



QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

**APPENDIX 4D AND
CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2014**

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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 2014 \$M	December 2013 \$M	Change \$M	Change %
Revenue and other income	8,071	7,903	168	2.1
Statutory profit/(loss) after tax	206	(235)	441	187.7
Statutory profit/(loss) after tax attributable to members of Qantas	203	(235)	438	186.4
Underlying profit/(loss) before tax	367	(252)	619	245.6

DIVIDENDS

No interim dividend will be paid in relation to the half-year ended 31 December 2014.

EXPLANATION OF RESULTS

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

This information should be read in conjunction with the Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2014. This report should also be read in conjunction with any public announcements made by Qantas in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

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

OTHER INFORMATION

	December 2014 \$	June 2014 \$
Net Assets per ordinary share	1.24	1.31
Net tangible assets per ordinary share	0.63	0.72

Entities over which control was gained or lost during the period

The Qantas Group gained or lost control of the following controlled entities during the period:

- PT Biro Perjalanan Wisata Tour East Indonesia (disposed of on 23 December 2014)
- Tour East Australia Pty Limited (disposed of on 23 December 2014)
- Tour East (Hong Kong) Limited (disposed of on 23 December 2014)
- Tour East Singapore (1996) Pte Ltd (disposed of on 23 December 2014)

Ownership interest in investments accounted for under the equity method	December 2014 %	June 2014 %
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	29	29
Jetstar Hong Kong Airways Limited	25	25
Jetstar Japan Co., Ltd.	33	33
Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
PT Holidays Tours & Travel	37	37
Tour East (T.E.T) Ltd	37	37

DIRECTORS' REPORT

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2014 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 <i>Chairman</i>	<i>Current, appointed 9 August 2007 – appointed Chairman on 14 November 2007</i>
Alan Joyce <i>Chief Executive Officer</i>	<i>Current, appointed 28 July 2008 – appointed Chief Executive Officer on 28 November 2008</i>
Maxine Brenner	<i>Current, appointed 29 August 2013</i>
Richard Goodmanson	<i>Current, appointed 19 June 2008</i>
Jacqueline Hey	<i>Current, appointed 29 August 2013</i>
Garry Hounsell	<i>Current, appointed 1 January 2005</i>
William Meaney	<i>Current, appointed 15 February 2012</i>
Paul Rayner	<i>Current, appointed 16 July 2008</i>
Todd Sampson	<i>Current, appointed 25 February 2015</i>
Barbara Ward, AM	<i>Current, appointed 19 June 2008</i>

REVIEW OF OPERATIONS

The Qantas Group reported an Underlying Profit Before Tax¹ of \$367 million for the six months ended 31 December 2014. The Qantas Group's Statutory Profit After Tax of \$206 million included \$42 million of redundancies, restructuring and other costs associated with the Qantas Transformation program which were not included in Underlying PBT¹.

The Underlying PBT¹ result reflects a marked turnaround compared to the prior corresponding period as the Group delivers in line with its strategy to drive a recovery in earnings, strengthen the balance sheet, and build long-term shareholder value. Major drivers of the improved result included:

- Benefits from the Qantas Transformation program being realised ahead of targets, with a total \$374 million benefits delivered in the first-half 2014/15
- Improved yields and passenger loads in domestic and international businesses
- The positive impact of reduced depreciation expense, the removal of the carbon tax, and lower Australian dollar fuel prices

This has resulted in all operating segments reporting an Underlying Earnings Before Net Finance Costs and Tax¹ profit, including a \$321 million turnaround of Qantas International.

The \$374 million of Qantas Transformation benefits realised during the first-half of 2014/15 was ahead of initial guidance of at least \$300 million, with all milestones in the program being met or exceeded in the half. The accelerated business transformation program has strong momentum into the second-half of 2014/15, with the target for benefits to be realised over the full year increased to \$675 million from the initial target of at least \$600 million.

The Group retained a robust total liquidity position² of \$3.6 billion. A rapid improvement in the cash generating capacity of the business (as represented by Underlying EBITDA¹) and modest capital expenditure resulted in positive net free cash flow³ of \$194 million, which in turn helped further deleverage the balance sheet. Debt reduction was achieved at the same time as investment in fleet and product enhancements that are central to the Group's focus on the customer and revenue opportunities. Net free cash flow³ of \$194 million was after the Group incurred \$186 million in cash costs for redundancies and related expenses associated with the Transformation program.

Performance highlights in the first-half 2014/15 include:

- Qantas International Underlying EBIT¹ of \$59 million, reflecting a \$321 million turnaround from the prior corresponding period driven by Qantas Transformation benefits
- Another record⁴ Underlying EBIT¹ for Qantas Loyalty with a very strong half for member acquisition in the Qantas Frequent Flyer program
- Group Domestic Underlying EBIT¹ of \$290 million with strong dual-brand co-ordination and improved yields and loads in Qantas Domestic and Jetstar's domestic Australia operations
- Qantas Freight delivered its best half-year Underlying EBIT¹ since 2006/07, with improved international markets driving the strong performance
- All Jetstar Group Airlines in Asia⁵ reported improved Underlying EBIT¹, with a \$13 million reduction in losses to a combined Underlying EBIT loss of \$33 million for the first-half 2014/15
- Customer satisfaction levels were held stable at close to record levels over the half due to the Group's focus on customer and brand metrics through the Transformation program

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) as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT. Refer to Note 2 for a reconciliation of Underlying PBT to Statutory Profit/(Loss) Before Tax. Underlying EBITDA is Underlying EBIT before depreciation and amortisation.

² Includes cash and cash equivalents and \$720 million undrawn facilities.

³ Net free cash flow – Operating cash flows less investing cash flows. 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.

⁴ 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.

⁵ Includes Jetstar Asia, Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific.

REVIEW OF OPERATIONS (continued)

The Group continued to demonstrate strong financial discipline in the first-half 2014/2015, with highlights including:

- \$2.9 billion cash held at half year end
- Total liquidity² of \$3.6 billion including a new unsecured \$90 million undrawn revolving credit facility
- Net debt⁶ reduced by \$306 million on a constant currency basis in the first-half 2014/15, incremental to \$79 million of net debt reduction achieved in 2013/2014
- Five new B737-800 aircraft deliveries cash funded, adding to the pool of young unencumbered aircraft
- Modest capital investment⁷ of \$500 million, prioritising replacement aircraft including the B787-8 that unlocks fleet-generated savings in the Qantas Transformation program

Underlying PBT¹

The Qantas Group's first-half 2014/15 Underlying PBT¹ increased to \$367 million, compared to an Underlying Loss Before Tax¹ of \$252 million in the first-half 2013/14. The improvement in earnings was driven by the delivery of a reduction in operating expenses, fuel efficiency⁸, and revenue benefits from the Qantas Transformation program. Operating expenses (excluding fuel) were reduced by three per cent. Net passenger revenue increased by three per cent reflecting strong yields and loads after network optimisation and capacity moderation in the domestic and international markets. Fuel cost savings of \$91 million reflected a \$33 million benefit from lower Australian dollar fuel prices with the remainder of the savings from fuel efficiency measures in the Qantas Transformation program. Depreciation and amortisation expenses were \$208 million lower after the non-cash impairment to the Qantas International fleet taken in the 2013/14 full year results and the half-year impact of other aircraft retirements and write-downs in the second-half of 2013/14.

The first-half included a \$46 million unfavourable impact as a result of bond rate fluctuations on employee benefit provisions compared to a \$19 million favourable impact in the prior corresponding period and a \$37 million increase in net financing costs largely due to an increase in the average cost of new debt and the significant extension of the Group's debt maturity profile.

Group Underlying Income Statement Summary	December 2014 \$M	December 2013 \$M	Change \$M	Change %
Net passenger revenue	6,960	6,786	174	3
Net freight revenue	485	500	(15)	(3)
Other revenue	626	617	9	1
Revenue	8,071	7,903	168	2
Operating expenses (excluding fuel)	4,608	4,771	(163)	(3)
Share of net loss of investments accounted for under the equity method	20	26	(6)	(23)
Fuel	2,164	2,255	(91)	(4)
Depreciation and amortisation	538	746	(208)	(28)
Non-cancellable aircraft operating lease rentals	241	261	(20)	(8)
Expenses	7,571	8,059	(488)	(6)
Underlying EBIT¹	500	(156)	656	>100
Net finance costs	(133)	(96)	(37)	(39)
Underlying PBT¹	367	(252)	619	>100

⁶ Net Debt includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent as applied using Standard and Poor's methodology.

⁷ Capital investment is net cash paid for investing activities, net of changes in operating lease liability and including non-cash investing activities. Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. The operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent as applied in Standard and Poor's methodology.

⁸ Fuel efficiency is measured as litres per Available Seat Kilometres (ASK) adjusted for movements in average sector length.

REVIEW OF OPERATIONS (continued)

Operating Statistics		December 2014	December 2013	Change	Change %
Available Seat Kilometres (ASK) ⁹	M	71,936	71,844	92	-
Revenue Passenger Kilometres (RPK) ¹⁰	M	57,575	56,393	1,182	2
Passengers Carried	'000	25,421	25,094	327	1
Revenue Seat Factor ¹¹	%	80.0	78.5	1.5	2
Yield (excluding FX) ¹²	c/RPK	10.33	10.21	0.12	1
Comparable unit cost ¹³	c/ASK	4.77	5.01	0.24	4.8

Revenue increased by two per cent, with a three per cent rise in net passenger revenue partially offset by reduced freight revenue. Net freight revenue declined by three per cent reflecting the exit of one B747-400 freighter aircraft, leading to improved yield and load from remaining B747-400 freighter operations.

Group capacity (ASKs)⁹ was flat during the first-half 2014/15 while demand (RPKs)¹⁰ increased by two per cent from the prior corresponding period. Yield (excluding FX)¹² increased by one per cent, assisted by network optimisation initiatives and capacity moderation in the domestic and international markets.

Segment Performance Summary	December 2014 \$M	December 2013 \$M	Change \$M	Change %
Qantas Domestic	227	57	170	>100
Qantas International	59	(262)	321	>100
Qantas Loyalty	160	146	14	10
Qantas Freight	54	11	43	>100
Qantas Brands	500	(48)	548	>100
Jetstar Group	81	(16)	97	>100
Corporate/Unallocated	(81)	(92)	11	12
Underlying EBIT¹	500	(156)	656	>100
Net finance costs	(133)	(96)	(37)	(39)
Underlying PBT¹	367	(252)	619	>100

Qantas Domestic reported first-half 2014/2015 Underlying EBIT¹ of \$227 million, a \$170 million improvement from the prior corresponding period. The largest driver of improved earnings performance was the contribution from Qantas Transformation initiatives, with \$127 million of benefits realised in the half.

Qantas International reported Underlying EBIT¹ of \$59 million, a \$321 million turnaround and a major milestone in the segment's recovery after several years of significant restructuring. The result included \$159 million of Transformation benefits and five per cent revenue growth on reduced capacity.

Jetstar Group recognised an Underlying EBIT¹ of \$81 million for the first-half 2014/15, being a \$97 million improvement compared to prior corresponding period. Revenue increased by seven per cent on capacity growth of four per cent, with improved yields and loads driven by capacity moderation in Domestic Australia and South East Asia.

⁹ ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.

¹⁰ RPK – total number of passengers carried, multiplied by the number of kilometres flown.

¹¹ Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.

¹² Yield (excluding FX) – Passenger revenue excluding foreign exchange, divided by RPKs.

¹³ Comparable unit cost is the primary measure of unit cost used by the Qantas Group to aid comparability between reporting periods. Comparable unit cost is calculated as Underlying PBT less passenger revenue and fuel, adjusted for the impact of the Qantas International fleet write-down, impact of fleet restructuring announced February 2014, changes in bond rates, changes in foreign exchange rates, share of net loss of investments accounted for under the equity method and movements in average sector length per ASK. If adjusted for the impact of the carbon tax repeal, comparable unit cost for the Group improved by 3.4%.

REVIEW OF OPERATIONS (continued)

Qantas Loyalty achieved another record⁴ half-year result, with Underlying EBIT¹ of \$160 million. Continued growth of Qantas Frequent Flyer members and partners was the main driver of the result, with total billings¹⁴ up six per cent.

Qantas Freight Underlying EBIT¹ of \$54 million was a \$43 million improvement from the prior corresponding period, and the best half-year results since the 2006/07 financial year.

A Strong Foundation for Sustainable Growth

As the Qantas Group delivers against its outlined strategy to drive a recovery in earnings and strengthen the balance sheet, we are building a foundation for sustainable growth into the future. The pillars that support the Group's competitive position and strategic advantages are being further strengthened through the Transformation process. Those pillars are:

- Ingrained safety culture from 94 years of operational experience
- Investing in our customers and our people to remain first choice in every market we serve
- Unrivalled dual-brand strength and market position in domestic Australia
- Innovative Loyalty business with consistent earnings growth
- Reshaped Qantas International leveraging growth opportunities
- Targeted investment in Asia's growth
- Increasing Return On Invested Capital and strengthening balance sheet through Transformation

This strategy is centered around an integrated Group portfolio where each business strengthens the other, generating sustainable returns through the cycle. In order to continue implementing that strategy, the Group will deliver accelerated benefits from the Qantas Transformation program through to financial year 2016/17.

Qantas Transformation – strong momentum towards \$2 billion¹⁵ target

In December 2013, in response to unprecedented challenges, the Qantas Group announced the largest business transformation program in its history with overarching targets to deliver \$2 billion¹⁵ in benefits by the end of 2016/17 and reduce net debt by \$1 billion by the end of 2014/2015. After delivering \$204 million of benefits in its first six months up to 30 June 2014, the accelerated Qantas Transformation program realised \$374 million of incremental benefits during the first-half 2014/15.

Qantas Transformation milestones achieved by 31 December 2014 include:

- \$578 million Underlying PBT¹ benefits realised in total
- Net debt⁶ reduced by \$306 million on a constant currency basis in the first-half 2014/15, incremental to \$79 million of net debt reduction achieved in 2013/2014
- Initial Domestic and International network restructure complete
- Accelerated fleet retirements completed for B737-400s, B767-300s and on-going for non-reconfigured B747-400s
- Engineering, Catering and Airport productivity improvements
- Seven per cent improvement in Qantas International's fleet utilisation¹⁶ for A380-800 and A330-300 aircraft
- Youngest average fleet age¹⁷ of 7.2 years
- Group fleet order restructured
- A disciplined approach to capital investment delivering sustainable net free cash flow³ generation
- Consolidation of head office activities
- Substantial headcount reduction across the Group, with 3,800 of a targeted 5,000 Full-Time Equivalent (FTE) reduction actioned to date
- Improved terms with suppliers
- Consistently high Net Promoter Score (NPS) levels maintained across the Group after targeted investment in the customer and staff service training
- New revenue opportunities being leveraged following network restructure

¹⁴ Billings represent point sales to partners.

¹⁵ Excluding the impact of inflation.

¹⁶ Based on average block hours per average aircraft number per day versus the half-year ended 31 December 2013.

¹⁷ Average fleet age of the Group's scheduled passenger fleet based on manufacturing date as at 31 December 2014. Youngest average fleet age since privatisation.

REVIEW OF OPERATIONS (continued)

With all initial targets in the program being met or exceeded to date, the Group now expects to realise Qantas Transformation benefits of \$675 million in 2014/15 – an increase from the initial target of more than \$600 million.

In December 2013 management announced an 18-month wage freeze. The wage freeze has been in place for executives since July 2012, and an 18-month freeze has been negotiated with multiple employee groups to date. The wage freeze is part of separate inflation mitigation measures that seek to minimise annual cost inflation whilst the Transformation program continues to deliver benefits.

Material business risks

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

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

- **Competitive intensity:** Market capacity growth ahead of underlying demand impacts industry profitability.
 - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness in recent years has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas has also embarked on reducing its cost base through the Qantas Transformation program. Qantas continues to leverage its considerable fleet flexibility and established relationships with manufacturers to adjust capital expenditure in line with financial performance and right-size its fleet and network. During the first-half 2014/15, the operating environment has stabilised with improving passenger loads and recovering yields in the international business.
 - The Australian domestic aviation market has attracted increased competition in recent years. The resulting intensity of competition as a result of capacity growth ahead of underlying demand over a sustained period is being mitigated by maintaining the Qantas Group's market leading domestic position and executing the Qantas Group's dual-brand strategy. 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 Transformation initiatives and fleet renewal, while Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs. During the first-half 2014/15, the operating environment has stabilised with market capacity moderation supporting stronger passenger loads and early yield recovery in the domestic business.
- **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 as an airline. The Qantas Group manages these risks through a comprehensive hedging program.
- **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. The Group has successfully closed a number of Enterprise Bargaining Agreements (EBAs) subsequent to the commencement of the Qantas Transformation program.
- **Continuity of critical systems:** The Group's operations depend on the continuity of a number of information technology and communication services. The Group has an extensive control and Group Risk Management Framework¹⁸ to reduce the likelihood of outages, ensure early detection and to mitigate the impact.

¹⁸ An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on qantas.com.au.

REVIEW OF OPERATIONS (continued)

- **Credit rating:** Qantas' credit rating is Ba2 negative outlook by Moody's and BB+ stable by Standard and Poor's. Compared to an investment grade credit rating, the price of new debt funding may increase and/or the Group's access to some sources of unsecured credit could reduce over time. To mitigate the risk Qantas maintains strong liquidity, has a flexible fleet plan to enable it to reduce capital expenditure and is targeting debt reduction and improved earnings through the achievement of milestones under the Qantas Transformation program.
- **Key business partners:** The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework¹⁸.

Rapidly Improved Cash Generating Capacity

Cash Flow Summary	December 2014 \$M	December 2013 \$M	Change \$M	Change %
Underlying EBITDA ¹	1,038	590	448	76
Non-cash items and working capital movements	(36)	102	(138)	(>100)
Cash generated from operations	1,002	692	310	45
Redundancy payments and related costs	(186)	(44)	(142)	(>100)
Other operating cash flows	(113)	(67)	(46)	(69)
Operating cash flows	703	581	122	21
Investing cash flows	(509)	(939)	430	46
Net free cash flow³	194	(358)	552	>100
Financing cash flows	(320)	(82)	238	>100
Cash at beginning of period	3,001	2,829	172	6
Effect of foreign exchange on cash	17	6	11	>100
Cash at end of the period	2,892	2,395	497	21

Debt and Gearing Analysis		December 2014	June 2014	Change	% Change
Net on balance sheet debt ¹⁹	\$M	3,406	3,455	(49)	(1)
Net Debt including operating lease liabilities ⁶	\$M	4,657	4,751	(94)	(2)
Adjusted Equity ²⁰	\$M	3,014	2,938	76	3
Gearing Ratio ²¹		61:39	62:38		

Cash generated from operations of \$1 billion, an improvement of 45 per cent on the prior corresponding period, reflected yield and load improvement across the Group as well as the benefits realised through Qantas Transformation. Operating cash flows of \$703 million, an improvement of 21 per cent on the prior corresponding period, is net of \$186 million of redundancy payments associated with the Qantas Transformation program.

Investing cash flows of \$509 million include investment in replacement fleet and product enhancements being offset by net receipts for aircraft assigned to equity accounted investees of \$268 million and proceeds from the disposal of assets and controlled entities of \$117 million. The significant improvement in net free cash flow³ to \$194 million compared to a negative net free cash flow of \$358 million in the prior corresponding period has enabled the Group to prioritise debt reduction.

¹⁹ Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt less cash, cash equivalents and aircraft security deposits.

²⁰ Adjusted equity includes equity adjusted to exclude hedge reserves.

²¹ Gearing Ratio is net debt including operating lease liability to net debt including operating lease liability and adjusted equity (excluding hedge reserve). The gearing ratio is used by management to represent the Qantas Group's debt obligation including obligations under operating leases.

REVIEW OF OPERATIONS (continued)

Net debt⁶ reduced by \$306 million on a constant currency basis in the first-half 2014/15, incremental to \$79 million of net debt⁶ reduction achieved in 2013/2014.

The Group's liquidity position remains strong, with \$2.9 billion in cash and \$720 million in undrawn facilities available. The Group 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.

Fleet

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

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

At 31 December 2014, the Qantas Group fleet²² totalled 297 aircraft. During the first-half of financial year 2014/15, the Group purchased nine aircraft and leased one aircraft:

- Qantas – five B737-800s, one Bombardier Q400
- Jetstar (including Jetstar Asia) – three B787-800s and one A320-200

The Group removed 21 aircraft from service during the first-half 2014/15 including three lease returns. These included 13 B767-300s, three A330-200s, one B747-400, three EMB120s and one Q300.

The Qantas Group's average fleet age¹⁷ is now 7.2 years, below the long-term targeted range of between eight and 10 years.

Qantas Domestic

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	3,007	3,086	(79)	(3)
Revenue Seat Factor	%	76.0	74.9	1 pts	1
Underlying EBIT	\$M	227	57	170	>100

Qantas Domestic reported Underlying EBIT¹ of \$227 million, an improvement of \$170 million on the prior corresponding period. Transformation benefits of \$127 million partially offset by a decrease of \$79 million or three per cent in total revenue, which was primarily due to the sale of Qantas Defence Services in February 2014. Passenger revenue increased on a two per cent reduction in capacity, equivalent to a three per cent improvement in Revenue per ASK. A stabilised domestic operating environment, with market capacity moderation, supported stronger passenger loads and early yield recovery over the half. Comparable unit cost¹³ for the first-half 2014/15 decreased by 4.1 per cent²³.

As part of the Qantas Transformation program, Qantas Domestic has accelerated fleet simplification with the retirement of all B767-300 aircraft by late December 2014. The network and utilisation focus will continue into the second-half 2014/15, with a simplified mainline Qantas Domestic fleet of B737-800 narrowbody aircraft and A330-200 widebody aircraft providing significant efficiency gains and reduced operating costs.

²² Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan, Jetstar Hong Kong and Jetstar Pacific.

²³ If adjusted for the impact of the carbon tax repeal, comparable unit cost improved by 1.6%.

REVIEW OF OPERATIONS (continued)

Qantas Domestic has continued to invest in key customer experience projects that help build on its brand and yield premium in the Australian market. This investment, alongside staff service training, resulted in Qantas Domestic recording a record December quarter for customer advocacy (NPS). Maintaining its long-term on-time performance leadership, and coupled with ongoing network and schedule optimisation, Qantas Domestic held its strong position with corporate customers retaining 80 per cent of corporate account market-share²⁴.

Qantas International

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	2,748	2,621	127	5
Revenue Seat Factor ¹¹	%	82.4	80.8	2 pts	2
Underlying EBIT	\$M	59	(262)	321	>100

Qantas International reported Underlying EBIT¹ of \$59 million, a turnaround of \$321 million on the prior corresponding period. The turnaround reflected the continued success in removing costs – with \$159 million of Transformation benefits realised. This resulted in a further four per cent reduction in comparable unit cost¹³. Revenue increased by five per cent on reduced capacity, with improved passenger loads and recovering yields on most international markets.

Qantas International reported nine consecutive months of yield improvements up to the end of the first-half 2014/15.

The Qantas International result included \$100 million reduction in depreciation expense related to the \$2.6 billion non-cash fleet impairment recognised in 2013/14.

The airline continued to capitalise on new revenue opportunities in the half, with enhanced operational efficiency freeing up aircraft to add flying to Los Angeles, Hong Kong, Santiago, Vancouver and Honolulu. Qantas International has continued to invest in its customers and people throughout the transformation process, with milestones in the first-half including the commencement of the A330-300 reconfiguration program, the opening of the new First Lounge in Los Angeles, and an enhanced Economy dining offering. Customer advocacy, measured by NPS, has improved by 30 per cent since financial year 2011/12.

At the same time, network connectivity has been increased with new or expanded partnerships with American Airlines, WestJet, Bangkok Airways, China Eastern and China Airlines. Total destinations sold under the Qantas code increased to 204 at 31 December 2014.

Jetstar Group

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	1,786	1,671	115	7
Revenue Seat Factor ¹¹	%	80.3	78.5	2 pts	3
Underlying EBIT	\$M	81	(16)	97	>100

Jetstar Group reported Underlying EBIT¹ of \$81 million, an improvement of \$97 million on the prior corresponding period. The improved performance reflected a seven per cent improvement in revenue off four per cent capacity growth. Cost reduction initiatives and the removal of the carbon tax offset cost inflation to deliver a one per cent reduction in controllable unit cost²⁵ for the first-half 2014/15.

²⁴ Qantas modelled share of total corporate account revenue.

²⁵ Controllable unit cost is measured as total underlying expenses, excluding fuel, Jetstar Group costs and share of net loss of investments accounted for under the equity method, adjusted for changes in foreign exchange rates and movements in average sector length per ASK. If adjusted for the impact of the carbon tax repeal, controllable unit cost was flat.

REVIEW OF OPERATIONS (continued)

Market capacity moderation in Australia and South East Asia led to improved yields and a two percentage point improvement in passenger loads. In the Australian domestic market, Underlying EBIT¹ of \$63 million reflected early signs of an improvement in price sensitive leisure demand. Jetstar International reported strong Underlying EBIT¹ of \$51 million, with the continued rollout of the B787 aircraft delivering lower operating costs.

All Jetstar Group Airlines in Asia⁵ reported improved Underlying EBIT¹ results compared to the prior corresponding period, with a \$13 million reduction in losses to an Underlying EBIT¹ loss of \$33 million in the first-half 2014/15. Jetstar Group Airlines continue to add new destinations and expand interline agreements, increasing connectivity and growing scale as a pan-Asian brand.

Jetstar Asia in Singapore was profitable in the second quarter of 2014/15, with strengthening yield improvement after significant capacity moderation. Jetstar Asia has continued to enhance the customer experience with innovations including 'straight to gate', now at eight overseas airports, and being the first low cost carrier in Singapore to introduce mobile boarding pass and automated bag drops.

Jetstar Japan reported an improved Underlying EBIT¹ result on the prior corresponding period despite the weaker Japanese yen and aggressive competitor pricing. Revenue per ASK increased by eight per cent, and ancillary revenue rose by 14 per cent, with continued strong customer advocacy. Jetstar Japan's market position continues to strengthen with the launch of a second domestic base (Osaka), and a planned international launch to Hong Kong in February 2015.

Jetstar Pacific in Vietnam delivered a strong performance led by a nine per cent reduction in controllable unit costs²⁵. Domestic yields in Vietnam were under pressure in the half with market capacity growth of 15 per cent. Jetstar Pacific expanded its all A320 fleet to eight in the half to retain its competitive position and capitalise on the long-term opportunity in one of Asia's fastest growing aviation markets.

Qantas Loyalty

		December 2014	December 2013	Change	Change %
Members	M	10.5	9.7	1	8
Billings ¹⁴	\$M	700	662	38	6
Underlying EBIT	\$M	160	146	14	10

Qantas Loyalty reported another record⁴ half year Underlying EBIT¹ of \$160 million, up 10 per cent on the prior corresponding period. Continued growth of membership and partners in Qantas Frequent Flyer program have driven billings¹⁴ up six per cent to \$700 million as well as growth from adjacent businesses.

Qantas Frequent Flyer membership reached 10.5 million after a strong half-year for member acquisition. Over 400,000 new members were added in the first-half of 2014/15, with 60 per cent aged 36 or younger as the program targets greater penetration in the youth market. Over three million rewards were redeemed and 6.5 million visits made to the Qantas Points website.

Qantas Loyalty growth initiatives continue to diversify the segment's customer base and revenue streams. Gross profit from adjacent businesses increased by 70 per cent in the period, with revenue from these growth businesses accounting for six per cent of total revenue in the half. Milestones at adjacent businesses reached in the half included:

- Launch of Red Planet in September 2014, a media and marketing services business that leverages Loyalty's deep understanding of consumer behaviour and data expertise
- Qantas Golf Club launched in December with over 30,000²⁶ member registrations
- Qantas Cash card activation rose 27 per cent in the first-half 2014/15 with \$800 million loaded
- Over 55,000²⁶ small and medium enterprises (SME) joined the Acquire program, with 21 program partners added since launch in March 2014

²⁶ As at 26 February 2015.

REVIEW OF OPERATIONS (continued)

Qantas Freight

		December 2014	December 2013	Change	Change %
Total Revenue and Other Income	\$M	550	568	(18)	(3)
Revenue Load Factor ²⁷	%	57.7	53.9	4 pts	7
Underlying EBIT	\$M	54	11	43	>100

Qantas Freight reported Underlying EBIT¹ of \$54 million, an improvement of \$43 million on the prior corresponding period and the segment's best half-year result since 2006/07. The strong performance was led by the recovery in international markets, with a \$44 million Underlying EBIT¹ contribution from the international freight operations. The Qantas Transformation program delivered benefits of \$16 million.

Strong loads on the China-US and US-Australia markets helped offset a soft domestic freight performance resulting from the mixed economic environment. Qantas Freight introduced new self-service kiosks in domestic terminals and warehouse technology enabling real-time tracking improving customer satisfaction and generating cost savings.

Reconciliation of Underlying PBT¹ to Statutory PBT

The Statutory Profit Before Tax of \$289 million for the half-year ended 31 December 2014 is \$594 million higher than the prior corresponding period.

Underlying PBT¹

Underlying PBT¹ 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 EBIT¹. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT¹ as net finance costs are managed centrally.

Underlying PBT¹ is derived by adjusting Statutory Profit/(Loss) 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 PBT¹.

	December 2014 \$M	December 2013 \$M
Reconciliation of Underlying PBT¹ to Statutory Profit/(Loss) Before Tax		
Underlying PBT¹	367	(252)
Ineffectiveness and non-designated derivatives relating to other reporting periods	(31)	54
<i>Other items not included in Underlying PBT¹</i>		
- Redundancies, restructuring and other transformation costs	(42)	(59)
- Fleet restructuring costs	-	(23)
- Net profit on disposal of investments	12	-
- Other	(17)	(25)
<i>Total items not included in Underlying PBT¹</i>	(78)	(53)
Statutory Profit/(Loss) Before Tax	289	(305)

²⁷ Revenue Load Factor – Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK).

REVIEW OF OPERATIONS (continued)

Ineffectiveness and non-designated derivatives relating to other reporting periods

In prior reporting periods, Underlying PBT¹ was adjusted for the impacts of AASB 139: Financial Instruments: *Recognition and Measurement* (AASB 139) which relate to other reporting periods. The AASB 139 adjustments to Statutory Profit/(Loss) Before Tax ensured derivative mark-to-market movements that relate to underlying exposures in other reporting periods were recognised in Underlying PBT¹ for those reporting periods.

In the current reporting period, as a result of the early adoption of AASB 9 (2013), there is now better alignment between Underlying PBT¹ and Statutory Profit/(Loss) Before Tax. However, there will continue to be a difference between Statutory Profit/(Loss) Before Tax and Underlying PBT¹ resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

Other items not included in Underlying PBT¹

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 PBT¹. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period.

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 35 and forms part of the Directors' Report for the half-year ended 31 December 2014.

ROUNDING

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

ASIC GUIDANCE

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

In line with previous years and in accordance with the Corporations Act 2001, the Directors' Report is unaudited. Notwithstanding this, the Directors' Report (including the Review of Operations) contains disclosures which are extracted or derived from the Consolidated Interim Financial Report for the half-year ended 31 December 2014 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
26 February 2015

CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December 2014

	Note	December 2014 \$M	December 2013 \$M
Revenue and other income			
Net passenger revenue		6,960	6,786
Net freight revenue		485	500
Other	3	626	617
		8,071	7,903
Expenditure			
Manpower and staff related		1,839	1,913
Fuel		2,190	2,241
Aircraft operating variable		1,598	1,627
Depreciation and amortisation		538	746
Non-cancellable aircraft operating lease rentals		241	261
Share of net loss of investments accounted for under the equity method		20	26
Impairment of specific assets		2	34
Other	3	1,221	1,266
		7,649	8,114
Statutory profit/(loss) before income tax (expense)/benefit and net finance costs		422	(211)
Finance income		48	42
Finance costs		(181)	(136)
Net finance costs		(133)	(94)
Statutory profit/(loss) before income tax		289	(305)
Income tax (expense)/benefit	4	(83)	70
Statutory profit/(loss) for the period		206	(235)
Attributable to:			
Members of Qantas		203	(235)
Non-controlling interests		3	-
Statutory profit/(loss) for the period		206	(235)
Earnings/(loss) per share attributable to members of Qantas:			
Basic/diluted earnings/(loss) per share (cents)		9.2	(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 2014

	December 2014 \$M	December 2013 \$M
Statutory profit/(loss) for the period	206	(235)
Items that are or may subsequently be reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	(264)	39
Transfer of hedge reserve to the Consolidated Income Statement, net of tax ¹	50	(43)
Recognition of effective cash flow hedges on capitalised assets, net of tax	5	(5)
Foreign currency translation of controlled entities	3	5
Foreign currency translation of investments accounted for under the equity method	1	2
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial (losses)/gains, net of tax	(149)	117
Other comprehensive (loss)/income for the period	(354)	115
Total comprehensive loss for the period	(148)	(120)
Total comprehensive loss attributable to:		
Members of Qantas	(151)	(120)
Non-controlling interests	3	-
Total comprehensive loss for the period	(148)	(120)

¹ These amounts were allocated against revenue of \$(45) million (2013: \$(70) million), fuel expenditure of \$116 million (2013: \$9 million) and income tax expense of \$(21) million (2013: \$18 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 2014

	Note	December 2014 \$M	June 2014 \$M
Current assets			
Cash and cash equivalents	6	2,892	3,001
Receivables	6	1,085	1,196
Other financial assets	6	539	172
Inventories		306	317
Assets classified as held for sale		171	134
Other		132	112
Total current assets		5,125	4,932
Non-current assets			
Receivables	6	114	158
Other financial assets	6	116	34
Investments accounted for under the equity method		157	143
Property, plant and equipment		10,787	10,500
Intangible assets		740	741
Deferred tax assets		612	548
Other		53	262
Total non-current assets		12,579	12,386
Total assets		17,704	17,318
Current liabilities			
Payables	6	1,995	1,851
Revenue received in advance		3,322	3,406
Interest-bearing liabilities	6	621	1,210
Other financial liabilities	6	631	182
Provisions		862	876
Total current liabilities		7,431	7,525
Non-current liabilities			
Revenue received in advance		1,267	1,183
Interest-bearing liabilities	6	5,754	5,273
Other financial liabilities	6	136	66
Provisions		383	405
Total non-current liabilities		7,540	6,927
Total liabilities		14,971	14,452
Net assets		2,733	2,866
Equity			
Issued capital		4,630	4,630
Treasury shares		(9)	(16)
Reserves		(431)	(81)
Retained earnings		(1,464)	(1,671)
Equity attributable to members of Qantas		2,726	2,862
Non-controlling interests		7	4
Total equity		2,733	2,866

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 2014

December 2014 \$M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Defined Benefit Reserve ¹	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 for the period									
Statutory profit for the period	-	-	-	-	-	-	203	3	206
Other comprehensive income									
- Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(264)	-	-	-	-	(264)
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	50	-	-	-	-	50
- Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	5	-	-	-	-	5
- Defined benefit actuarial losses, net of tax	-	-	-	-	-	(149)	-	-	(149)
- Foreign currency translation of controlled entities	-	-	-	-	3	-	-	-	3
- Foreign currency translation of investments accounted for under the equity method	-	-	-	-	1	-	-	-	1
Total other comprehensive income	-	-	-	(209)	4	(149)	-	-	(354)
Total comprehensive income for the period	-	-	-	(209)	4	(149)	203	3	(148)
Transactions with owners recorded directly in equity									
- Treasury shares acquired	-	(1)	-	-	-	-	-	-	(1)
- Share-based payments	-	-	16	-	-	-	-	-	16
- Shares vested and transferred to employees	-	8	(6)	-	-	-	(2)	-	-
- Share-based payments unvested and lapsed	-	-	(6)	-	-	-	6	-	-
Total contributions by and distributions to owners	-	7	4	-	-	-	4	-	15
Total transactions with owners	-	7	4	-	-	-	4	-	15
Balance as at 31 December 2014	4,630	(9)	36	(281)	(37)	(149)	(1,464)	7	2,733

¹ The Defined Benefit Reserve comprises the remeasurements of the net defined benefit asset/(liability) which are recognised in Other Comprehensive Income in accordance with AASB 119 Employee Benefits (2011).

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 2014

December 2013 \$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 2013	4,693	(43)	49	123	(44)	1,057	5	5,840
Total comprehensive income for the period								
Statutory loss for the period	-	-	-	-	-	(235)	-	(235)
Other comprehensive income								
- Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	39	-	-	-	39
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(43)	-	-	-	(43)
- Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	(5)	-	-	-	(5)
- Defined benefit actuarial gains, net of tax	-	-	-	-	-	117	-	117
- Foreign currency translation of controlled entities	-	-	-	-	6	-	(1)	5
- Foreign currency translation of investments accounted for under the equity method	-	-	-	-	2	-	-	2
Total other comprehensive income	-	-	-	(9)	8	117	(1)	115
Total comprehensive income for the period	-	-	-	(9)	8	(118)	(1)	(120)
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
- Shares bought back ¹	(63)	-	-	-	-	-	-	(63)
- Share-based payments	-	-	6	-	-	-	-	6
- Shares vested and transferred to employees	-	22	(19)	-	-	(3)	-	-
- Share-based payments unvested and lapsed	-	-	(6)	-	-	6	-	-
Total contributions by and distributions to owners	(63)	22	(19)	-	-	3	-	(57)
Total transactions with owners	(63)	22	(19)	-	-	3	-	(57)
Balance as at 31 December 2013	4,630	(21)	30	114	(36)	942	4	5,663

¹ 45,415,538 shares were bought back and cancelled during the half-year ended 31 December 2013.

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

CONSOLIDATED CASH FLOW STATEMENT

For the half-year ended 31 December 2014

	December 2014 \$M	December 2013 \$M
Cash flows from operating activities		
Cash receipts from customers	8,459	8,533
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs)	(7,457)	(7,841)
Cash generated from operations	1,002	692
Cash payments to employees for redundancies and related costs	(186)	(44)
Interest received	43	40
Interest paid	(158)	(109)
Dividends received from investments accounted for under the equity method	2	2
Net cash from operating activities	703	581
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets	(806)	(833)
Net receipts/(payments) for aircraft assigned to investments accounted for under the equity method ¹	268	(25)
Interest paid and capitalised on qualifying assets	(8)	(20)
Proceeds from disposal of property, plant and equipment	92	26
Proceeds from disposal of controlled entities, net of cash disposed	25	-
Net loans provided to investments accounted for under the equity method	(43)	(28)
Payments for investments accounted for under the equity method	(37)	(59)
Net cash used in investing activities	(509)	(939)
Cash flows from financing activities		
Payments for shares bought back	-	(63)
Treasury shares acquired	(1)	-
Proceeds from borrowings	479	125
Repayments of borrowings	(1,066)	(465)
Proceeds from sale and finance leaseback of non-current assets	275	330
Net payments for aircraft security deposits and hedges related to debt	(7)	(9)
Net cash used in financing activities	(320)	(82)
Net decrease in cash and cash equivalents held	(126)	(440)
Cash and cash equivalents held at the beginning of the period	3,001	2,829
Effects of exchange rate changes on cash and cash equivalents	17	6
Cash and cash equivalents held at the end of the period	2,892	2,395

¹ Net payments for aircraft assigned to Jetstar Japan Co., Ltd and Jetstar Hong Kong Airways Limited.

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 1. Statement of Significant Accounting Policies

(a) Reporting entity

Qantas Airways Limited (Qantas) is a for-profit company limited by shares, incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) and which is subject to the operation of the Qantas Sale Act. The Consolidated Interim Financial Report of Qantas for the half-year ended 31 December 2014 comprises Qantas and its controlled entities (together referred to as the Qantas Group) and the Qantas Group's interest in investments accounted for using the equity method.

The Consolidated Annual Financial Report of the Qantas Group as at and for the year ended 30 June 2014 is available at www.qantas.com.au or upon request from the registered office of Qantas at 10 Bourke Road, Mascot NSW 2020, Australia.

This Consolidated Interim Financial Report for the half-year ended 31 December 2014 was authorised for issue in accordance with a resolution of the Directors on 26 February 2015.

(b) Statement of compliance

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

The Consolidated Interim Financial Report does not include all of the information required for an Annual Financial Report and should be read in conjunction with the Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2014. This report should also be read in conjunction with any public announcements made by Qantas in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

The Consolidated Interim Financial Report is presented in Australian dollars, which is the functional currency of the Qantas Group, and has been prepared on the basis of historical cost except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values.

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

(c) Significant accounting policies

Except as described below, the significant accounting policies applied by the Qantas Group in this Consolidated Interim Financial Report are the same as those applied by the Qantas Group in the Consolidated Annual Financial Report for the year ended 30 June 2014.

AASB 9 Financial Instruments

The Qantas Group early adopted AASB 9: Financial Instruments as amended in December 2013 (AASB 9 (2013)) with a date of initial application of 1 July 2014.

The impact of this standard for the Qantas Group is as follows:

Classification and Measurement

The Group has classified its financial assets and financial liabilities in accordance with AASB 9 (2013) as set out in Note 6. There were no changes in measurement of the Group's financial assets and financial liabilities as a result of the changes in classification required by AASB 9 (2013).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 1. Statement of Significant Accounting Policies (continued)

(c) Significant accounting policies (continued)

Hedge accounting

AASB 9 (2013) introduced a new hedge accounting model to simplify hedge accounting outcomes and more closely align hedge accounting with risk management objectives. Some of the key improvements in the standard impacting the Qantas Group include:

- Risk components – AASB 9 (2013) allows derivatives that are hedging a non-financial component of an economic risk that is separately identifiable and measurable, to be designated in an accounting hedge for that non-financial component only. The Qantas Group uses options and swaps on jet kerosene, gasoil and crude oil to hedge exposure to movements in the price of aviation fuel. Previously, non-financial components were prohibited from being designated as hedged items under AASB 139 Financial Instruments: Recognition and Measurement, and as a result ineffectiveness occurred due to the differences in the mark-to-market movements of crude oil derivatives and the underlying aviation fuel exposure. This change has reduced the mark-to-market movements in changes in the fair value of derivative instruments being recognised immediately in the Consolidated Income Statement as “ineffective and non-designated derivatives”
- Cost of hedging – AASB 9 (2013) allows the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument and accounted for as a cost of hedging. The fair value changes of these elements are recognised in other comprehensive income and depending on the nature of the hedged item, will either be transferred to the Consolidated Income Statement in the same period that the underlying transaction affects the Consolidated Income Statement or be capitalised into the initial carrying value of a hedged item. Under AASB 139 the Group recognise the change in these elements in the Consolidated Income Statement. This change has reduced the mark-to-market movements of these elements of derivative instruments being recognised in the Consolidated Income Statement as “ineffective and non-designated derivatives”
- Aggregate exposures – Under AASB 9 (2013) the Group has the ability to hedge an aggregated exposure, that is a combination of a derivative and a non-derivative exposure. This has allowed the Qantas Group to designate economic hedging relationships as accounting hedges, which would not have qualified under AASB 139. This change has reduced the mark-to-market movements of derivative instruments being recognised in the Consolidated Income Statement as “ineffective and non-designated derivatives”
- Hedge effectiveness – AASB 9 (2013) requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under AASB 139 an entity had to test effectiveness both retrospectively and prospectively and hedge accounting could only be applied if the relationship was 80 to 125 per cent effective. Under AASB 9 (2013) ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item. This change has not had a material impact on the Consolidated Income Statement

The Qantas Group has applied AASB 9 (2013) on a prospective basis. Accordingly, there was no transitional adjustment to the Qantas Group results.

(d) Comparatives

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

(e) Estimates

The preparation of the Consolidated Interim Financial Report in conformity with AASBs requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. In preparing this Consolidated Interim Financial Report, the significant judgements made by Management in applying the Qantas Group’s accounting policies and the key sources of uncertainty in estimates were materially the same as those applied to the Consolidated Annual Financial Report for the year ended 30 June 2014.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 1. Statement of Significant Accounting Policies (continued)

(f) Carrying amount of non-financial assets

(i) Cash generating units

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

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

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

(ii) Assets classified as held for sale

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

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 Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group.

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

Refer to Note 2(d) for a Description of Underlying PBT and Reconciliation from Statutory Profit/Loss) Before Tax.

(b) Operating Segments

The Qantas Group comprises the following operating segments:

Qantas Brands

Qantas Domestic, Qantas International, Qantas Loyalty and Qantas Freight operating segments are collectively referred to as Qantas Brands.

To drive business focus, assign accountability and monitor performance, the Qantas Brands operations are managed through four operating segments:

- Qantas Domestic The Australian domestic passenger flying business of Qantas Brands.
- Qantas International The International passenger flying business of Qantas Brands.
- Qantas Loyalty Operates the Qantas customer loyalty program for Qantas Brands (Qantas Frequent Flyer) as well as other marketing services, loyalty and recognition programs.
- Qantas Freight The air cargo and express freight business of Qantas Brands.

Jetstar Group

The Jetstar Group are those operations of the Qantas Group which are dependent on the Jetstar fleet and the Jetstar Brand being the Jetstar passenger flying businesses (including Jetstar Group's investments in Jetstar branded airlines in Asia).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 2. Underlying PBT and Operating Segments (continued)

Corporate/Unallocated

Costs associated with the centralised management and governance of the Qantas Group, together with certain items which are not allocated to business segments and other businesses of the Qantas Group which are not considered to be significant reportable segments are reported in Corporate/Unallocated segment.

(c) Analysis by Operating Segment¹

December 2014 \$M	Qantas Domestic	Qantas International	Qantas Loyalty	Qantas Freight	Eliminations	Total Qantas Brands	Jetstar Group	Corporate/ Unallocated ²	Eliminations	Consolidated
Revenue and other income										
External segment revenue and other income	2,713	2,434	608	546	27	6,328	1,701	38	4	8,071
Intersegment revenue and other income	294	314	61	4	(642)	31	85	(33)	(83)	-
Total segment revenue and other income	3,007	2,748	669	550	(615)	6,359	1,786	5	(79)	8,071
Share of net profit/(loss) of investments accounted for using the equity method ³	2	1	-	-	-	3	(23)	-	-	(20)
Underlying EBITDAR⁴	569	268	163	75	-	1,075	278	(74)	-	1,279
Non-cancellable aircraft operating lease rentals	(108)	(17)	-	(3)	-	(128)	(113)	-	-	(241)
Depreciation and amortisation	(234)	(192)	(3)	(18)	-	(447)	(84)	(7)	-	(538)
Underlying EBIT	227	59	160	54	-	500	81	(81)	-	500
Underlying net finance costs								(133)		(133)
Underlying PBT								(214)		367

¹ Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight, Jetstar Group and Corporate/Unallocated are the operating segments of the Qantas Group.

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

³ Share of net profit of investments accounted for under the equity method as reported by Qantas Domestic and Qantas International, before rounding is \$1.5 million and \$1.5 million, respectively.

⁴ Underlying EBITDAR represents underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 2. Underlying PBT and Operating Segments (continued)

(c) Analysis by Operating Segment (continued)

December 2013 \$M	Qantas Domestic	Qantas International	Qantas Loyalty	Qantas Freight	Eliminations	Total Qantas Brands	Jetstar Group	Corporate / Unallocated	Eliminations	Consolidated
Revenue and other income										
External segment revenue and other income	2,803	2,302	582	563	18	6,268	1,593	41	1	7,903
Intersegment revenue and other income	283	319	58	5	(616)	49	78	(32)	(95)	-
Total segment revenue and other income	3,086	2,621	640	568	(598)	6,317	1,671	9	(94)	7,903
Share of net profit/(loss) of investments accounted for using the equity method ¹	2	1	-	-	-	3	(29)	-	-	(26)
Underlying EBITDAR	478	86	148	28	-	740	196	(85)	-	851
Non-cancellable aircraft operating lease rentals	(98)	(14)	-	(2)	-	(114)	(147)	-	-	(261)
Depreciation and amortisation	(323)	(334)	(2)	(15)	-	(674)	(65)	(7)	-	(746)
Underlying EBIT	57	(262)	146	11	-	(48)	(16)	(92)	-	(156)
Underlying net finance costs								(96)		(96)
Underlying PBT								(188)		(252)

¹ Share of net profit of investments accounted for under the equity method as reported by Qantas Domestic and Qantas International, before rounding is \$1.5 million and \$1.5 million, respectively.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 2. Underlying PBT and Operating Segments (continued)

(c) Analysis by Operating Segment (continued)

Basis of Preparation

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

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

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

Segment performance measure	Basis of preparation
External segment revenue	<p>External segment revenue is reported by operating segments as follows:</p> <ul style="list-style-type: none"> - Net passenger revenue is reported by the operating segment which operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process. - Net freight revenue includes air cargo and express freight revenue and is reported by the Qantas Freight operating segment. - Frequent Flyer redemption revenue, marketing revenue, membership fees and other related revenue is reported by the Qantas Loyalty operating segment. - Other revenue is reported by the operating segment that earned the revenue.
Inter-segment revenue	<p>Inter-segment revenue for Qantas Domestic, Qantas International and Jetstar Group operating segments primarily represents:</p> <ul style="list-style-type: none"> - Net passenger revenue arising from the redemption of frequent flyer points for Qantas Group flights by Qantas Loyalty; and - Net Freight revenue from the utilisation of Qantas Brands and Jetstar Group's aircraft bellyspace by Qantas Freight. <p>Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of frequent flyer points to Qantas Domestic, Qantas International and Jetstar Group.</p> <p>Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices.</p> <p>Qantas Loyalty does not derive net profit from intersegment transactions relating to frequent flyer point issuances and redemptions.</p>
Share of net (loss)/profit of investments accounted for under the equity method	<p>Share of net (loss)/profit of investments accounted for under the equity method is reported by the operating segment which is accountable for the management of the investment. The share of net (loss)/profit of investments accounted for under the equity method for Qantas Airlines investments has been equally shared between Qantas Domestic and Qantas International.</p>

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 2. Underlying PBT and Operating Segments (continued)

(c) Analysis by Operating Segment (continued)

Segment performance measure	Basis of preparation
Underlying EBITDAR	<p>The significant expenses impacting Underlying EBITDAR are as follows:</p> <ul style="list-style-type: none"> - Manpower and staff related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by Qantas Domestic and Qantas International using an appropriate allocation methodology. - Fuel expenditure is reported by the segment that consumes the fuel in its operations. - Aircraft operating variable costs are reported by the segment that incurs these costs. - All other expenditure is reported by the operating segment to which they are directly attributable or in the case of Qantas Airlines between Qantas Domestic and Qantas International using an appropriate allocation methodology. To apply this accounting policy, where necessary expenditure is recharged between operating segments as a cost recovery.
Depreciation and amortisation	<p>Qantas Domestic, Qantas International and Jetstar Group report depreciation expense for passenger aircraft owned by the Qantas Group and flown by the segment.</p> <p>Qantas Freight reports depreciation expense for freight aircraft owned by the Qantas Group.</p> <p>Other depreciation and amortisation is reported by the segment that uses the related asset.</p>
Non-cancellable aircraft operating lease rentals	<p>Qantas Domestic, Qantas International and Jetstar Group report non-cancellable aircraft operating lease rentals for passenger aircraft externally leased by the Qantas Group and flown by the segment.</p> <p>Qantas Freight reports non-cancellable aircraft operating lease rentals for freighter aircraft externally leased by the Qantas Group.</p>

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

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

Underlying PBT was derived by adjusting Statutory Profit/(Loss) Before Tax for the impacts of:

- (i) Adjusted for ineffectiveness and non-designated derivatives relating to other reporting periods

In prior reporting periods, Underlying PBT was adjusted for the impacts of AASB 139 which relate to other reporting periods. The AASB 139 adjustments to Statutory Profit/(Loss) Before Tax ensured derivative mark-to-market movements that relate to underlying exposures in other reporting periods were recognised in Underlying PBT for those reporting periods.

In the current reporting period, as a result of the early adoption of AASB 9 (2013), there is now better alignment between Underlying PBT and Statutory Profit/(Loss) Before Tax. However, there will continue to be a difference between Statutory Profit/(Loss) Before Tax and Underlying PBT resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 2. Underlying PBT and Operating Segments (continued)

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

(ii) Other items not included in Underlying PBT

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

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

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

	December 2014 \$M	December 2013 \$M
Statutory Profit/(Loss) Before Tax	289	(305)
Adjusted for ineffectiveness and non-designated derivatives relating to other reporting periods		
- Exclude current year derivative mark-to-market movements relating to underlying exposures in future periods	13	(30)
- Exclude current year derivative mark-to-market movements relating to capital expenditure	-	7
- Include adjustment to implied depreciation expense relating to excluded capital expenditure mark-to-market movements	-	(3)
- Include prior years' derivative mark-to-market movements relating to underlying exposures in the current year	18	(25)
- Exclude ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs	-	(3)
	31	(54)
Other items not included in Underlying PBT		
- Redundancies, restructuring and other transformation costs	42	59
- Fleet restructuring costs	-	23
- Net gain on sale of investments	(12)	-
- B787-8 introduction costs	-	9
- Other	17	16
	47	107
Underlying PBT	367	(252)

(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 2014

Note 2. Underlying PBT and Operating Segments (continued)

(e) Underlying PBT per Share

	December 2014 cents	December 2013 cents
Basic/diluted Underlying PBT per share	16.7	(11.3)

(f) Analysis by Geographical Areas

Revenue and other income by geographic areas	December 2014 \$M	December 2013 \$M
Net passenger and freight revenue		
Australia	5,500	5,375
Overseas	1,945	1,911
Total net passenger and freight revenue	7,445	7,286
Other revenue/income (refer to Note 3)	626	617
Total revenue and other income	8,071	7,903

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.

Non-current assets by geographic areas

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 3. Other Revenue/Income and Other Expenditure

	December 2014 \$M	December 2013 \$M
Other revenue/income		
Frequent Flyer marketing revenue, membership fees and other revenue	171	151
Frequent Flyer store and other redemption revenue ¹	141	140
Retail, advertising and other property revenue	79	80
Contract work revenue	70	129
Other	165	117
	626	617
Other expenditure		
Selling and marketing	329	314
Computer and communication	205	192
Capacity hire	144	173
Property	119	121
Non-aircraft operating lease rentals ²	116	129
Redundancies ³	36	45
Contract work materials	10	34
Airport security charges	79	81
Ineffective and non-designated derivatives	13	(40)
Inventory write-off	3	20
Profit on sale of assets	(15)	1
Other	182	196
	1,221	1,266

¹ Frequent Flyer redemption revenue excluding redemptions on Qantas Group's flights which is reported as net passenger revenue in the Consolidated Income Statement.

² Including contingent rentals of \$16 million (December 2013: \$15 million)

³ Redundancies include defined benefit curtailment expenses of \$3 million for the current period (December 2013: \$nil)

Note 4. Income Tax Expense

	December 2014 \$M	December 2013 \$M
Statutory profit/(loss) before income tax expense	289	(305)
Income tax expense/(benefit) using the domestic corporate tax rate of 30 per cent	87	(92)
Add/(less) adjustments for:		
- Unrecognised tax losses and derecognition of previously recognised losses	14	10
- Non-deductible share of net loss for investments accounted for under the equity method	6	8
- Utilisation and recognition of previously unrecognised capital losses	(14)	-
- Over provision prior periods	(3)	-
- Other net deductible/(non-assessable) items	(7)	4
Income tax expense/(benefit)	83	(70)

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 5. Dividends

No dividends were declared or paid during the half-year ended 31 December 2014.

Note 6. Financial Assets and Financial Liabilities

The following summarises the carrying amount and fair value for financial assets and financial liabilities held by the Qantas Group. On the adoption of AASB 9 (2013) there was no change to the measurement of financial assets and financial liabilities.

\$M	December 2014		June 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents ²	2,892	2,904	3,001	3,011
Receivables ²	1,199	1,199	1,354	1,354
Other financial assets ¹	655	655	206	206
Financial Liabilities				
Payables ³	1,995	1,995	1,851	1,851
Interest-bearing liabilities ³	6,375	6,493	6,483	6,392
Other financial liabilities ¹	767	767	248	248

¹ Derivative financial instruments have been measured at 'Fair Value Through Profit or Loss' using Level 2 inputs in estimating their fair values. The fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The fair value of options is determined using standard valuation techniques.

² Under AASB 139 these financial assets were classified as 'Loans and Receivables'. On adoption of AASB 9 (2013) these financial assets are classified as 'Financial Assets at Amortised Cost'.

³ On the adoption of AASB 9 (2013), these financial liabilities continue to be classified as 'Financial Liabilities at Amortised Cost'.

Note 7. Commitments

(a) Capital Expenditure Commitments

	December 2014 \$M	June 2014 \$M
Capital expenditure commitments contracted but not provided for in the Consolidated Financial Statements, payable, in relation to:		
No later than one year	908	700
Later than one year but not later than five years	5,047	3,305
Later than five years	3,729	4,627
	9,684	8,632

The Qantas Group has certain rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure. The Qantas Group also has the opportunity to assign ordered aircraft to its investments accounted for under the equity method.

The Group's capital expenditure commitments are predominately denominated in US Dollars. Disclosures outlined above are translated to Australian Dollar presentational currency at the 31 December 2014 closing exchange rate of \$0.82 (30 June 2014: \$0.94).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2014

Note 7. Commitments (continued)

(b) Operating Lease Commitments as Lessee

	December 2014 \$M	June 2014 \$M
Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements		
Aircraft and engines – payable:		
No later than one year	478	456
Later than one year but not later than five years	908	930
Later than five years	120	140
	1,506	1,526
Non-aircraft – payable:		
No later than one year	179	200
Later than one year but not later than five years	507	598
Later than five years but not later than ten years	263	246
Later than ten years	239	259
Provision for potential under-recovery of rentals on unused premises available for sub-lease (onerous contract provision)	(3)	(4)
	1,185	1,299

Note 8. Post Balance Date Events

There has not arisen in the interval between 31 December 2014 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 2014.



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 2014 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.

A handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Duncan McLennan, written in black ink.

DUNCAN MCLENNAN
Partner

Sydney

26 February 2015

DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

- (a) the Consolidated Interim Financial Report and notes set out on pages 16 to 34, 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 2014 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
26 February 2015



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

We have reviewed the accompanying Consolidated Interim Financial Report of Qantas Airways Limited, which comprises the Consolidated Balance Sheet as at 31 December 2014, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the half-year ended on that date, notes 1 to 8 comprising a statement of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The Directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Qantas Airways Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2014 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
Sydney
26 February 2015

Duncan McLennan
Partner

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Limited liability by a scheme approved under Professional Standards Legislation

OPERATIONAL STATISTICS

For the half-year ended 31 December 2014

(unaudited)		Half-year ended December 2014	Half-year ended December 2013	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK) - SCHEDULED SERVICES				
Passengers carried	000	11,216	11,262	(0.4)%
Revenue passenger kilometres (RPK)	M	14,269	14,394	(0.9)%
Available seat kilometres (ASK)	M	18,765	19,227	(2.4)%
Revenue seat factor	%	76.0	74.9	1.1pts
QANTAS DOMESTIC - SCHEDULED SERVICES				
Passengers carried	000	8,046	8,532	(5.7)%
Revenue passenger kilometres (RPK)	M	12,232	12,621	(3.1)%
Available seat kilometres (ASK)	M	15,659	16,431	(4.7)%
Revenue seat factor	%	78.1	76.8	1.3pts
QANTASLINK - SCHEDULED SERVICES				
Passengers carried	000	3,171	2,730	16.2%
Revenue passenger kilometres (RPK)	M	2,037	1,773	14.9%
Available seat kilometres (ASK)	M	3,106	2,796	11.1%
Revenue seat factor	%	65.6	63.4	2.2pts
JETSTAR DOMESTIC - SCHEDULED SERVICES				
Passengers carried	000	6,708	6,283	6.8%
Revenue passenger kilometres (RPK)	M	7,889	7,574	4.2%
Available seat kilometres (ASK)	M	9,474	9,207	2.9%
Revenue seat factor	%	83.3	82.3	1.0pts
QANTAS INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	2,944	3,007	(2.1)%
Revenue passenger kilometres (RPK)	M	24,368	24,138	1.0%
Available seat kilometres (ASK)	M	29,580	29,863	(0.9)%
Revenue seat factor	%	82.4	80.8	1.6pts
JETSTAR INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	2,558	2,513	1.8%
Revenue passenger kilometres (RPK)	M	7,759	7,157	8.4%
Available seat kilometres (ASK)	M	9,914	9,577	3.5%
Revenue seat factor	%	78.3	74.7	3.6pts
JETSTAR ASIA				
Passengers carried	000	1,995	2,029	(1.7)%
Revenue passenger kilometres (RPK)	M	3,291	3,129	5.2%
Available seat kilometres (ASK)	M	4,203	3,970	5.9%
Revenue seat factor	%	78.3	78.8	(0.5)pts
QANTAS GROUP OPERATIONS				
Passengers carried	000	25,421	25,094	1.3%
Revenue passenger kilometres (RPK)	M	57,575	56,393	2.1%
Available seat kilometres (ASK)	M	71,936	71,844	0.1%
Revenue seat factor	%	80.0	78.5	1.5pts
Aircraft in service at end of period	#	297	318	(21) aircraft
QANTAS FREQUENT FLYER				
Awards redeemed	M	3.1	3.0	3.3%
Total members	M	10.52	9.74	8.0%
FINANCIAL				
Yield (passenger revenue per RPK) ¹	c	10.33	10.21	1.2%
EMPLOYEES				
Full-time equivalent employees at end of period	#	29,250	33,242	(12.0)%
RPK per full time equivalent employee (annualised)	000	3,937	3,393	16.0%
ASK per full time equivalent employee (annualised)	000	4,919	4,322	13.8%

¹ Yield (both current year and prior year) is calculated using prior year exchange rates.

GEARING RATIO¹

As at 31 December 2014

(unaudited)	December 2014 \$M	June 2014 \$M
Equity	2,733	2,866
Exclude hedge reserve	281	72
Adjusted Equity	3,014	2,938
On balance sheet debt		
Current interest-bearing liabilities	621	1,210
Non-current interest-bearing liabilities	5,754	5,273
Cash and cash equivalents	(2,892)	(3,001)
Aircraft security deposits	(35)	(34)
Fair value of hedges relating to debt ²	(42)	7
Net on balance sheet debt	3,406	3,455
Operating lease liability ³	1,251	1,296
Net debt including operating lease liability	4,657	4,751
On balance sheet debt ratio		
Net debt on balance sheet to net debt on balance sheet and equity (excluding hedge reserve)	53:47	54:46
Gearing ratio		
Net debt including operating lease liability to net debt including operating lease liability and adjusted equity (excluding hedge reserve)	61:39	62:38

¹ Gearing ratio is net debt including operating lease liability to net debt including operating lease liability and equity (excluding hedge reserve). The gearing ratio is used by Management to represent the Qantas Group's debt obligation including obligations under operating leases.

² Fair value of hedges relating to debt are included in Other Financial Assets and Liabilities on the Consolidated Balance Sheet in accordance with AASB 9 Financial Instruments as amended in December 2013 (June 2014: AASB 139: Financial Instruments: Recognition and Measurement).

³ Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. This operating lease liability has been calculated in accordance with Standard and Poor's methodology using an assumed interest rate of seven per cent.