶ billion with 87 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2016/17 is \$3.1⁵⁷ billion)⁵⁸. Complementing the hedging program, increased focus on forecasting and operational agility of our aviation operations supports the Group to manage the residual uncertainty.
- **Industrial relations:** The associated risks of transformation including 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 union groups and other relevant stakeholders. In 2015/16 the Group's engagement score was at a record 79 per cent up four percentage points since 2014/15. The Group has successfully closed 30 Enterprise Bargaining Agreements (EBAs) subsequent to the commencement of the Qantas Transformation Program inclusive of an 18 month wage freeze. To support the implementation of the 18 month wage freeze a bonus payment of five per cent was announced in July 2015 to be made to all employees covered by an 18 month wage freeze. In addition, in August 2016 in recognition of the contribution towards a record result, the Group announced a further \$3,000 bonus to all full-time employees and \$2,500 to all part-time employees covered by an 18 month wage freeze.
- **Integrity of data and continuity of critical systems:** The Group's operations depend on the continuity of a number of information technology and communication services and the integrity and protection of the privacy of data. The Group's ongoing investment in cybersecurity, together with its extensive Control and Risk Framework⁵⁹ work to reduce the likelihood of outages, ensure early detection and the mitigation of impact.
- **Key business partners and alliances:** The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework.

⁵⁶ The worst case total fuel cost is based on a two standard deviation correlated move in the Brent forward market prices to US\$56/bbl with the AUD/USD rate at 0.78 for the remainder of 2016/17.

⁵⁷ The current forward market price total fuel cost is based on a Brent forward market price of A\$67/bbl for the remainder of 2016/17.

⁵⁸ As at 23 August 2016.

⁵⁹ An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on www.qantas.com.au.

Consolidated Income Statement

For the year ended 30 June 2016

	Notes	2016 \$M	2015 \$M
REVENUE AND OTHER INCOME			
Net passenger revenue		13,961	13,604
Net freight revenue		850	936
Other	3	1,389	1,276
Revenue and other income		16,200	15,816
EXPENDITURE			
Manpower and staff related		3,849	3,604
Fuel		3,250	3,937
Aircraft operating variable		3,362	3,206
Depreciation and amortisation		1,224	1,096
Non-cancellable aircraft operating lease rentals		461	495
Share of net loss of investments accounted for under the equity method		–	40
Other	4	2,411	2,390
Expenditure		14,557	14,768
Statutory profit before income tax expense and net finance costs		1,643	1,048
Finance income		65	90
Finance costs		(284)	(349)
Net finance costs		(219)	(259)
Statutory profit before income tax expense		1,424	789
Income tax expense	5	(395)	(229)
Statutory profit for the year		1,029	560
Attributable to:			
Members of Qantas		1,029	557
Non-controlling interests		–	3
Statutory profit for the year		1,029	560
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic/diluted earnings per share (cents)		49.4	25.4

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

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	2016 \$M	2015 \$M
Statutory profit for the year	1,029	560
Items that are or may be subsequently reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	(187)	(44)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax ¹	198	91
Recognition of effective cash flow hedges on capitalised assets, net of tax	(40)	(2)
Net changes in hedge reserve for time value of options, net of tax	35	(95)
Foreign currency translation of controlled entities	2	5
Foreign currency translation of investments accounted for under the equity method	24	5
Share of other comprehensive income of investments accounted for under the equity method	(2)	–
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial (losses)/gains, net of tax	(209)	38
Other comprehensive loss for the year	(179)	(2)
Total comprehensive income for the year	850	558
Total comprehensive income attributable to:		
Members of Qantas	850	554
Non-controlling interests	–	4
Total comprehensive income for the year	850	558

¹ These amounts were allocated to revenue of \$(7) million (2015: \$(40) million), fuel expenditure of \$289 million (2015: \$170 million), and income tax expense of \$(84) million (2015: \$(39) million) in the Consolidated Income Statement.

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

Consolidated Balance Sheet

As at 30 June 2016

	2016 \$M	2015 \$M
CURRENT ASSETS		
Cash and cash equivalents	1,980	2,908
Receivables	795	959
Other financial assets	229	613
Inventories	336	322
Assets classified as held for sale	17	136
Other	101	111
Total current assets	3,458	5,049
NON-CURRENT ASSETS		
Receivables	134	134
Other financial assets	46	49
Investments accounted for under the equity method	197	134
Property, plant and equipment	11,670	10,715
Intangible assets	909	803
Deferred tax assets	39	333
Other	252	313
Total non-current assets	13,247	12,481
Total assets	16,705	17,530
CURRENT LIABILITIES		
Payables	1,986	1,881
Revenue received in advance	3,525	3,584
Interest-bearing liabilities	441	771
Other financial liabilities	203	416
Provisions	873	818
Total current liabilities	7,028	7,470
NON-CURRENT LIABILITIES		
Revenue received in advance	1,521	1,359
Interest-bearing liabilities	4,421	4,791
Other financial liabilities	61	68
Provisions	414	395
Total non-current liabilities	6,417	6,613
Total liabilities	13,445	14,083
Net assets	3,260	3,447
EQUITY		
Issued capital	3,625	4,630
Treasury shares	(50)	(7)
Reserves	(220)	(66)
Retained earnings	(100)	(1,115)
Equity attributable to the members of Qantas	3,255	3,442
Non-controlling interests	5	5
Total equity	3,260	3,447

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

30 June 2016 \$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 YEAR									
Statutory profit for the year	-	-	-	-	-	-	1,029	-	1,029
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(187)	-	-	-	-	(187)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	198	-	-	-	-	198
Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	(40)	-	-	-	-	(40)
Net changes in hedge reserve for time value of options, net of tax	-	-	-	35	-	-	-	-	35
Defined benefit actuarial losses, net of tax	-	-	-	-	-	(209)	-	-	(209)
Foreign currency translation of controlled entities	-	-	-	-	2	-	-	-	2
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	24	-	-	-	24
Share of other comprehensive income of investments accounted for under the equity method	-	-	-	(2)	-	-	-	-	(2)
Total other comprehensive income/(loss)	-	-	-	4	26	(209)	-	-	(179)
Total comprehensive income/(loss) for the year	-	-	-	4	26	(209)	1,029	-	850
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(500)	-	-	-	-	-	-	-	(500)
Capital return	(505)	-	-	-	-	-	-	-	(505)
Treasury shares acquired	-	(75)	-	-	-	-	-	-	(75)
Share-based payments	-	-	37	-	-	-	-	-	37
Shares vested and transferred to employees	-	32	(11)	-	-	-	(15)	-	6
Share-based payments unvested and lapsed	-	-	(1)	-	-	-	1	-	-
Total contributions by and distributions to owners	(1,005)	(43)	25	-	-	-	(14)	-	(1,037)
Total transactions with owners	(1,005)	(43)	25	-	-	-	(14)	-	(1,037)
Balance as at 30 June 2016	3,625	(50)	72	(118)	(3)	(171)	(100)	5	3,260

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

30 June 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 2014	4,630	(16)	32	(72)	(41)	–	(1,671)	4	2,866
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR									
Statutory profit for the year	–	–	–	–	–	–	557	3	560
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(44)	–	–	–	–	(44)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	91	–	–	–	–	91
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	–	–	(2)	–	–	–	–	(2)
Net changes in hedge reserve for time value of options, net of tax	–	–	–	(95)	–	–	–	–	(95)
Defined benefit actuarial gains, net of tax	–	–	–	–	–	38	–	–	38
Foreign currency translation of controlled entities	–	–	–	–	4	–	–	1	5
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	5	–	–	–	5
Total other comprehensive loss	–	–	–	(50)	9	38	–	1	(2)
Total comprehensive income/(loss) for the year	–	–	–	(50)	9	38	557	4	558
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Treasury shares acquired	–	(1)	–	–	–	–	–	–	(1)
Share-based payments	–	–	29	–	–	–	–	–	29
Shares vested and transferred to employees	–	10	(8)	–	–	–	(2)	–	–
Share-based payments unvested and lapsed	–	–	(6)	–	–	–	1	–	(5)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(4)	(4)
Total contributions by and distributions to owners	–	9	15	–	–	–	(1)	(4)	19
Change in ownership interest in subsidiaries									
Deconsolidation of controlled entity	–	–	–	–	3	–	–	–	3
Acquisition of non-controlling interest	–	–	–	–	–	–	–	1	1
Total change in ownership interest	–	–	–	–	3	–	–	1	4
Total transactions with owners	–	9	15	–	3	–	(1)	(3)	23
Balance as at 30 June 2015	4,630	(7)	47	(122)	(29)	38	(1,115)	5	3,447

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

Consolidated Cash Flow Statement

For the year ended 30 June 2016

	2016 \$M	2015 \$M
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	17,723	17,239
Cash payments to suppliers and employees (excluding cash payments to employees for wage freeze bonus, redundancies and related costs)	(14,600)	(14,747)
Cash generated from operations	3,123	2,492
Cash payments to employees for redundancies and related costs	(90)	(251)
Cash payments to employees for wage freeze bonus	(53)	–
Interest received	64	85
Interest paid	(227)	(281)
Dividends received from investments accounted for under the equity method	4	5
Income taxes paid	(2)	(2)
Net cash from operating activities	2,819	2,048
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment and intangible assets	(1,618)	(1,359)
Interest paid and capitalised on qualifying assets	(24)	(17)
Payments for the acquisition of controlled entities, net of cash acquired	–	(7)
Payments for investments accounted for under the equity method	(39)	(58)
Net receipts for aircraft assigned to investments accounted for under the equity method	–	266
Proceeds from disposal of property, plant and equipment	509	194
Proceeds from disposal of controlled entities, net of cash disposed	–	28
Net loan repayment from investments accounted for under the equity method	27	9
	(1,145)	(944)
Aircraft operating lease refinancing	(778)	–
Net cash used in investing activities	(1,923)	(944)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for capital return	(505)	–
Payments for share buy-back	(500)	–
Payments for treasury shares	(75)	(1)
Proceeds from borrowings	–	796
Repayments of borrowings	(807)	(2,276)
Proceeds from sale and finance leaseback of non-current assets	–	275
Net receipts/(payments) for aircraft security deposits and hedges related to debt	62	(8)
Dividends paid to non-controlling interests	–	(4)
Net cash used in financing activities	(1,825)	(1,218)
Net decrease in cash and cash equivalents held	(929)	(114)
Cash and cash equivalents at the beginning of the year	2,908	3,001
Effects of exchange rate changes on cash and cash equivalents	1	21
Cash and cash equivalents at the end of the year	1,980	2,908

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

Notes to the Preliminary Final Report

For the year ended 30 June 2016

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

The Preliminary Final Report (the Report) has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The Annual Financial Report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The Report is presented in Australian dollars, which is the functional currency of Qantas Airways Limited (Qantas) and its controlled entities (the Qantas Group), and has been prepared on the basis of historical cost except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values.

The Annual Financial Report is in the process of being audited and is expected to be made available in early September 2016. This Report should also be read in conjunction with any public announcements made by Qantas during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

(B) SIGNIFICANT ACCOUNTING POLICIES

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

(C) COMPARATIVES

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

(D) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In preparing this Report, judgements made by Management in the application of AASBs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in future periods were the same as those applied to the Qantas Annual Report for the year ended 30 June 2015.

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

(A) UNDERLYING PROFIT BEFORE TAX (UNDERLYING PBT) AND RECONCILIATION TO 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, for the purpose of assessing the performance of the Group. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of each operating segment and the Qantas Group.

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

Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

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

	June 2016 \$M	June 2015 \$M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX		
Underlying PBT	1,532	975
Ineffectiveness and non-designated derivatives relating to other reporting periods	(15)	(39)
<i>Other items not included in Underlying PBT</i>		
– Transformation costs	(183)	(91)
– Wage freeze employee bonus	(91)	–
– Net gain on sale of controlled entity and related assets	–	11
– Net gain on sale of property, plant and equipment	201	–
– Other	(20)	(67)
Total other items not included in Underlying PBT	(93)	(147)
Statutory Profit Before Tax	1,424	789

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

iii. Ineffectiveness and Non-designated Derivatives relating to Other Reporting Periods

The difference between Statutory Profit Before Tax and Underlying PBT results from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

iv. 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, impairments of assets and other transactions outside the ordinary course of business.

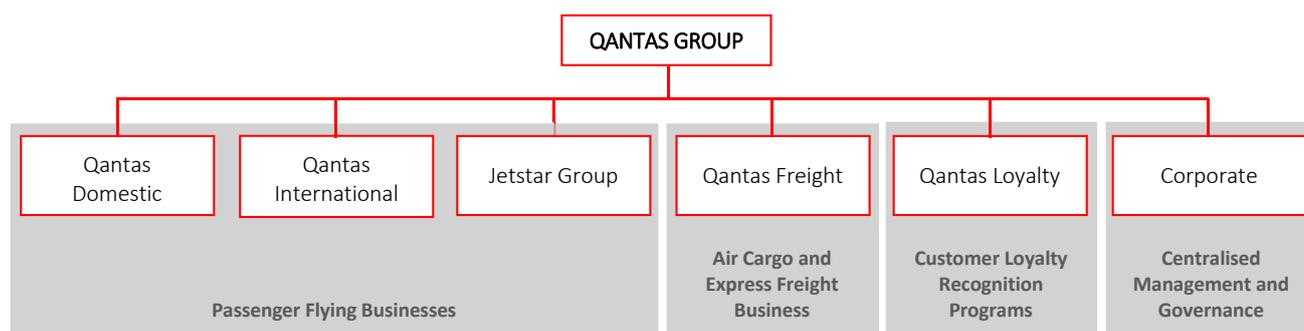
Transformation costs relating to the Qantas Transformation Program of \$183 million were incurred during the period.

The 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.

The wage freeze employee bonus of \$91 million relates to the 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.

(B) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:



Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

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

i. Underlying EBIT

The primary reporting measure of the Qantas Domestic, Qantas International, Qantas Freight, Jetstar Group and Qantas Loyalty 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.

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

2016 \$M	Qantas Domestic	Qantas International	Qantas Freight	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations ²	Consolidated
REVENUE AND OTHER INCOME								
External segment revenue and other income	5,226	5,173	973	3,475	1,332	13	8	16,200
Inter-segment revenue and other income	484	577	9	161	122	–	(1,353)	–
Total segment revenue and other income	5,710	5,750	982	3,636	1,454	13	(1,345)	16,200
Share of net profit/(loss) of investments accounted for under the equity method	3	4	–	(7)	–	–	–	–
Underlying EBITDAR¹	1,276	1,013	96	866	359	(157)	(17)	3,436
Non-cancellable aircraft operating lease rentals	(174)	(69)	(6)	(208)	–	–	(4)	(461)
Depreciation and amortisation	(524)	(432)	(26)	(206)	(13)	(11)	(12)	(1,224)
Underlying EBIT	578	512	64	452	346	(168)	(33)	1,751
Underlying net finance costs							(219)	(219)
Underlying PBT							(387)	1,532
ROIC %³								22.7%

2015 \$M	Qantas Domestic	Qantas International	Qantas Freight	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations ²	Consolidated
REVENUE AND OTHER INCOME								
External segment revenue and other income	5,291	4,878	1,059	3,283	1,244	7	54	15,816
Inter-segment revenue and other income	537	589	8	181	118	–	(1,433)	–
Total segment revenue and other income	5,828	5,467	1,067	3,464	1,362	7	(1,379)	15,816
Share of net profit/(loss) of investments accounted for under the equity method	4	4	–	(37)	–	–	–	(29)
Underlying EBITDAR¹	1,171	706	156	625	323	(150)	(7)	2,824
Non-cancellable aircraft operating lease rentals	(219)	(42)	(5)	(229)	–	–	–	(495)
Depreciation and amortisation	(472)	(397)	(37)	(166)	(8)	(13)	(3)	(1,096)
Underlying EBIT	480	267	114	230	315	(163)	(10)	1,233
Underlying net finance costs							(258)	(258)
Underlying PBT							(421)	975
ROIC %³								16.2%

¹ Underlying EBITDAR represents Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.

² Unallocated/Eliminations represents unallocated and other businesses of the Qantas Group which are not considered to be reportable segments including consolidation elimination entries.

³ ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital (Refer to Note 2(C)).

Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

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

(C) RETURN ON INVESTED CAPITAL

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

i. ROIC EBIT

ROIC EBIT is derived by adjusting Underlying EBIT 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.

	2016	2015
	\$M	\$M
ROIC EBIT		
Underlying EBIT	1,751	1,233
Add: Non-cancellable aircraft lease rentals	461	495
Less: Notional depreciation ¹	(203)	(252)
ROIC EBIT	2,009	1,476

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

ii. Average 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 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, which is a non-statutory adjustment and notwithstanding that in accordance with Australian Accounting Standards these assets are not recognised on balance sheet.

Average Invested Capital is equal to the 12 month average of the monthly Invested Capital.

	2016	2015
	\$M	\$M
INVESTED CAPITAL		
Receivables (current and non-current)	929	1,093
Inventories	336	322
Other assets (current and non-current)	353	424
Investments accounted for under the equity method	197	134
Property, plant and equipment	11,670	10,715
Intangible assets	909	803
Assets classified as held for sale	17	136
Payables	(1,986)	(1,881)
Provisions (current and non-current)	(1,287)	(1,213)
Revenue received in advance (current and non-current)	(5,046)	(4,943)
Capitalised operating leased assets ¹	2,288	3,100
Invested Capital as at 30 June	8,380	8,690
Average Invested Capital for the year ended 30 June	8,857	9,091

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

Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

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

iii. ROIC %

	2016 %	2015 %
ROIC %¹	22.7	16.2

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

iv. Underlying PBT per Share

	2016 cents	2015 cents
Underlying PBT per share	73.5	44.1

NOTE 3. REVENUE AND OTHER INCOME

(A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREAS

	2016 \$M	2015 \$M
Net passenger and freight revenue		
Australia	10,563	10,523
Overseas	4,248	4,017
Total net passenger and freight revenue	14,811	14,540
Other income	1,389	1,276
Total revenue and other income	16,200	15,816

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.

(B) Other income

	2016 \$M	2015 \$M
Frequent Flyer marketing revenue, membership fees and other revenue	395	348
Frequent Flyer store and other redemption revenue ¹	299	286
Retail, advertising and other property revenue	141	154
Contract work revenue	138	141
Other	416	347
Total other income	1,389	1,276

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

Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

NOTE 4. OTHER EXPENDITURE

	2016 \$M	2015 \$M
Commissions and other selling costs	557	544
Computer and communication	432	400
Capacity hire	297	292
Non-aircraft operating lease rentals	234	235
Property	237	244
Marketing and advertising	132	103
Employee related benefit discount rate and other assumption changes	92	(8)
Wage freeze employee bonus	91	–
Redundancies	56	60
Inventory write-off	15	10
Net impairment of property, plant, equipment, intangible assets and investments	12	28
Contract work materials	12	16
Ineffective and non-designated derivatives	(1)	13
Net gain on disposal of property, plant and equipment	(226)	(17)
Net gain on sale of controlled entities and related assets	–	(11)
Other	471	481
Total other expenditure	2,411	2,390

NOTE 5. INCOME TAX EXPENSE

	2016 \$M	2015 \$M
RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT		
Current income tax expense		
Current year – foreign	(2)	(2)
Total current income tax expense	(2)	(2)
Deferred income tax expense		
Origination and reversal of temporary differences	26	(104)
Utilisation of tax losses	(413)	(117)
	(387)	(221)
Adjustments for prior year	(6)	(6)
Total deferred income tax expense	(393)	(227)
Total income tax expense in the Consolidated Income Statement	(395)	(229)

Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

NOTE 5. INCOME TAX EXPENSE (CONTINUED)

	2016 \$M	2015 \$M
RECONCILIATION BETWEEN INCOME TAX EXPENSE AND STATUTORY PROFIT BEFORE INCOME TAX		
Statutory profit before income tax expense	1,424	789
Income tax expense using the domestic corporate tax rate of 30 per cent	(427)	(237)
Adjusted for:		
Non-assessable dividends from controlled entities	1	10
Non-deductible share of net loss for investments accounted for under the equity method	–	(14)
Non-deductible losses for foreign branches and controlled entities	(6)	(7)
Utilisation of previously unrecognised foreign branch and controlled entity losses	6	5
Utilisation of previously unrecognised capital losses	8	–
Non-assessable gain on disposal of property, plant and equipment	30	–
Write-down of investments	–	(2)
Other net non-assessable/(non-deductible) items	7	(4)
(Under)/over provision from prior periods	(14)	20
Income tax expense	(395)	(229)

	2016 \$M	2015 \$M
RECOGNISED DIRECTLY IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Cash flow hedges	(2)	21
Defined benefit actuarial (losses)/gains	89	(15)
Income tax benefit recognised directly in the Consolidated Statement of Comprehensive Income	87	6

Income tax payable was less than 30 per cent of the Qantas Group's Statutory Profit Before Tax due to:

- Utilisation of carry forward tax losses that reduce taxable income of \$413 million (2015: \$117 million)
- Temporary differences of (\$18 million) (2015: \$112 million) which result in differences between taxable income which will reverse in future periods and Statutory Profit Before Tax, such as accelerated tax depreciation on aircraft (timing difference due to the Qantas Group making a significant investment in renewing its fleet in recent years that will reverse in future tax periods)

	2016 \$M	2015 \$M
RECONCILIATION OF INCOME TAX EXPENSE TO INCOME TAX PAYABLE		
Income tax expense	(395)	(229)
Adjusted for temporary differences		
Inventories	1	(1)
Property, plant and equipment and intangible assets	18	247
Payables	(28)	2
Revenue received in advance	(64)	(25)
Interest-bearing liabilities	(16)	(14)
Other financial assets/(liabilities)	40	(49)
Provisions	(26)	41
Other items	49	(97)
Prior period differences	8	8
Temporary differences	(18)	112
Tax losses utilised	413	117
Income tax payable	–	–

Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

NOTE 5. INCOME TAX EXPENSE (CONTINUED)

	2016 \$M	2015 \$M
QANTAS GROUP CARRIED FORWARD TAX LOSSES		
Tax losses brought forward	(2,850)	(3,240)
Current year taxable income	1,376	390
Tax loss carried forward	(1,474)	(2,850)

NOTE 6. DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

(A) DIVIDENDS DECLARED AND PAID

The Directors have declared a fully franked final dividend of seven cents per ordinary share for the current year, totalling \$134 million (2015: nil).

For the year ended 30 June 2016, no dividends (2015:\$4 million) were declared and paid to non-controlling interest shareholders by non-wholly owned controlled entities.

(B) OTHER SHAREHOLDER DISTRIBUTIONS

In addition to the dividend totalling \$134 million above, the directors have announced an on-market share buy-back of up to \$366 million. Shareholder approval will be sought at the Annual General Meeting on 21 October 2016 to buy back more than 10 per cent of shares on issue within a 12 month period.

In line with the Group's Financial Framework, the Qantas Group has returned over \$1 billion in surplus capital to shareholders in 2015/16.

In November 2015, the Group undertook a capital management initiative for Qantas shareholders comprising a distribution to shareholders of 23 cents per share and a related share consolidation. This resulted in a capital return of \$505 million being paid to shareholders and an equal and proportionate share consolidation through the conversion of each share into 0.939 shares resulting in 134 million less shares on issue.

On 10 June 2016, the Qantas Group completed a \$500 million on-market share buy-back which was announced in February 2016. The Group purchased 143 million shares for a weighted average price of \$3.4819.

The \$500 million on-market share buy-back combined with the \$505 million capital return and associated share consolidation has resulted in the ordinary shares on issue decreasing by 12.6 per cent between 30 June 2015 and 30 June 2016.

NOTE 7. COMMITMENTS

(A) CAPITAL EXPENDITURE COMMITMENTS

The Group's capital expenditure commitments as at 30 June 2016 are \$11,623 million (2015: \$10,090 million). The Group has certain rights within its aircraft purchase contracts which can defer the above capital commitments.

The Group's capital expenditure commitments are predominantly denominated in US Dollars. Disclosures outlined above are translated to Australian dollar presentational currency at the 30 June 2016 closing exchange rate of \$0.75 (30 June 2015: \$0.77).

(B) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	2016 \$M	2015 \$M
AS LESSEE		
Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)		
Aircraft and engines – payable:		
Not later than one year	149	135
Later than one year but not later than five years	586	553
Later than five years	1,034	1,150
Total aircraft and engines	1,769	1,838
Less: future lease and hire purchase finance charges and deferred lease benefits	(300)	(340)
Total finance lease and hire purchase liabilities	1,469	1,498

Notes to the Preliminary Final Report continued

For the year ended 30 June 2016

NOTE 7. COMMITMENTS (CONTINUED)

	2016 \$M	2015 \$M
Finance lease and hire purchase liabilities (included in the Consolidated Financial Statements)		
Current liabilities	103	93
Non-current liabilities	1,366	1,405
Total finance lease and hire purchase liabilities	1,469	1,498

The Qantas Group leases aircraft under finance leases with expiry dates between one and 10 years. Most finance leases contain purchase options exercisable at the end of the lease term. The Qantas Group has the right to negotiate extensions on most leases.

(C) OPERATING LEASE COMMITMENTS

	2016 \$M	2015 \$M
AS LESSEE		
Non-cancellable operating lease commitments (not provided for in the Consolidated Financial Statements)		
Aircraft and engines – payable:		
Not later than one year	366	469
Later than one year but not later than five years	952	802
Later than five years	187	88
Total aircraft and engines	1,505	1,359
Non-aircraft – payable:		
Not later than one year	188	175
Later than one year but not later than five years	503	521
Later than five years but not later than 10 years	320	332
Later than 10 years	367	398
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	(2)	(3)
Total non-aircraft	1,376	1,423
Total non-cancellable operating lease commitments	2,881	2,782

NOTE 8. POST BALANCE DATE EVENTS

Other than as noted in Note 6 - Dividends and Other Shareholder Distributions, there has not arisen in the interval between 30 June 2016 and the date of this Report any other event that would have had a material effect on the Consolidated Financial Statements as at 30 June 2016.

Operational Statistics

For the year ended 30 June 2016

(unaudited)		June 2016	June 2015	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK) - SCHEDULED SERVICES				
Passengers carried	000	21,804	21,493	1.4%
Revenue passenger kilometres (RPK)	M	27,270	27,180	0.3%
Available seat kilometres (ASK)	M	36,260	36,638	(1.0)%
Revenue seat factor	%	75.2	74.2	1.0pts
JETSTAR DOMESTIC - SCHEDULED SERVICES				
Passengers carried	000	13,267	12,859	3.2%
Revenue passenger kilometres (RPK)	M	15,565	15,042	3.5%
Available seat kilometres (ASK)	M	18,660	18,215	2.4%
Revenue seat factor	%	83.4	82.6	0.8pts
QANTAS INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	6,360	5,843	8.8%
Revenue passenger kilometres (RPK)	M	51,975	48,299	7.6%
Available seat kilometres (ASK)	M	63,599	59,263	7.3%
Revenue seat factor	%	81.7	81.5	0.2pts
JETSTAR INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	5,757	5,020	14.7%
Revenue passenger kilometres (RPK)	M	17,417	15,461	12.7%
Available seat kilometres (ASK)	M	21,710	19,740	10.0%
Revenue seat factor	%	80.2	78.3	1.9pts
JETSTAR ASIA				
Passengers carried	000	4,238	3,966	6.9%
Revenue passenger kilometres (RPK)	M	6,827	6,562	4.0%
Available seat kilometres (ASK)	M	8,462	8,431	0.4%
Revenue seat factor	%	80.7	77.8	2.9pts
QANTAS GROUP OPERATIONS				
Passengers carried	000	51,426	49,181	4.6%
Revenue passenger kilometres (RPK)	M	119,054	112,543	5.8%
Available seat kilometres (ASK)	M	148,691	142,287	4.5%
Revenue seat factor	%	80.1	79.1	1.0pts
Aircraft at end of year	#	303	299	4
EMPLOYEES				
Full-time equivalent employees at end of year (FTE)	#	29,204	28,622	582
RPK per FTE at year-end	000	4,077	3,932	3.7%
ASK per FTE at year-end	000	5,091	4,971	2.4%