



QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

**APPENDIX 4D AND
CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2018**

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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 2018 \$M	December 2017 (restated) \$M	Change \$M	Change %
Revenue and other income	9,206	8,699	507	5.8
Statutory profit after tax	498	595	(97)	[16.3]
Statutory profit after tax attributable to members of Qantas	498	595	(97)	[16.3]
Underlying profit before tax	780	959	(179)	[18.7]

DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

(A) Dividends disclosed and paid

In February 2019, the Directors declared a fully franked interim dividend of 12 cents per ordinary share, totalling \$195 million. The record date for determining entitlements to the interim dividend is 5 March 2019. The dividend will be paid on 28 March 2019.

During the period ended 31 December 2018, the Group paid a fully franked dividend of 10 cents per ordinary share, totalling \$168 million on 10 October 2018.

(B) Other shareholder distributions

In February 2019, the Directors announced an on-market share buy-back of up to \$305 million.

During the half-year ended 31 December 2018, the Group completed an on-market share buy-back of \$332 million, which was announced in August 2018. The Group purchased 57.9 million ordinary shares on issue at an average share price of \$5.73.

EXPLANATION OF RESULTS

Please refer to the Review of Operations for 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 2018. 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 2018	June 2018 (restated)
Net assets per ordinary share ¹	\$	2.07	2.20
Net tangible assets per ordinary share ¹	\$	1.82	2.10

		December 2018	December 2017 (restated)
Basic earnings per share (Statutory Earnings per share) ²	cents	30.0	33.3
Diluted earnings per share ²	cents	30.0	33.3
Underlying Earnings per share ³	cents	31.8	38.0

¹ Based on number of shares outstanding at the end of the period.

² Based on the weighted average number of shares outstanding during the period.

³ Underlying Earnings per share is calculated as Underlying Profit Before Tax less tax expense (based on the Group's effective tax rate of 32.2 per cent (2018: 29.2 per cent)) divided by the weighted average number of shares outstanding during the period.

Other Information continued

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

The Qantas Group disposed of/deregistered the following entities during the period:

Q Catering Limited (disposed of on 31 October 2018)
 Qantas Catering Group Limited (disposed of on 31 October 2018)
 Snap Fresh Pty Limited (disposed of on 31 October 2018)
 QF A320 2014 No.1 Pty Limited (deregistered on 13 January 2019)¹
 QF A320 2014 No.2 Pty Limited (deregistered on 13 January 2019)¹
 QF A320 2014 No.3 Pty Limited (deregistered on 13 January 2019)¹
 QF A320 2014 No.4 Pty Limited (deregistered on 13 January 2019)¹

¹ Application for deregistration lodged with ASIC in November 2018.

OWNERSHIP INTEREST IN INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	December 2018 %	June 2018 %
Fiji Resorts Pte Limited	21	21
Hallmark Aviation Services L.P.	49	49
HT & T Travel Philippines, Inc.	28	28
Holiday Tours and Travel (Thailand) Ltd	37	37
Holiday Tours and Travel Vietnam Co. Ltd	37	37
Holiday Tours and Travel (GSA) Ltd	37	37
Helloworld Limited ¹	15	17
Jetstar Japan Co. Ltd.	33	33
Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
PT Holidays Tours & Travel	37	37

¹ The Group's shareholding reduced to 15.4 per cent following the sale of two million shares on 28 September 2018 at \$5.50 per share.

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2018 and the Independent Auditor's Review Report thereon.

Directors

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

Name	Period of Directorship
Richard Goyder, AO <i>Chairman</i>	<i>Current, appointed 17 November 2017 – appointed Chairman 26 October 2018</i>
Leigh Clifford, AO	<i>Ceased. Appointed 9 August 2007 – appointed Chairman 14 November 2007. Ceased 26 October 2018</i>
Alan Joyce, AC <i>Chief Executive Officer</i>	<i>Current, appointed 28 July 2008 – appointed Chief Executive Officer 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>
Belinda Hutchinson, AM	<i>Current, appointed 12 April 2018</i>
Michael L'Estrange, AO	<i>Current, appointed 7 April 2016</i>
Antony Tyler	<i>Current, appointed 26 October 2018</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

For the half-year ended 31 December 2018

RESULT HIGHLIGHTS

Underlying Profit Before Tax

780 \$M

	1H19	1H19	780
1H18		1H18	959
1H17		1H17	852
1H16		1H16	921

Statutory Profit After Tax

498 \$M

	1H19	1H19	498
1H18		1H18	595
1H17		1H17	515
1H16		1H16	688

Twelve-month Return on Invested Capital

19.3 %

	1H19	1H19	19.3%
1H18		1H18	20.7%
1H17		1H17	21.7%
1H16		1H16	22.8%

The Qantas Group applied AASB 15 Revenue from Contracts with Customers from 1 July 2018. The results for the six months to 31 December 2017 have been restated on the same basis for comparison purposes.

The Qantas Group reported an Underlying Profit Before Tax¹ (PBT) of \$780 million for the six months ended 31 December 2018, a decrease of \$179 million from the first half of 2017/18 as revenue strength substantially offset the headwinds of a \$416 million increase in fuel costs, and other increases in costs associated with FX on non-fuel costs, selling costs on higher revenue and depreciation.

The Group's Statutory Profit Before Tax of \$735 million decreased by \$105 million from the first half of 2017/18, with the Statutory result for the first half of 2018/19 including \$45 million of net costs which were not included in Underlying PBT. These costs included transformation costs such as those associated with the introduction of the Dreamliner fleet, redundancies, discretionary non-executive employee bonuses, offset by the net gain on the sale of the catering business and the reversal of the impairment of an associate. This compares with \$119 million of costs which were not included in Underlying PBT from the first half of 2017/18.

Fuel costs increased compared to the prior corresponding period and the Group moved rapidly to substantially offset this headwind. Capacity discipline in the domestic market supported record performances from Group Domestic², Qantas Domestic and Jetstar Domestic. The international businesses³ have a more significant exposure to higher fuel costs and operate in highly competitive markets which dampened the ability to recover these costs. The fundamentals of Qantas International and Jetstar's international businesses remain strong with revenue increases helping to deliver resilient earnings in the face of significant fuel and foreign exchange headwinds. Qantas Loyalty successfully navigated the credit card interchange fee changes, growing and diversifying earnings through both the coalition and new businesses to deliver another record result.

Financial highlights for the first half 2018/19 are:

- Statutory earnings per share of 30.0 cents per share, reflecting current earnings and the accretive benefit of the on-market share buy-back
- Continued strong Group Return on Invested Capital (ROIC)⁴ of 19.3 per cent compared with 20.7 per cent for the same time in 2017/18
- All operating segments delivering ROIC greater than the Group's Weighted Average Cost of Capital (WACC)⁵
- Record results in Group Domestic, Qantas Domestic, Jetstar Domestic and Qantas Loyalty
- Ongoing transformation is on track to deliver gross benefits of greater than \$400 million in 2018/19 with \$206 million delivered as at 31 December 2018

The balance sheet remains strong with Net Debt⁶ at \$5.2 billion, which is at the bottom of the target Net Debt range of \$5.2 billion to \$6.5 billion. The Group's strong cash flow generation ability delivered \$1.3 billion in operating cash flow, lower than the prior corresponding period due to temporary working capital movements and timing of option premium outflows. The first half of 2017/18 benefited from reduced outflows while the first half 2018/19 incurred additional outflows to hedge the Group's 2019/20 financial year fuel cost. \$1.0 billion was invested in the business and \$500 million of surplus capital returned to shareholders through a 10 cents per share fully franked dividend, totalling \$168 million and an on-market share buy-back of \$332 million.

With all the targets of the Group's financial framework met, a disciplined approach to capital investment and strong net free cash flow of \$218 million, the Board resolved to distribute up to a further \$500 million of surplus capital to shareholders, through an increase in the base dividend per half from 10 to 12 cents per share fully franked interim dividend totalling \$195 million and an additional on-market share buy-back of up to \$305 million.

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 and Qantas Loyalty operating segments is Underlying Earnings Before Net Finance Costs and Income Tax Expense (Underlying EBIT). The primary reporting measure of the Corporate segment is Underlying PBT as net finance costs are managed centrally. Refer to the reconciliation of Underlying PBT to Statutory Profit/(Loss) Before Tax on page 12.

2 Group Domestic includes Qantas Domestic and Jetstar Domestic.

3 International businesses or Group International includes Qantas International, Jetstar International Australian operations, Jetstar New Zealand (including Jetstar Regionals), Jetstar Asia (Singapore) and the contributions from Jetstar Japan and Jetstar Pacific.

4 Return on Invested Capital is calculated as ROIC EBIT for the 12 months ended 31 December, divided by the 12 month Average Invested Capital. ROIC EBIT is derived by adjusting Underlying EBIT for the period to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they are owned aircraft.

5 Weighted Average Cost of Capital is calculated on a pre-tax basis.

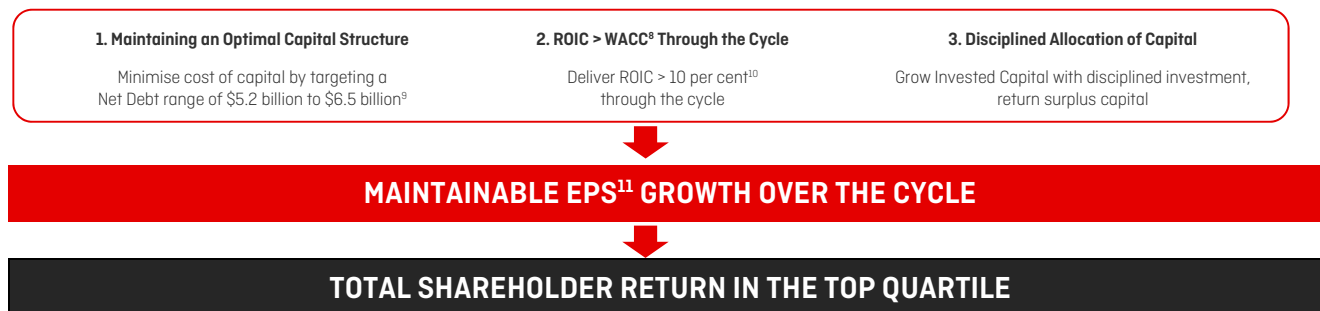
6 Net Debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities.

Review of Operations continued

For the half-year ended 31 December 2018

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

Qantas' Financial Framework aligns our objectives with those of our shareholders. With the aim of generating maintainable Earnings per Share (EPS) growth over the cycle, which in turn should generate Total Shareholder Return (TSR) in the top quartile of the ASX100 and a basket of global airlines⁷. The Financial Framework has three clear priorities and associated long-term targets:



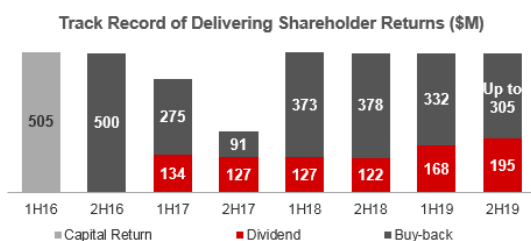
Maintaining an Optimal Capital Structure

- The Group's Financial Framework targets an optimal capital structure to achieve the lowest cost of capital. This results in a Net Debt range of between \$5.2 billion and \$6.5 billion, based on the current average Invested Capital of approximately \$8.9 billion. It is defined as Net Debt/ROIC EBITDA range of 2.0-2.5 times. This capital structure lowers the Group's cost of capital, preserves financial strength and therefore enhances long-term shareholder value.
- Net Debt was \$5.2 billion as at 31 December 2018, at the bottom of the Group's target range.
- Capital allocation decisions, including distributions to shareholders, are sized to ensure Net Debt remains within the target Net Debt range on a forward looking basis.
- The Group's optimal capital structure is consistent with investment grade credit metrics. The Group is rated Baa2 with Moody's Investor Services.

ROIC > WACC Through the Cycle

The rolling twelve month Return on Invested Capital (ROIC) of 19.3 per cent was above the Group's threshold ROIC of 10 per cent. The current average Invested Capital is approximately \$8.9 billion.

Disciplined Allocation of Capital



The Qantas Group takes a disciplined approach to allocating capital with the aim to grow Invested Capital, returning any surplus capital to shareholders.

- Net Capital Expenditure¹² of \$1.0 billion was invested during the first half of 2018/19.
- During the half the Group paid a fully franked dividend of 10 cents per ordinary share, totalling \$168 million and returned \$332 million to shareholders through an on-market share buy-back. This resulted in a further 3.4 per cent reduction in shares on issue in the half.

In February 2019, the Directors declared a fully franked interim dividend of 12 cents per ordinary share, totalling \$195 million and announced an additional on-market share buy-back of up to \$305 million.

Maintainable EPS Growth Over the Cycle

Statutory earnings per share was 30.0 cents per share for the first half of 2018/19. The decrease in earnings per share from the first half of 2017/18 was driven by a 16 per cent decrease in Statutory Profit After Tax partially offset by a seven per cent reduction in the weighted average shares on issue since 31 December 2017.

⁷ Target Total Shareholder Return within the top quartile of the ASX100 and global listed airline peer group as stated in the 2018 Annual Report, with reference to the 2018-2020 Long Term Incentive Plan (LTIP).

⁸ Weighted Average Cost of Capital, calculated on a pre-tax basis.

⁹ Based on current average Invested Capital of approximately \$8.9 billion.

¹⁰ Target of 10 per cent ROIC allows ROIC to be greater than pre-tax WACC through the cycle.

¹¹ Earnings per share.

¹² Net Capital Expenditure is equal to net investing cash flows included in the Consolidated Cash Flow Statement of \$1,036 million (excluding aircraft operating lease refinancing) and the impact to Invested Capital of commencing/returning aircraft operating leases. During the first half of 2018/19 there were no new operating aircraft leases entered into and no returns of operating leased aircraft.

Review of Operations continued

For the half-year ended 31 December 2018

GROUP PERFORMANCE

The Qantas Group reported a solid result of an Underlying PBT of \$780 million for the first half of 2018/19, 19 per cent lower than the first half of 2017/18. Revenue strength substantially offset a \$416 million increase in fuel costs, the impact of foreign exchange on non-fuel costs, increased selling costs on higher revenue and depreciation.

Net passenger revenue increased by six per cent, helping to offset higher fuel and other costs. This was achieved through Unit Revenue increases, supported by increased yields and higher load factors and higher ancillary revenue in both the domestic and selected international markets. The benefits of transformation and other non-passenger related revenues assisted in partially offsetting the impact of inflation, selling expenses, foreign exchange impacts on non-fuel costs and increased depreciation.

	December 2018 \$M	December 2017 (restated) \$M	Change \$M	Change %
Group Underlying Income Statement Summary¹³				
Net passenger revenue	8,027	7,607	420	6
Net freight revenue	525	455	70	15
Other revenue	654	637	17	3
Revenue and Other Income	9,206	8,699	507	6
Operating expenses (excluding fuel)	(5,436)	(5,239)	(197)	(4)
Fuel	(1,963)	(1,547)	(416)	(27)
Depreciation and amortisation	(814)	(747)	(67)	(9)
Non-cancellable aircraft operating lease rentals	(135)	(141)	6	4
Share of net profit of investments accounted for under the equity method	13	21	(8)	(38)
Total Expenditure	(8,335)	(7,653)	(682)	(9)
Underlying EBIT	871	1,046	(175)	(17)
Net finance costs	(91)	(87)	(4)	(5)
Underlying PBT	780	959	(179)	(19)

		December 2018	December 2017 (restated)	Change	Change %
Operating Statistics					
Available Seat Kilometres [ASK] ¹⁴	M	76,854	77,240	(386)	(0.5)
Revenue Passenger Kilometres [RPK] ¹⁵	M	64,958	64,512	446	0.7
Passengers carried	'000	28,500	28,138	362	1.3
Revenue seat factor ¹⁶	%	84.5	83.5	1.0pts	n/a
Operating margin ¹⁷	%	9.5	12.0	(2.5)pts	n/a
Unit Revenue [RASK] ¹⁸	c/ASK	8.94	8.45	0.48	5.7
Total unit cost ¹⁹	c/ASK	(7.92)	(7.21)	(0.71)	(9.8)
Ex-fuel unit cost ²⁰	c/ASK	(5.37)	(5.30)	(0.07)	(1.3)

Group capacity (Available Seat Kilometres) decreased by 0.5 per cent, and demand (measured by Revenue Passenger Kilometres) increased by 0.7 per cent, resulting in a 1.0 percentage point increase in Revenue Seat Factor. Group Unit Revenue increased 5.7 per cent in the first half of 2018/19 supported by transformation, capacity discipline and increased load factors in the competitive domestic and international markets. Group Domestic Unit Revenue was up 6.1 per cent and Group International Unit Revenue was up 5.4 per cent.

¹³ Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT. Refer to the reconciliation on page 12.

¹⁴ ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.

¹⁵ RPK – total number of passengers carried, multiplied by the number of kilometres flown.

¹⁶ Revenue seat factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.

¹⁷ Operating margin is Group Underlying EBIT divided by Group total revenue.

¹⁸ Unit Revenue [RASK] is ticketed passenger revenue divided by Available Seat Kilometre [ASK].

¹⁹ Total Unit Cost is Underlying PBT less ticketed passenger revenue per ASK.

²⁰ Ex-fuel Unit Cost is measured as Underlying PBT less ticketed passenger revenue, fuel and share of profit/(loss) of investments accounted for under the equity method, adjusted for the impact of changes in FX rates, discount rates and other actual assumptions per ASK.

Review of Operations continued

For the half-year ended 31 December 2018

CASH GENERATION

	December 2018 \$M	December 2017 \$M	Change \$M	Change %
Cash Flow Summary				
Operating cash flows	1,254	1,734	(480)	(28)
Investing cash flows (excluding aircraft operating lease refinancing)	(1,036)	(962)	(74)	(8)
Net free cash flow	218	772	(554)	(72)
Aircraft operating lease refinancing	(88)	(153)	65	42
Financing cash flows	(332)	(606)	274	45
Cash at beginning of period	1,694	1,775	(81)	(5)
Effect of foreign exchange on cash	2	(1)	3	>100
Cash at end of period	1,494	1,787	(293)	(16)

	December 2018 \$M	June 2018 \$M	Change \$M	Change %
Debt Analysis				
Net on balance sheet debt ²¹	3,516	3,054	462	15
Capitalised operating lease liabilities ²²	1,671	1,849	(178)	(10)
Net Debt²³	5,187	4,903	284	6

Operating cash flows for the first half 2018/19 were \$1.3 billion, \$480 million lower than the first half 2017/18, reflecting timing differences associated with temporary working capital movements and outflows for the Group's fuel cost hedging program. Investing cash flows were \$1.0 billion excluding aircraft operating lease refinancing.

Net Capital Expenditure²⁴ of \$1.0 billion included investment in replacement fleet such as final delivery payments for three 787-9s delivered to Qantas International and customer experience initiatives including lounges, the Jetstar A320/321 Cabin Enhancement Program and Wi-Fi installation on the Qantas Domestic fleet.

Financing cash flows of \$332 million included \$445 million from the second tranche of the corporate debt program, offset by scheduled debt repayments of \$221 million, a dividend of \$168 million and an on-market share buy-back of \$332 million. The corporate debt program involves using a pool of 24 mid-life aircraft as security and has a tenor of 10 years.

With Net Debt at the bottom of the range and minimal near-term refinancing risk, the Group has continued to optimise the mix of liquidity with less requirement for short-term liquidity held in cash. The Group used \$88 million cash in excess of its short-term requirements to purchase two aircraft out of maturing operating leases.

FLEET

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

At all times, the Group retains significant flexibility to respond to any changes in market conditions and the competitive landscape by deploying a number of strategies including fleet redeployment, refurbishment, renewal and retirement.

²¹ Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents.

²² Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease.

Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate.

²³ Net Debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.

²⁴ Net Capital Expenditure is equal to net investing cash flows included in the Consolidated Cash Flow Statement of \$1,036 million (excluding aircraft operating lease refinancing) and the impact to Invested Capital of commencing/returning aircraft operating leases. During the first half of 2018/19 there were no new operating aircraft leases entered into and no returns of operating leased aircraft.

Review of Operations continued

For the half-year ended 31 December 2018

During the half, the Group continued to cross utilise the A330-200 and 737-800 aircraft between Qantas Domestic and Qantas International and increased utilisation of F100 and 717 aircraft to optimise capacity to match demand. The Jetstar Cabin Enhancement Program for the domestic fleet is 80 per cent complete. The Group also took delivery of the three additional 787-9 aircraft for Qantas International, taking that fleet to a total of eight aircraft and retired one additional 747-400. As at 31 December 2018, the Qantas Group fleet²⁵ totalled 315 aircraft, 55 per cent of which is unencumbered (with an approximate value of US\$3.7 billion²⁶), including all the Qantas International 787-9 aircraft.

SEGMENT PERFORMANCE

Segment Performance Summary	December 2018 \$M	December 2017 (restated) \$M	Change \$M	Change %
Qantas Domestic	453	449	4	1
Qantas International ²⁷	90	224	(134)	(60)
Jetstar Group	253	315	(62)	(20)
Qantas Loyalty	175	168	7	4
Corporate	(93)	(93)	-	-
Unallocated/Eliminations	(7)	(17)	10	59
Underlying EBIT	871	1,046	(175)	(17)
Net finance costs	(91)	(87)	(4)	(5)
Underlying PBT	780	959	(179)	(19)

QANTAS DOMESTIC

Revenue		Underlying EBIT		Operating Margin	
3,230	\$M	453	\$M	14.0	%
1H19	1H19	1H19	1H19	1H19	1H19
1H18	3,230	1H18	453	1H18	14.0%
1H17	3,057	1H17	371	1H17	14.7%
1H16	2,916	1H16	387	1H16	12.7%
1H16	3,007	1H16	387	1H16	12.9%

Metrics		December 2018	December 2017	Change
ASKs	M	17,314	17,681	(2.1)%
Seat factor	%	79.6	78.7	0.9pts

Qantas Domestic reported a record first half Underlying EBIT of \$453 million, up 0.9 per cent from the first half of 2017/18 as revenue strength supported recovery of the increased fuel cost. Unit Revenue was up 7.5 per cent driven by disciplined capacity management, transformation and resources sector revenue growth²⁸. Capacity reduced by 2.1 per cent, including the impact of increased pilot training. Seat factor improved by 0.9 percentage points. Qantas Domestic maintained a leadership position in the corporate market while growing its share of the Small to Medium Enterprise (SME) market. Operating margins remained strong at 14.0 per cent.

Qantas Domestic continues to focus on customer experience with:

- Two thirds of 737-800s and approximately half of the A330 fleets now Wi-Fi equipped
- Over 15 percentage point customer advocacy advantage to competitor²⁹
- Highest on time performance for domestic market³⁰ for 5 out of 6 months for the half
- Resident fares expanded to selected regional markets
- Melbourne Domestic lounges upgrade and Tamworth lounge refresh completed

²⁵ Includes Qantas Airways, Jetstar Australia and New Zealand, Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft operated by Jetstar Japan and Jetstar Pacific.

²⁶ Based on AVAC market values.

²⁷ The Qantas Freight segment which was previously a separate operating segment has been consolidated into the Qantas International segment.

²⁸ Resource market ticketed passenger revenue compared to 1H18. Based on Qantas internal reporting.

²⁹ Customer advocacy measured as Net Promoter Score (NPS). Competitor refers to Virgin Australia. Based on Qantas internal reporting.

³⁰ On time performance (OTP) of Qantas Domestic operations. Measured as departures within 15 minutes of scheduled departure time for first half of 2018/19. Source: BITRE.

Review of Operations continued

For the half-year ended 31 December 2018

QANTAS INTERNATIONAL

Revenue		Underlying EBIT		Operating Margin	
3,693 \$M		90 \$M		2.4 %	
1H19	1H19 3,693	1H19	1H19 90	1H19	1H19 2.4%
1H18	1H18 3,460	1H18	1H18 224	1H18	1H18 6.5%
1H17	1H17 3,204	1H17	1H17 235	1H17	1H17 7.3%
1H16	1H16 3,354	1H16	1H16 308	1H16	1H16 9.2%

Metrics		December 2018	December 2017	Change
ASKs	M	35,151	34,714	1.3%
Seat factor	%	85.5	84.4	1.1pts

Qantas International reported a strong Unit Revenue growth of 5.0 per cent, as the competitive environment eased slightly, as competitor capacity growth plans moderated to 3.8 per cent in the half. Strong competition was evident in the USA market while the restructured London services performed well. A \$219 million increase in fuel costs, together with increases in selling costs and foreign exchange impacts on non-fuel costs offset the benefits from higher revenues. Underlying EBIT was \$90 million and Operating Margin was 2.4 per cent. Qantas International achieved a 2.5 per cent increase in Revenue Passenger Kilometres and a 1.1 percentage point increase in seat factor from a 1.3 per cent increase in capacity.

In the strategy to build a resilient Qantas International, 2018/19 is a transition year with the expansion of the 787-9 Dreamliner fleet while continuing to operate the 747-400 fleet. In the half, Qantas International took delivery of three additional 787-9 aircraft taking that fleet to a total of eight, improving the premium seat mix with benefits to flow into the second half of 2018/19. The success of the Perth to London direct route gives confidence in the strategy to pursue long haul routes that provide a unique competitive advantage, allowing the Group to use its domestic network to create an onshore hub in Perth.

The focus on strengthening airline partnerships, including Emirates and China Eastern, continued in the half with additional codeshare partnerships announced with Cathay and KLM.

During the first half of 2018/19 the freight business delivered a steady performance.

Qantas International is continuing its investment in customer experience with the:

- New Singapore First lounge set to open towards the end of 2019
- Preparation for the A380 cabin upgrades which will commence in mid 2019

JETSTAR GROUP

Revenue		Underlying EBIT		Operating Margin	
2,048 \$M		253 \$M		12.4 %	
1H19	1H19 2,048	1H19	1H19 253	1H19	1H19 12.4%
1H18	1H18 1,949	1H18	1H18 315	1H18	1H18 16.2%
1H17	1H17 1,859	1H17	1H17 275	1H17	1H17 14.8%
1H16	1H16 1,913	1H16	1H16 262	1H16	1H16 13.7%

Metrics		December 2018	December 2017	Change
ASKs	M	24,389	24,845	(1.8)%
Seat factor	%	86.6	85.7	0.9pts

Review of Operations continued

For the half-year ended 31 December 2018

The strong fundamentals of the Jetstar Group saw it deliver a solid earnings performance with revenue up 5.1 per cent.

A highlight of the result was the record domestic performance where the combination of Unit Revenue strength, higher load factors and an 11 per cent increase in ancillary revenue per passenger offset higher fuel costs and foreign exchange impacts on non-fuel expenses.

Jetstar's international businesses, including the Australian short and long haul operations and Jetstar New Zealand had a greater exposure to the higher fuel and foreign exchange impacts than the domestic business. While revenues did increase, they were not sufficient to fully offset these cost increases. Strong demand continued for key long haul markets including Bali, Japan, Thailand and Vietnam.

In the half, the profitability of Jetstar's Asian airlines portfolio was also impacted by higher fuel costs and higher airport charges and taxes. Jetstar Japan remained profitable, successfully navigating higher fuel costs and a series of natural disasters. Operational highlights included the expansion of its fleet by two A320s, ordering A321LR NEO's for delivery in 2020 and retaining its leadership position³¹ in the low cost carrier domestic Japan market.

As part of the strategy to align Jetstar's growth with Asia, the network continues to grow with nearly 100 services per week³² into China and its territories as well as growth into Bali and Vietnam and the addition of six new routes to the network.

Jetstar continues to invest in customer experience, digital transformation and operational improvements. Key highlights include:

- Ancillary revenue strength driven by successful launch of 'Plus 3kg' carry on and the increased catering and bundling strategy
- Club Jetstar continued to grow with more than 300,000 members³³
- Almost two-thirds of fares³⁴ sold for under \$100, maintaining affordability in the low fares segment
- More than 80 per cent of Cabin Enhancement Program for the domestic A320/321 fleet complete with the remaining aircraft due for completion in 2019

QANTAS LOYALTY

Revenue		Underlying EBIT		Operating Margin	
809 \$M		175 \$M		21.6 %	
1H19	809*	1H19	175*	1H19	21.6%*
1H18	747*	1H18	168*	1H18	22.5%*
1H17	743	1H17	181	1H17	24.4%
1H16	734	1H16	176	1H16	24.0%

* AASB 15 has been applied in 1H19 and as a result 1H18 has been restated. Prior to the restatement, 1H18 Underlying EBIT was reported as \$184 million and was the previous record Underlying EBIT. 1H19 Underlying EBIT is 4.2 per cent higher than the restated 1H18 Underlying EBIT. 1H17 and 1H16 have not been restated for AASB 15.

Metrics		December 2018	December 2017	Change
QFF members	M	12.6	12.0	4.4%

Qantas Loyalty continued to grow and diversify its earnings through both the coalition and new businesses. Underlying EBIT was a record³⁵ \$175 million, up more than four per cent compared to first half 2017/18.

The coalition business fundamentals remain strong with positive momentum:

- Co-branded credit card growth outpacing the market³⁶
- The addition of more than 90 new retail earn partners and a new financial services partner in Australian Super, further expanding points earn opportunities
- Expanded redemption options keeping member engagement high
- Qantas Business Rewards membership growth³⁷ of 9 per cent, which supports the airline's SME strategy

31 Measured as a percentage of market share based on ASKs. Source: Diio Mi.

32 Including charter services. Source Diio Mi.

33 Members as at January 2019. Market launched in Japan and Singapore in first half of 2017/18. Continued member growth in Australia and New Zealand following relaunch in May 2017 and June 2017, respectively.

34 Airfares sold within the Jetstar Group including Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific (Vietnam), rolling 12 months Jan 2018 to Dec 2018.

35 For periods reported on a post AASB 15 basis. AASB 15 has been applied in 1H19 and as a result 1H18 has been restated. Prior to the restatement, 1H18 Underlying EBIT was reported as \$184 million and was the previous record. 1H19 Underlying EBIT is 4.2 per cent higher than the restated 1H18 Underlying EBIT. 1H17 and 1H16 have not been restated for AASB 15.

36 Based on the number of credit cards accounts with interest free periods. Based on December 2018 compared to June 2018. Source: RBA credit and card charges statistics.

37 Members at December 2018 compared to June 2018.

Review of Operations continued

For the half-year ended 31 December 2018

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax was \$735 million for the half year ended 31 December 2018.

UNDERLYING PBT

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

	December 2018 \$M	December 2017 (restated) \$M
Reconciliation of Underlying PBT to Statutory Profit Before Tax		
Underlying PBT	780	959
<i>Items not included in Underlying PBT</i>		
– Transformation costs	(98)	(74)
– Discretionary bonuses to non-executive employees	(19)	(53)
– Net gain on disposal of a controlled entity	37	6
– Net gain on sale/Reversal of impairment of associate	43	–
– Other	(8)	2
Total items not included in Underlying PBT	(45)	(119)
Statutory Profit Before Tax	735	840

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

Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments, impairments of assets and other transactions outside the ordinary course of business. In the first half of 2018/19 these included:

- Transformation costs of \$98 million incurred during the year. Transformation costs included redundancy and related costs of \$9 million, fleet restructuring costs of \$72 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet) and other upfront costs of \$17 million directly incurred to enable the delivery of transformation benefits. Fleet restructuring costs include \$42 million of accelerated depreciation recognised as an item outside of Underlying PBT.
- Discretionary bonuses to non-executive employees of \$19 million. The discretionary bonus will be paid to non-executive employees after the employees post wage freeze collective agreement is voted upon and approved.
- The net gain on sale of a controlled entity which related to the sale of Qantas Catering which was completed during the period.
- The net gain on sale/reversal of impairment of associate relates to the Group's investment in Helloworld Travel Limited. The reversal of impairment has been recognised as an item outside of Underlying PBT consistent with the treatment of the original impairment.

Review of Operations continued

For the half-year ended 31 December 2018

MATERIAL BUSINESS RISKS

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or an epidemic. Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects. The Group's focus is on continuously improving the controls to manage or mitigate these risks as the nature of these risks and the risk landscape for the Qantas Group has not materially changed compared with the previous year. The Qantas Group continues to operate in a domestic and international environment where elevated political risk for the business will be the norm. The increased level of unpredictability makes it imperative that the Group continues to plan for wide ranges of scenarios and risks to ensure its robustness.

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 has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas remains focused on building key strategic airline partnerships with strong global partners and optimising its network. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas International continues to build a resilient and sustainable business through transformation.
- The Australian domestic aviation market is highly competitive. The Qantas Group's market-leading domestic position and dual brand strategy allow Qantas to effectively mitigate the impact of market changes. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic continues to focus on managing its cost base through sustainable transformation initiatives to ensure it remains competitive, while maintaining a revenue premium. Jetstar is working to maintain its lowest seat cost and yield advantage. These priorities result in Qantas Domestic and Jetstar Domestic delivering the highest Underlying EBITs in their respective markets, enabling the Group to retain Underlying EBIT share in excess of capacity share.

Fuel and foreign exchange volatility: The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2018/19, the Group's hedging profile is positioned such that 2018/19 fuel costs are expected to be \$3.90³⁸ million with an average 73 per cent participation³⁹ to lower fuel prices. Fuel price is 90 per cent hedged for the remainder of 2018/19. Complementing the hedging program, increased focus on forecasting and the operational agility of our aviation operations are supporting the Group to manage the residual uncertainty.

Cyber security and privacy regulation: The cyber security and data environment is continuously evolving. The Qantas Group remains focused on further strengthening its governance, processes and technology controls to continue to protect the integrity and privacy of data and maintain compliance with regulatory requirements. The Group continues to embed cyber security into its organisational culture through a comprehensive cyber education and awareness program and using secure by design principles. The Group's ongoing investment in cyber transformation initiatives, together with its extensive Control and Risk Framework⁴⁰, operate to reduce the likelihood of cyber security and data privacy incidents, assisting with the early detection and mitigation of impact. Given the nature of this risk, the appropriateness of the controls is continuously reviewed by the Group Cyber and Privacy Committee and is subject to independent assurance on a periodic basis.

Key business partners and alliances: The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework.

Climate change: The Qantas Group is subject to short-term and long-term climate-related physical and transition risks. These risks are an inherent part of the operations of an airline and are managed by strengthening governance, technology, operational and market-based controls, including proactive consideration of how changing factors (including global climate policies) impact the proximity and severity of climate related risks. The Qantas Group recognises the demand for increased transparency on identification and management of climate-related risks and opportunities, and the necessity to consider these risks and opportunities in safeguarding future operations. In response, from 2017/18 Qantas commenced the process of aligning its corporate disclosures with the Taskforce on Climate-Related Financial Disclosures (TCFD), a summary table for which can be found on the Qantas Group corporate site.

³⁸ As at 18 February 2019. This assumes forward market rates of Jet Fuel US\$81.70 per barrel and AUD/USD 0.7135. 2018/19 fuel cost could be impacted by a breakdown in correlation or by increases in refining margins.

³⁹ As at 18 February 2019. Participation from current market Brent prices down US\$10 per barrel for the remainder of 2018/19.

⁴⁰ An overview of the Group Risk Management Framework is contained in the Qantas Group Business Practices Document available on www.qantas.com.au

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 36 and forms part of the Directors' Report for the half-year ended 31 December 2018.

ROUNDING

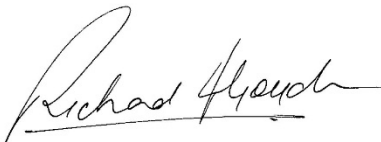
Qantas is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. In accordance with that Instrument, all financial information presented has been rounded to the nearest million dollars, unless otherwise stated.

ASIC GUIDANCE

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

In line with previous years and in accordance with the Corporations Act 2001, the Directors' Report is unaudited. Notwithstanding this, the Directors' Report (including the Review of Operations) contains disclosures which are extracted or derived from the Consolidated Interim Financial Report for the half-year ended 31 December 2018 which has been reviewed by the Group's Independent Auditor.

Signed pursuant to a Resolution of the Directors:

**RICHARD GOYDER, AO**

Chairman

**ALAN JOYCE, AC**

Chief Executive Officer

Sydney

21 February 2019

Consolidated Income Statement

For the half-year ended 31 December 2018

	Notes	December 2018 \$M	December 2017 (restated) ¹ \$M
REVENUE AND OTHER INCOME			
Net passenger revenue		8,027	7,607
Net freight revenue		525	455
Other income	4	654	637
Revenue and other income		9,206	8,699
EXPENDITURE			
Manpower and staff related		2,205	2,135
Aircraft operating variable		1,980	1,852
Fuel		1,963	1,547
Depreciation and amortisation		856	747
Non-cancellable aircraft operating lease rentals		135	141
Share of net profit of investments accounted for under the equity method		(13)	(21)
Other	5	1,254	1,371
Expenditure		8,380	7,772
Statutory profit before income tax expense and net finance costs		826	927
Finance income		23	23
Finance costs		(114)	(110)
Net finance costs		(91)	(87)
Statutory profit before income tax expense		735	840
Income tax expense	6	(237)	(245)
Statutory profit for the period		498	595
Attributable to:			
Members of Qantas		498	595
Non-controlling interests		-	-
Statutory profit for the period		498	595
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic earnings per share (cents)	3	30.0	33.3
Diluted earnings per share (cents)	3	30.0	33.3

¹ The Group adopted AASB 15 Revenue from Contracts with Customers effective 1 July 2017 using the full retrospective method of adoption. The comparative period presented above has been restated. Refer to Note 10 for further information.

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 2018

	December 2018 \$M	December 2017 (restated) ² \$M
Statutory profit for the period	498	595
Items that are or may be subsequently reclassified to profit or loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	(140)	190
Transfer of hedge reserve to the Consolidated Income Statement, net of tax ¹	(186)	(69)
Recognition of effective cash flow hedges on capitalised assets, net of tax	(13)	11
Net changes in hedge reserve for time value of options, net of tax	(156)	43
Foreign currency translation of controlled entities	1	2
Foreign currency translation of investments accounted for under the equity method	3	(10)
Share of other comprehensive income of investments accounted for under the equity method	(11)	3
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial (losses)/gains, net of tax	(91)	(6)
Other comprehensive income for the period	(593)	164
Total comprehensive income for the period	(95)	759
Attributable to:		
Members of Qantas	(95)	759
Non-controlling interests	-	-
Total comprehensive income for the period	(95)	759

¹ These amounts were allocated to fuel expenditure of \$(266) million (2017: \$(97) million), and income tax of \$80 million (2017: income tax of \$28 million) in the Consolidated Income Statement.

² The Group adopted AASB 15 Revenue from Contracts with Customers effective 1 July 2017 using the full retrospective method of adoption. The comparative period presented above has been restated. Refer to Note 10 for further information.

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

Consolidated Balance Sheet

As at 31 December 2018

	December 2018 \$M	June 2018 (restated) ¹ \$M
CURRENT ASSETS		
Cash and cash equivalents	1,494	1,694
Receivables	953	840
Other financial assets	233	474
Inventories	367	351
Assets classified as held for sale	1	118
Other	198	161
Total current assets	3,246	3,638
NON-CURRENT ASSETS		
Receivables	110	110
Other financial assets	106	112
Investments accounted for under the equity method	250	222
Property, plant and equipment	13,263	12,851
Intangible assets	1,161	1,113
Other	455	601
Total non-current assets	15,345	15,009
Total assets	18,591	18,647
CURRENT LIABILITIES		
Payables	2,373	2,220
Revenue received in advance	3,969	4,012
Interest-bearing liabilities	373	404
Other financial liabilities	199	34
Provisions	818	853
Income tax liabilities	153	7
Liabilities classified as held for sale	-	64
Total current liabilities	7,885	7,594
NON-CURRENT LIABILITIES		
Revenue received in advance	1,434	1,412
Interest-bearing liabilities	4,637	4,344
Other financial liabilities	134	25
Provisions	383	367
Deferred tax liabilities	759	922
Total non-current liabilities	7,347	7,070
Total liabilities	15,232	14,664
Net assets	3,359	3,983
EQUITY		
Issued capital	2,176	2,508
Treasury shares	(117)	(115)
Reserves	(139)	479
Retained earnings	1,436	1,108
Equity attributable to the members of Qantas	3,356	3,980
Non-controlling interests	3	3
Total equity	3,359	3,983

¹ The Group adopted AASB 15 Revenue from Contracts with Customers effective 1 July 2017 using the full retrospective method of adoption. The comparative period presented above has been restated. Refer to Note 10 for further information.

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 2018

December 2018 \$M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other Reserves ¹	Retained Earnings (restated) ²	Non- controlling Interests	Total Equity (restated) ²
Balance as at 1 July 2018	2,508	(115)	106	300	(16)	89	1,108	3	3,983
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD									
Statutory profit for the period	-	-	-	-	-	-	498	-	498
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(140)	-	-	-	-	(140)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(186)	-	-	-	-	(186)
Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	(13)	-	-	-	-	(13)
Net changes in hedge reserve for time value of options, net of tax	-	-	-	(156)	-	-	-	-	(156)
Defined benefit actuarial (losses)/gains, net of tax	-	-	-	-	-	(91)	-	-	(91)
Foreign currency translation of controlled entities	-	-	-	-	1	-	-	-	1
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	3	-	-	-	3
Share of other comprehensive income of investments accounted for under the equity method	-	-	-	(11)	-	-	-	-	(11)
Total other comprehensive income/(loss) for the period	-	-	-	(506)	4	(91)	-	-	(593)
Total comprehensive income/(loss) for the period	-	-	-	(506)	4	(91)	498	-	(95)
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(332)	-	-	-	-	-	-	-	(332)
Dividend paid	-	-	-	-	-	-	(168)	-	(168)
Treasury shares acquired	-	(56)	-	-	-	-	-	-	(56)
Share-based payments	-	-	26	-	-	-	-	-	26
Shares vested and transferred to employees	-	54	(51)	-	-	-	(2)	-	1
Total contributions by and distributions to owners	(332)	(2)	(25)	-	-	-	(170)	-	(529)
Total transactions with owners	(332)	(2)	(25)	-	-	-	(170)	-	(529)
Balance as at 31 December 2018	2,176	(117)	81	(206)	(12)	(2)	1,436	3	3,359

¹ Other Reserves includes the Defined Benefit Reserve.

² The Group adopted AASB 15 Revenue from Contracts with Customers effective 1 July 2017 using the full retrospective method of adoption. The comparative period presented above has been restated. Refer to Note 10 for further information.

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

Consolidated Statement of Changes in Equity continued

For the half-year ended 31 December 2018

December 2017 \$M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Other Reserves ¹	Retained Earnings (restated) ²	Non- controlling Interests	Total Equity (restated) ²
Balance as at 1 July 2017	3,259	(206)	124	(100)	(16)	4	523	3	3,591
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD									
Statutory profit for the period	-	-	-	-	-	-	595	-	595
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	190	-	-	-	-	190
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(69)	-	-	-	-	(69)
Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	11	-	-	-	-	11
Net changes in hedge reserve for time value of options, net of tax	-	-	-	43	-	-	-	-	43
Defined benefit actuarial (losses)/gains, net of tax	-	-	-	-	-	(6)	-	-	(6)
Foreign currency translation of controlled entities	-	-	-	-	2	-	-	-	2
Foreign currency translation of investments accounted for under the equity method	-	-	-	-	(10)	-	-	-	(10)
Share of other comprehensive income of investments accounted for under the equity method	-	-	-	3	-	-	-	-	3
Total other comprehensive income/(loss) for the period	-	-	-	178	(8)	(6)	-	-	164
Total comprehensive income/(loss) for the period	-	-	-	178	(8)	(6)	595	-	759
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(373)	-	-	-	-	-	-	-	(373)
Dividend paid	-	-	-	-	-	-	(127)	-	(127)
Treasury shares acquired	-	(146)	-	-	-	-	-	-	(146)
Share-based payments	-	-	36	-	-	-	-	-	36
Shares vested and transferred to employees	-	251	(79)	-	-	-	(120)	-	52
Total contributions by and distributions to owners	(373)	105	(43)	-	-	-	(247)	-	(558)
Total transactions with owners	(373)	105	(43)	-	-	-	(247)	-	(558)
Balance as at 31 December 2017	2,886	(101)	81	78	(24)	(2)	871	3	3,792

¹ Other Reserves includes the Defined Benefit Reserve.

² The Group adopted AASB 15 Revenue from Contracts with Customers effective 1 July 2017 using the full retrospective method of adoption. The comparative period presented above has been restated. Refer to Note 10 for further information.

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 2018

	December 2018 \$M	December 2017 (restated) ¹ \$M
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	9,548	9,057
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs and discretionary bonus payments to non-executive employees)	(8,215)	(7,168)
Cash generated from operations	1,333	1,889
Cash payments to employees for redundancies and related costs	(11)	(25)
Discretionary bonus payments to non-executive employees	(15)	(74)
Interest received	20	18
Interest paid	(84)	(77)
Dividends received from investments accounted for under the equity method	10	5
Foreign Income taxes paid	1	(2)
Net cash from operating activities	1,254	1,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment and intangible assets	(1,176)	(959)
Interest paid and capitalised on qualifying assets	(21)	(25)
Payments for investments held at fair value	-	(2)
Proceeds from sale of a controlled entity	139	17
Proceeds from disposal of property, plant and equipment	11	7
Proceeds from sale of shares in associate	11	-
Net cash used in investing activities (excluding aircraft operating lease refinancing)	(1,036)	(962)
Aircraft operating lease refinancing	(88)	(153)
Net cash used in investing activities	(1,124)	(1,115)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for share buy-back	(332)	(373)
Payments for treasury shares	(56)	(146)
Proceeds from borrowings	445	346
Repayments of borrowings	(221)	(306)
Dividends paid to shareholders	(168)	(127)
Net cash used in financing activities	(332)	(606)
Net increase/(decrease) in cash and cash equivalents held	(202)	13
Cash and cash equivalents at the beginning of the period	1,694	1,775
Effect of exchange rate changes on cash and cash equivalents	2	(1)
Cash and cash equivalents at the end of the period	1,494	1,787

¹ The Group adopted AASB 15 Revenue from Contracts with Customers effective 1 July 2017 using the full retrospective method of adoption. The comparative period presented above has been restated. Refer to Note 10 for further information.

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

Condensed Notes to the Consolidated Interim Financial Report

For the half-year ended 31 December 2018

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 2018 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 2018 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 2018 was authorised for issue in accordance with a resolution of the Directors on 21 February 2019.

(B) STATEMENT OF COMPLIANCE

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

The Consolidated Interim Financial Report does not include all of the information required for an Annual Financial Report and should be read in conjunction with the Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2018. 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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. In accordance with that Instrument, all financial information presented has been rounded to the nearest million dollars, unless otherwise stated.

(C) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the consolidated interim financial report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018, except for the adoption of new standards effective as of 1 July 2018.

From 1 July 2018, the Group applied, for the first time, AASB 15 *Revenue from Contracts with Customers* which requires retrospective restatement of previous financial statements. The nature and effect of these changes are disclosed in Note 10.

From 1 July 2018, the Group also applied AASB 9 *Financial Instruments: Impairment (2014)*, which has no material impact on the Group's financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(D) COMPARATIVES

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

(E) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In preparing this Report, judgements made by Management in the application of Australian Accounting Standards that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in future periods were the same as those applied to the Qantas Annual Report for the year ended 30 June 2018.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

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

(A) UNDERLYING PROFIT BEFORE TAX (UNDERLYING PBT) AND RECONCILIATION TO STATUTORY PROFIT BEFORE TAX

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

	December 2018 \$M	December 2017 (restated) \$M
Reconciliation of Underlying PBT to Statutory Profit Before Tax		
Underlying PBT	780	959
<i>Items not included in Underlying PBT</i>		
– Transformation costs	(98)	(74)
– Discretionary bonuses to non-executive employees	(19)	(53)
– Net gain on disposal of a controlled entity	37	6
– Net gain on sale/Reversal of impairment of associate	43	–
– Other	(8)	2
Total items not included in Underlying PBT	(45)	(119)
Statutory Profit Before Tax	735	840

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

Items not included in Underlying PBT primarily result from revenues or expenses relating to business activities in other reporting periods, major transformational/restructuring initiatives, transactions involving investments, impairments of assets and other transactions outside the ordinary course of business. In the first half of 2018/19 these included:

- Transformation costs of \$98 million incurred during the year. Transformation costs included redundancy and related costs of \$9 million, fleet restructuring costs of \$72 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet) and other upfront costs of \$17 million directly incurred to enable the delivery of transformation benefits. Fleet restructuring costs include \$42 million of accelerated depreciation recognised as an item outside of Underlying PBT.
- Discretionary bonuses to non-executive employees of \$19 million. The discretionary bonus will be paid to non-executive employees after the employees post wage freeze collective agreement is voted upon and approved.
- The net gain on sale of a controlled entity which related to the sale of Qantas Catering which was completed during the period.
- The net gain on sale/reversal of impairment of associate relates to the Group's investment in Helloworld Travel Limited. The reversal of impairment has been recognised as an item outside of Underlying PBT consistent with the treatment of the original impairment.

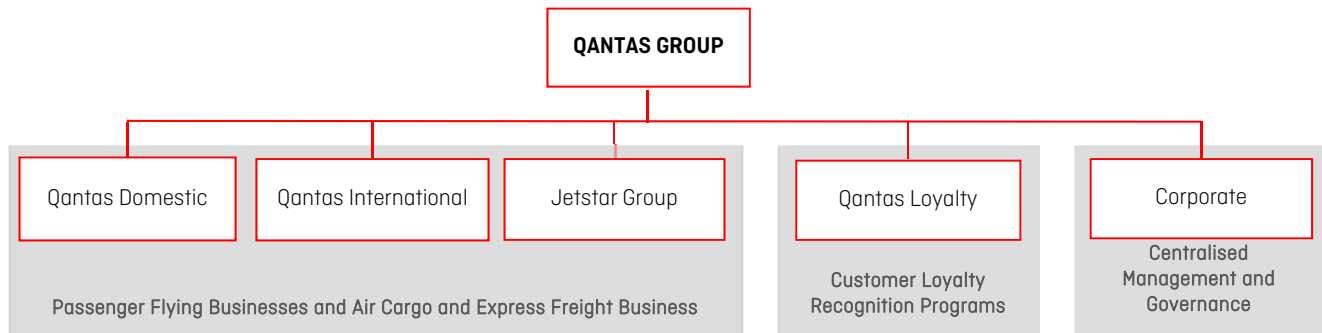
Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

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

(B) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:



i. Underlying EBIT

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

Underlying EBIT is calculated using a consistent methodology as outlined above for Underlying PBT (refer to section A) but excluding the impact of Underlying net finance costs.

ii. Analysis by Operating Segment

December 2018 \$M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations ²	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	2,998	3,486	1,974	726	2	20	9,206
Inter-segment revenue and other income	232	207	74	83	-	(596)	-
Total segment revenue and other income	3,230	3,693	2,048	809	2	(576)	9,206
Share of net profit of investments accounted for under the equity method	4	4	5	-	-	-	13
Underlying EBITDAR¹	821	414	480	194	(86)	(3)	1,820
Non-cancellable aircraft operating lease rentals	(41)	(26)	(68)	-	-	-	(135)
Depreciation and amortisation ³	(327)	(298)	(159)	(19)	(7)	(4)	(814)
Underlying EBIT	453	90	253	175	(93)	(7)	871
Net finance costs					(91)		(91)
Underlying PBT					(184)		780
Twelve Month ROIC %⁴							19.3%

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

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

³ Depreciation and amortisation differs from the depreciation and amortisation recognised in the Consolidated Income Statement due to items not included in Underlying PBT.

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

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

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

ii. Analysis by Operating Segment

December 2017 (restated) \$M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated/ Eliminations ²	Consolidated
REVENUE AND OTHER INCOME							
External segment revenue and other income	2,833	3,251	1,880	684	10	41	8,699
Inter-segment revenue and other income	224	209	69	63	-	(565)	-
Total segment revenue and other income	3,057	3,460	1,949	747	10	(524)	8,699
Share of net profit of investments accounted for under the equity method	2	2	17	-	-	-	21
Underlying EBITDAR¹	807	516	529	183	(87)	(14)	1,934
Non-cancellable aircraft operating lease rentals	(40)	(33)	(68)	-	-	-	(141)
Depreciation and amortisation	(318)	(259)	(146)	(15)	(6)	(3)	(747)
Underlying EBIT	449	224	315	168	(93)	(17)	1,046
Net finance costs					(87)		(87)
Underlying PBT					(180)		959
Twelve Month ROIC %³							20.7%

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

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

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

(C) RETURN ON INVESTED CAPITAL

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

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

i. ROIC EBIT

ROIC EBIT is derived by adjusting Underlying EBIT for the period to exclude non-cancellable aircraft operating lease rentals and include notional depreciation for these aircraft to account for them as if they were owned aircraft.

The objective of this adjustment is to show an EBIT result which is indifferent to the financing or ownership structure of aircraft assets. ROIC EBIT therefore excludes the finance costs implicit within operating lease rental payments.

	Twelve months to 31 December 2018	Twelve months to 31 December 2017 (restated) ²
	\$M	\$M
Underlying EBIT		
- For the six months ended 30 June	701	641
- For the six months ended 31 December	871	1,046
Total Underlying EBIT for the period	1,572	1,687
Add: Non-cancellable aircraft lease rentals for the twelve months ended 31 December	266	305
Less: Notional depreciation ¹ for the twelve months ended 31 December	(113)	(138)
ROIC EBIT for the twelve months ended 31 December	1,725	1,854
Average Invested Capital for the twelve months ended 31 December	8,928	8,967
ROIC %³	19.3%	20.7%

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

² ROIC EBIT has been restated from 1 July 2017 as a result of adoption of AASB 15 Revenue from Contracts with Customers

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

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

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

ii. Average Invested Capital

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

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

	December 2018 \$M	December 2017 (restated) \$M
INVESTED CAPITAL		
Receivables (current and non-current)	1,063	973
Inventories	367	364
Other assets (current and non-current)	653	618
Investments accounted for under the equity method	250	228
Property, plant and equipment	13,263	12,562
Intangible assets	1,161	1,060
Assets classified as held for sale	1	20
Payables	(2,373)	(2,251)
Provisions (current and non-current)	(1,201)	(1,162)
Revenue received in advance (current and non-current)	(5,403)	(5,108)
Capitalised operating leased assets ¹	1,395	1,625
Invested Capital as at 31 December	9,176	8,929
Average Invested Capital for the twelve months ended	8,928	8,967

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

iii. ROIC %

	December 2018 %	December 2017 (restated) %
Twelve month ROIC %¹	19.3	20.7

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

iv. Underlying Earnings per Share

	December 2018 cents	December 2017 (restated) cents
Underlying Earnings per share¹	31.8	38.0

¹ Underlying Earnings per share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 32.2 per cent (2017: 29.2 per cent) divided by the weighted average number of shares during the year.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

3 EARNINGS PER SHARE

	December 2018 cents	December 2017 (restated) cents
Basic earnings per share	30.0	33.3
Diluted earnings per share	30.0	33.3
	\$M	\$M
Statutory profit attributable to members of Qantas	498	595
	Number M	Number M
NUMBER OF SHARES		
Issued shares as at 1 July	1,684	1,808
Shares bought back and cancelled	(58)	(63)
Issued shares as at 31 December	1,626	1,745
Weighted average number of shares as at 31 December	1,662	1,787

4 REVENUE AND OTHER INCOME

The Group's operations and main revenue streams are consistent with those described in the Group's annual consolidated statements for the year ended 30 June 2018. The nature and effect of initially applying AASB 15 on the Group's interim financial statements are disclosed in Note 10.

(i) Revenue and other income by geographic area

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

	December 2018 \$M	December 2017 (restated) \$M
Net passenger and freight revenue		
Australia	6,182	5,878
Overseas	2,370	2,184
Total net passenger and freight revenue	8,552	8,062
Other income	654	637
Total revenue and other income	9,206	8,699

(ii) Other income

	December 2018 \$M	December 2017 (restated) \$M
Frequent Flyer marketing revenue and other Qantas Loyalty businesses	232	209
Third party service revenue	196	206
Qantas store and other redemption revenue ^{1,2}	53	53
Other	173	169
Total other income	654	637

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

² Where the Group acts as an agent for redemptions, an adjustment is made within consolidation eliminations to present these redemptions on a net basis.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

5 OTHER EXPENDITURE

	December 2018 \$M	December 2017 (restated) \$M
Commissions and other selling costs	370	345
Computer and communication	253	237
Capacity hire	152	135
Property	122	126
Non-aircraft operating lease rentals	114	114
Marketing and advertising	92	105
Discretionary bonuses to non-executive employees	19	53
Discount rate and other actuarial assumption changes on employee-related provisions	15	16
Redundancies and related costs	9	34
Inventory write-off	9	5
Contract work materials	8	6
Net (gain)/loss on disposal of property, plant and equipment	(7)	1
Net gain on sale of a controlled entity	(37)	(6)
Net (gain) on sale/(reversal of impairment) of associate	(43)	-
Other	178	200
Total other expenditure	1,254	1,371

6 INCOME TAX EXPENSE

	December 2018 \$M	December 2017 (restated) \$M
RECONCILIATION BETWEEN INCOME TAX EXPENSE AND STATUTORY PROFIT BEFORE INCOME TAX		
Statutory profit before income tax expense	735	840
Income tax expense using the domestic corporate tax rate of 30 per cent	(221)	(252)
Adjusted for:		
Non-assessable share of net profit of investments accounted for under the equity method	1	6
(Non-deductible losses)/non-assessable profits for foreign branches and controlled entities	(8)	3
(Assessable)/non-assessable gain on disposal of controlled entities	(2)	2
Other net (non-deductible) items	-	(2)
(Under) provision from prior periods	(7)	(2)
Income tax expense	(237)	(245)

	December 2018 \$M	December 2017 (restated) \$M
INCOME TAX RECOGNISED DIRECTLY IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Cash flow hedges	217	(76)
Defined benefit actuarial losses	39	3
Income tax expense recognised in the Consolidated Statement of Comprehensive Income	256	(73)

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

7 DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

(A) DIVIDENDS DECLARED AND PAID

In February 2019, the Directors declared a franked interim dividend of 12 cents per ordinary share, totalling \$195 million. The record date for determining entitlements to the interim dividend is 5 March 2019. The dividend will be paid on 28 March 2019.

During the period ended 31 December 2018, the Group paid a fully franked dividend of 10 cents per ordinary share, totalling \$168 million on 10 October 2018.

(B) OTHER SHAREHOLDER DISTRIBUTIONS

In February 2019, the Directors announced an on-market share buy-back of up to \$305 million.

During the half-year ended 31 December 2018, the Group completed an on-market share buy-back of \$332 million, which was announced in August 2018. The Group purchased 57.9 million ordinary shares on issue at an average share price of \$5.73.

8 COMMITMENTS

(A) CAPITAL EXPENDITURE COMMITMENTS

The Group's capital expenditure commitments as at 31 December 2018 are \$9,269 million (30 June 2018: \$12,478 million). The reduction in capital expenditure commitments includes the formal cancellation of the order for eight A380 aircraft. The Group has certain rights within its aircraft purchase contracts which can defer the above capital commitments.

The Group's capital expenditure commitments are predominantly denominated in US Dollars. Reported capital expenditure commitments are translated to the Australian dollar presentational currency at the 31 December 2018 closing exchange rate of \$0.72 (30 June 2018: \$0.74).

(B) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	December 2018 \$M	June 2018 \$M
AS LESSEE		
Finance lease and hire purchase liabilities (included in the Consolidated Balance Sheet)		
Aircraft and engines – payable:		
Not later than one year	149	147
Later than one year but not later than five years	1,120	944
Later than five years	184	404
Total aircraft and engines	1,453	1,495
Less: future lease and hire purchase finance charges and deferred lease benefits	(189)	(207)
Total finance lease and hire purchase liabilities	1,264	1,288
Finance lease and hire purchase liabilities (included in the Consolidated Balance Sheet)		
Current liabilities	114	109
Non-current liabilities	1,150	1,179
Total finance lease and hire purchase liabilities	1,264	1,288

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

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

8 COMMITMENTS (CONTINUED)

(C) OPERATING LEASE COMMITMENTS

	December 2018 \$M	June 2018 \$M
AS LESSEE		
Non-cancellable operating lease commitments		
Aircraft and engines – payable:		
Not later than one year	248	249
Later than one year but not later than five years	595	634
Later than five years	37	58
Total aircraft and engines	880	941
Non-aircraft – payable:		
Not later than one year	163	162
Later than one year but not later than five years	410	395
Later than five years but not later than 10 years	247	290
Later than 10 years	190	272
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	[2]	[2]
Total non-aircraft	1,008	1,117
Total non-cancellable operating lease commitments	1,888	2,058

9 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash, cash equivalents and non-interest-bearing financial assets and liabilities approximates their carrying value due to their short maturity. The fair value of financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

The fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The fair value of options is determined using standard valuation techniques. Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet in accordance with AASB 9.

\$M	December 2018			June 2018 (restated)		
	Carrying Amount Held at		Fair Value	Carrying Amount Held at		Fair Value
	Fair Value Through Profit And Loss	Amortised Cost		Fair Value Through Profit And Loss	Amortised Cost	
Financial assets						
Cash and cash equivalents	–	1,494	1,497	–	1,694	1,699
Receivables	–	1,063	1,063	–	950	950
Other financial assets ¹	339	–	339	586	–	586
Financial liabilities						
Payables	–	2,373	2,373	–	2,220	2,220
Interest-bearing liabilities	–	5,010	5,385	–	4,748	5,079
Other financial liabilities ¹	333	–	333	59	–	59

¹ Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on the Consolidated Balance Sheet in accordance with AASB 9. These derivative financial instruments have been measured at fair value using Level 2 inputs in estimating their fair values.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

10 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

AASB 15 *Revenue from Contracts with Customers* supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and Interpretation 13 *Customer Loyalty Programmes*.

AASB 15 provides a single, principles-based five-step model that applies to all revenue contracts based on the transfer of control of goods and services to customers. AASB 15 requires separation of distinct performance obligations. Revenue is recognised when the performance obligations are satisfied and recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for goods and services.

The Group adopted AASB 15 using the full retrospective method of adoption. The Group's restated Consolidated Balance Sheet and Consolidated Income Statement, which reflect the adoption of AASB 15, are presented in the following tables.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

10 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(A) CONSOLIDATED BALANCE SHEET RESTATEMENT

The impact on the consolidated balance sheet as at 30 June 2017 is:

	30 June 2017 as previously reported \$M	Reclassifications \$M	Remeasurements \$M	30 June 2017 (restated) \$M
CURRENT ASSETS				
Cash and cash equivalents	1,775	-	-	1,775
Receivables	784	(29)	7	762
Other financial assets	100	-	-	100
Inventories	351	-	-	351
Assets classified as held for sale	12	-	-	12
Other	97	-	12	109
Total current assets	3,119	(29)	19	3,109
NON-CURRENT ASSETS				
Receivables	123	5	-	128
Other financial assets	43	-	-	43
Investments accounted for under the equity method	214	-	(4)	210
Property, plant and equipment	12,253	-	-	12,253
Intangible assets	1,025	-	-	1,025
Other	444	-	30	474
Total non-current assets	14,102	5	26	14,133
Total assets	17,221	(24)	45	17,242
CURRENT LIABILITIES				
Payables	2,008	(24)	-	1,984
Revenue received in advance	3,744	-	3	3,747
Interest-bearing liabilities	433	-	-	433
Other financial liabilities	69	-	-	69
Provisions	841	-	-	841
Total current liabilities	7,095	(24)	3	7,074
NON-CURRENT LIABILITIES				
Revenue received in advance	1,424	-	(33)	1,391
Interest-bearing liabilities	4,405	-	-	4,405
Other financial liabilities	56	-	-	56
Provisions	348	-	-	348
Deferred tax liabilities	353	-	24	377
Total non-current liabilities	6,586	-	(9)	6,577
Total liabilities	13,681	(24)	(6)	13,651
Net assets	3,540	-	51	3,591
EQUITY				
Issued capital	3,259	-	-	3,259
Treasury shares	(206)	-	-	(206)
Reserves	12	-	-	12
Retained earnings	472	-	51	523
Equity attributable to the members of Qantas	3,537	-	51	3,588
Non-controlling interests	3	-	-	3
Total equity	3,540	-	51	3,591

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

10 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

The impact on the consolidated balance sheet as at 30 June 2018 is:

	30 June 2018 as previously reported \$M	Reclassifications \$M	Remeasurements \$M	30 June 2018 (restated) \$M
CURRENT ASSETS				
Cash and cash equivalents	1,694	-	-	1,694
Receivables	908	(85)	17	840
Other financial assets	474	-	-	474
Inventories	351	-	-	351
Assets classified as held for sale	118	-	-	118
Other	167	(22)	16	161
Total current assets	3,712	(107)	33	3,638
NON-CURRENT ASSETS				
Receivables	100	10	-	110
Other financial assets	112	-	-	112
Investments accounted for under the equity method	226	-	(4)	222
Property, plant and equipment	12,851	-	-	12,851
Intangible assets	1,113	-	-	1,113
Other	533	22	46	601
Total non-current assets	14,935	32	42	15,009
Total assets	18,647	(75)	75	18,647
CURRENT LIABILITIES				
Payables	2,295	(75)	-	2,220
Revenue received in advance	3,939	-	73	4,012
Interest-bearing liabilities	404	-	-	404
Other financial liabilities	34	-	-	34
Provisions	853	-	-	853
Income tax liabilities	7	-	-	7
Liabilities held for sale	64	-	-	64
Total current liabilities	7,596	(75)	73	7,594
NON-CURRENT LIABILITIES				
Revenue received in advance	1,446	-	(34)	1,412
Interest-bearing liabilities	4,344	-	-	4,344
Other financial liabilities	25	-	-	25
Provisions	367	-	-	367
Deferred tax liabilities	910	-	12	922
Total non-current liabilities	7,092	-	(22)	7,070
Total liabilities	14,688	(75)	51	14,664
Net assets	3,959	-	24	3,983
EQUITY				
Issued capital	2,508	-	-	2,508
Treasury shares	(115)	-	-	(115)
Reserves	479	-	-	479
Retained earnings	1,084	-	24	1,108
Equity attributable to the members of Qantas	3,956	-	24	3,980
Non-controlling interests	3	-	-	3
Total equity	3,959	-	24	3,983

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

10 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(B) CONSOLIDATED INCOME STATEMENT RESTATEMENT

The impact on the consolidated income statement for the six months ended 31 December 2017 is:

	31 December 2017 as previously reported \$M	Reclassifications \$M	Remeasurements \$M	31 December 2017 (restated) \$M
REVENUE AND OTHER INCOME				
Net Passenger Revenue	7,493	115	(1)	7,607
Net Freight Revenue	440	15	-	455
Other	727	(74)	(16)	637
Revenue and other income	8,660	56	(17)	8,699
EXPENDITURE				
Manpower and staff related	2,141	(6)	-	2,135
Aircraft operating variable	1,823	29	-	1,852
Fuel	1,547	-	-	1,547
Depreciation and amortisation	747	-	-	747
Non-cancellable aircraft operating lease rentals	141	-	-	141
Share of net (profit)/loss of investments accounted for under the equity method	(21)	-	-	(21)
Other	1,338	33	-	1,371
Expenditure	7,716	56	-	7,772
Statutory profit before income tax expense and net finance costs	944	-	(17)	927
Net finance costs	(87)	-	-	(87)
Income tax expense	(250)	-	5	(245)
Statutory profit for the period	607	-	(12)	595

The impact on the consolidated income statement for the year ended 30 June 2018 is:

	30 June 2018 as previously reported \$M	Reclassifications \$M	Remeasurements \$M	30 June 2018 (restated) \$M
REVENUE AND OTHER INCOME				
Net Passenger Revenue	14,715	238	(9)	14,944
Net Freight Revenue	862	33	-	895
Other	1,483	(164)	(30)	1,289
Revenue and other income	17,060	107	(39)	17,128
EXPENDITURE				
Manpower and staff related	4,300	(9)	-	4,291
Aircraft operating variable	3,596	57	-	3,653
Fuel	3,232	-	-	3,232
Depreciation and amortisation	1,528	-	-	1,528
Non-cancellable aircraft operating lease rentals	272	-	-	272
Share of net (profit)/loss of investments accounted for under the equity method	(15)	-	-	(15)
Other	2,574	59	-	2,633
Expenditure	15,487	107	-	15,594
Statutory profit before income tax expense and net finance costs	1,573	-	(39)	1,534
Net finance costs	(182)	-	-	(182)
Income tax expense	(411)	-	12	(399)
Statutory profit for the period	980	-	(27)	953

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

10 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(C) CASHFLOW RESTATEMENT

The adoption of AASB 15 had no impact to Cash Flow from Operations, Cash Flow from Investing Activities, Cash Flow from Financing Flows or net movements in cash. Reclassifications between 'Cash receipts from customers' and 'Payment to suppliers and employees' have resulted from reclassifications between income and expenditure in the Consolidated Income Statement.

(D) EARNINGS PER SHARE

The impact on basic and diluted EPS is as follows:

	31 December 2017 as previously reported	Remeasurements	31 December 2017 (restated)
Basic earnings per share (cents)	34.0	(0.7)	33.3
Diluted earnings per share (cents)	34.0	(0.7)	33.3

The Group has identified the following significant changes to revenue recognition accounting policies on adoption of the standard:

(i) Allocation of revenue

AASB 15 requires the allocation of a transaction price to distinct performance obligations based on their relative stand-alone selling prices.

As such, the allocation of revenue between passenger travel and Qantas Points changed at a Group level under the new revenue standard. Previously, revenue was allocated using the residual method. Under AASB 15, the allocation changed to a proportional basis based on the relative stand-alone selling prices. This has resulted in a higher allocation to passenger travel at a Group level, which is recognised earlier than the redemption of the Qantas Points earned on that travel.

(ii) Net passenger revenue – Ancillary services

AASB 15 requires the identification of distinct performance obligations and where performance obligations are not distinct, an entity shall combine them and account for them as a single performance obligation.

Under AASB 15, revenue associated with certain ancillary services related to passenger travel such as credit card fees and change fees are not considered to be distinct from the passenger flight. Revenue relating to these ancillary services has been deferred from booking until uplift to align with the recognition of revenue from the related passenger travel.

(iii) Frequent Flyer Revenue

AASB 15 provides new guidance for the accounting for Qantas Points issued which are expected to expire unredeemed, which results in revenue being recognised earlier than under previous accounting standards.

The impact of this change has resulted in an increase in revenue recognised in reporting periods prior to the transition to AASB 15 (recognised as an increase in retained earnings as at 1 July 2017) but a decrease in revenue recognised in reporting periods following the transition to AASB 15. This change is expected to have a declining impact in future periods.

The adoption of AASB 15 also aligns the pattern of recognition of certain incentives with the principal activity to which the incentive related.

(iv) Principal versus agent considerations

AASB 15 provides additional guidance for determining whether the Group is acting as a principal or an agent in an arrangement. As a result, some revenue streams are recognised net of related costs rather than on a gross basis where the Group is acting as an agent. This results in lower revenue and lower expenses being presented, with no net impact on the Group Consolidated Income Statement.

For some other revenue streams such as Freight interline revenue, revenue is presented on a gross basis rather than net of related costs where the Group is acting as a principal. This means there are higher revenues and higher expenses being presented with no net impact on the Group Consolidated Income Statement.

The timing of revenue recognition for some revenue streams where the Group is acting as an agent have changed to align with the principal performance obligations associated with the services provided to the principal.

For the purposes of segment reporting the Qantas Loyalty segment continues to report Frequent Flyer redemptions on a gross basis. Frequent Flyer redemption revenue for Qantas Group flights is recognised within Net Passenger Revenue at a Group level. Additionally under AASB 15, where the Group acts as an agent for Frequent Flyer redemptions, an adjustment is made within consolidation eliminations to present these redemptions on a net basis within Other Revenue.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2018

10 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(v) Other adjustments

In addition to the adjustments described above, upon adoption of AASB 15, other items of the primary financial statements such as investments in associates, share of profit of associates, deferred taxes and income tax expense were adjusted as necessary.

Together with the adoption of AASB 15, the Group reviewed the presentation of revenue transactions which resulted in some changes to descriptions and classification which have no net impact on statutory profit.

11 POST BALANCE DATE EVENTS

Other than as noted in Note 7 - Dividends and Other Shareholder Distributions, there has not arisen in the interval between 31 December 2018 and the date of this Report any other event that would have had a material effect on the Consolidated Interim Financial Report as at 31 December 2018.



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 2018 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, except as set out below:

An immediate family member of a KPMG Partner in the office of the KPMG Lead Audit Engagement Partner recently became aware of 885 shares held by the immediate family member in Qantas Airways Limited. As a result, there was an inadvertent breach by KPMG of paragraph 290.108 of the APES 110 Code of Ethics for Professional Accountants. The KPMG Partner is not a member of the KPMG review team. The immediate family member disposed of this interest on 15 February 2019.

KPMG
Sydney
21 February 2019

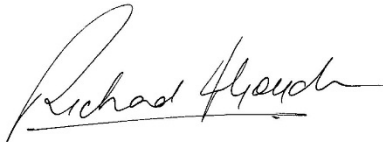
Andrew Yates
Partner

DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

- (a) the Consolidated Interim Financial Report and notes set out on pages 15 to 35 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 2018 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - ii. complying with *Australian Accounting Standard AASB 134: Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that Qantas Airways Limited and its controlled entities will be able to pay its debts as and when they become due and payable.

Signed pursuant to a Resolution of the Directors:



RICHARD GOYDER, AO
Chairman



ALAN JOYCE, AC
Chief Executive Officer

Sydney
21 February 2019



Independent Auditor's Review Report

To the members of Qantas Airways Limited

Conclusion

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

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

- i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the Interim Period ended on that date; and
- ii) complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The Interim Financial Report comprises:

- the Consolidated Balance Sheet as at 31 December 2018;
- the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the Interim Period ended on that date;
- notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information; and
- the Directors' declaration.

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

The Interim Period is the six months ending on 31 December 2018.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- 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 for the review of the Interim Financial Report

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 2018 and its performance for the Interim Period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. 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 period 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*.

KPMG
Sydney
21 February 2019

Andrew Yates
Partner

Operational Statistics

For the half-year ended 31 December 2018

(unaudited)		December 2018	December 2017 ¹ (restated)	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK)				
Passengers carried	'000	11,417	11,466	(0.4%)
Revenue Passenger Kilometres (RPK)	M	13,788	13,923	(1.0%)
Available Seat Kilometres (ASK)	M	17,314	17,681	(2.1%)
Revenue seat factor	%	79.6	78.7	0.9pts
JETSTAR DOMESTIC				
Passengers carried	'000	7,208	7,041	2.4%
Revenue Passenger Kilometres (RPK)	M	8,511	8,246	3.2%
Available Seat Kilometres (ASK)	M	9,693	9,536	1.6%
Revenue seat factor	%	87.8	86.5	1.3pts
GROUP DOMESTIC				
Group Domestic Available Seat Kilometres	M	27,007	27,217	(0.8%)
Group Domestic Unit Revenue				6.1%
QANTAS INTERNATIONAL				
Passengers carried	'000	4,428	4,170	6.2%
Revenue Passenger Kilometres (RPK)	M	30,044	29,302	2.5%
Available Seat Kilometres (ASK)	M	35,151	34,714	1.3%
Revenue seat factor	%	85.5	84.4	1.1pts
JETSTAR INTERNATIONAL				
Passengers carried	'000	3,238	3,245	(0.2%)
Revenue Passenger Kilometres (RPK)	M	9,389	9,715	(3.4%)
Available Seat Kilometres (ASK)	M	10,740	11,358	(5.4%)
Revenue seat factor	%	87.4	85.5	1.9pts
JETSTAR ASIA				
Passengers carried	'000	2,209	2,216	(0.3%)
Revenue Passenger Kilometres (RPK)	M	3,226	3,326	(3.0%)
Available Seat Kilometres (ASK)	M	3,956	3,951	0.1%
Revenue seat factor	%	81.5	84.2	(2.7pts)
GROUP INTERNATIONAL				
Group International Available Seat Kilometres	M	49,847	50,023	(0.4%)
Group International Unit Revenue				5.4%
QANTAS GROUP OPERATIONS				
Passengers carried	'000	28,500	28,138	1.3%
Revenue Passenger Kilometres (RPK)	M	64,958	64,512	0.7%
Available Seat Kilometres (ASK)	M	76,854	77,240	(0.5%)
Revenue seat factor	%	84.5	83.5	1.0pts
Group Unit Revenue	c/ASK	8.94	8.45	5.7%
Aircraft in service at end of period	#	315	310	5
EMPLOYEES				
Full-time equivalent employees at end of period (FTE)	#	29,359	29,924	(565)

¹ Unit revenue metrics have been restated to align with the first time adoption of AASB15.