QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

APPENDIX 4D AND
CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2016

ABN 16 009 661 901

ASX CODE: QAN

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Results for announcement to the market

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

	December 2016 $M	December 2015 $M	Change $M	Change %
Revenue and other income	8,184	8,463	(279)	(3.3)
Statutory profit after tax	515	688	(173)	(25.1)
Statutory profit after tax attributable to members of Qantas	515	688	(173)	(25.1)
Underlying profit before tax	852	921	(69)	(7.5)

DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

(A) Dividends disclosed and paid

The Group paid a fully franked dividend of seven cents per ordinary share, totalling $134 million (2015: nil) on 12 October 2016.

The Directors have declared a fifty per cent franked interim dividend of seven cents per ordinary share for the period, totalling $128 million (2015: nil). The record date for determining entitlements to the interim dividend is 8 March 2017. The dividend will be paid on 10 April 2017. For non-Australian shareholders, no Dividend Withholding Tax will be withheld as Conduit Foreign Income (CFI) credits will be attached to the unfranked portion.

(B) Other shareholder distributions

On 24 August 2016, the Group announced an on-market buy-back of up to $366 million. As of 31 December 2016, the Group has purchased $275 million of ordinary shares on issue at a weighted average share price of $3.16. The remaining $91 million of the announced buy-back will be completed during the second half of 2016/17.

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 2016. 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 2016	June 2016
Net assets per ordinary share[1]	$	2.01	1.70
Net tangible assets per ordinary share[1]	$	1.65	1.20

		December 2016	December 2015
Basic/diluted earnings per share (cents)	$	27.3	31.9
Underlying PBT per share (cents)	$	45.1	42.7

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

Other information continued

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

Jetstar Hong Kong Airways (liquidated on 18 August 2016)
Jetstar International Group Holdings Co Limited (commenced liquidation on 25 November 2016)

OWNERSHIP INTEREST IN INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	December 2016 %	June 2016 %
Fiji Resorts Limited	21	21
Hallmark Aviation Services L.P.	49	49
HT & T Travel Philippines, Inc.	28	28
Holiday Tours and Travel (Thailand) Ltd	37	37
Holiday Tours and Travel Vietnam Co. Ltd	37	37
Holiday Tours and Travel (GSA) Ltd	37	37
Helloworld Limited [1]	18	19
Jetstar Japan Co., Ltd.	33	33
Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
PT Holidays Tours & Travel	37	37
Data Republic	15	15

1 In October 2016, the Group's shareholding was further reduced to 17.77% following an institutional placement of shares.

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2016 and the Independent Auditor's Review Report thereon.

Directors

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

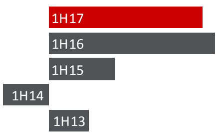
Name	Period of Directorship
Leigh Clifford, AO *Chairman*	*Current, appointed 9 August 2007 – appointed Chairman 14 November 2007*
Alan Joyce *Chief Executive Officer*	*Current, appointed 28 July 2008 – appointed Chief Executive Officer 28 November 2008*
Maxine Brenner	*Current, appointed 29 August 2013*
Richard Goodmanson	*Current, appointed 19 June 2008*
Jacqueline Hey	*Current, appointed 29 August 2013*
Michael L'Estrange, AO	*Current, appointed 7 April 2016*
William Meaney	*Current, appointed 15 February 2012*
Paul Rayner	*Current, appointed 16 July 2008*
Todd Sampson	*Current, appointed 25 February 2015*
Barbara Ward, AM	*Current, appointed 19 June 2008*

Review of Operations

RESULT HIGHLIGHTS

Underlying profit before tax

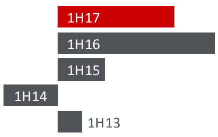
852 $M



1H17	**852**
1H16	921
1H15	367
1H14	(252)
1H13	220

Statutory profit after tax

515 $M



1H17	**515**
1H16	688
1H15	206
1H14	(235)
1H13	109

Rolling twelve month Return On Invested Capital

21.7 %

1H17	**21.7%**
FY16	22.7%
1H16	22.8%
FY15	16.2%
1H15	4.1%

The Qantas Group reported an Underlying Profit Before Tax[1] of $852 million for the six months ended 31 December 2016, a reduction of $69 million from the first half of 2015/16 delivering a Group Return on Invested Capital (ROIC)[2] of 21.7 per cent. The Group's Statutory Profit After Tax of $515 million included $137 million of costs which were not included in Underlying PBT. These costs primarily consisted of redundancies, restructuring and other costs associated with the ongoing Qantas Transformation Program.

The Group is delivering against its strategy to maximise long-term shareholder value; building on our leading position in the Australian domestic market, growing non-cyclical earnings at Qantas Loyalty, aligning Qantas and Jetstar with the rise of Asia and investing in our people and our customers. Over the first half of 2016/17, strategic highlights included:

- Targeted capacity adjustments resulting in stable margins[3] being maintained across Group Domestic [4]
- All segments delivering ROIC greater than Weighted Average Cost of Capital (WACC) [5]
- Record Jetstar Group earnings[6]
- Record earnings[7] from Qantas Loyalty providing a diversified earnings stream

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

2 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.

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

4 Includes Qantas Domestic and Jetstar Domestic.

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

6 Based on Underlying EBIT.

7 Based on Underlying EBIT, when normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.

Review of Operations continued

For the half-year ended 31 December 2016

The Qantas Transformation Program delivered $212 million of benefits over the first half of 2016/17 bringing the total benefits delivered under the Qantas Transformation Program to $1.9 billion. The Group continues to target $2.1 billion of benefits delivered by the end of financial year 2016/17, up from the $2 billion originally announced.

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

– Net debt[8] of $5.97 billion remained within the target range of $4.8 billion to $6 billion[9], with capital expenditure for 2017/16 weighted to the first half
– Investment grade credit rating with Standard and Poor's and Moody's Investor Services
– Cost of capital minimised by using cash in excess of short-term requirements to refinance operating leases
– $409 million returned to shareholders in the first half of 2016/17 through an on-market share buy-back of $275 million and a fully franked seven cents per share ordinary dividend totalling $134 million paid in October 2016
– $219 million in capital management initiatives will be returned to shareholders, including a continued seven cents per share ordinary dividend totalling $128 million and the completion of the on-market buy-back announced in August 2016 ($91 million remaining)

The Group achieved a strong earnings performance in mixed global trading conditions, with a stable Operating Margin of 12 per cent. This was realised through Total Unit Cost[10] improvement of five per cent which offset a five per cent decrease in Unit Revenue[11].

The Qantas Group is an integrated portfolio of businesses with leading market positions. All segments continue to deliver ROIC greater than 10 per cent, with the portfolio benefiting from stable earnings from the Domestic airlines and Loyalty segment.

– The Group's Domestic airlines, comprising of Qantas Domestic and Jetstar Domestic, continue to remain the highest and second highest margin airlines in the structurally advantaged domestic market. The Qantas Transformation Program continues to improve this leading position.
– The Group's International airlines including Qantas International, Jetstar International and Jetstar Asia, continue to grow in attractive markets through increased utilisation of existing Group fleet. Through the Group's alliance partnerships it has been able to extend its network with limited capital investment.
– Qantas Freight has the highest domestic freight market share and it is well positioned to tap into the growing Australia to China freight market.
– Qantas Loyalty with its 11.6 million member base is the leading loyalty program in Australia. During the first half of 2016/17 Qantas Loyalty launched a new and improved Woolworths program and continues to grow through a diversified portfolio.

FINANCIAL FRAMEWORK ALIGNED WITH SHAREHOLDER OBJECTIVES

The Group's 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 aims to deliver Total Shareholder Returns (TSR) in the top quartile of the ASX100 and a basket of global airlines[12], the Financial Framework has three clear priorities and associated long-term targets:

1. Maintaining an Optimal Capital Structure	2. ROIC > WACC Through the Cycle	3. Disciplined Allocation of Capital
Minimise cost of capital by targeting a net debt range of $4.8 billion to $6 billion	Deliver ROIC > 10 per cent through the cycle	Grow Invested Capital with disciplined investment, return surplus capital

MAINTAINABLE EPS GROWTH OVER THE CYCLE

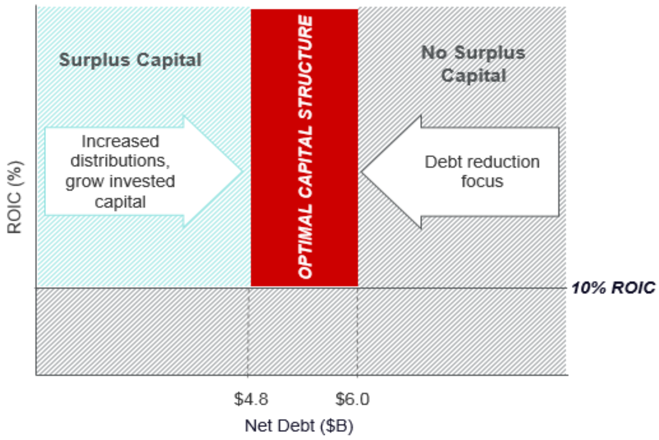
TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE

8 Net debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. Capitalised operating lease liabilities are measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis akin to a finance lease.
9 Target range calculated based on approximately $9 billion of invested capital.
10 Total Unit Cost is calculated as Underlying PBT less ticketed passenger revenue per available seat kilometre (ASK).
11 Unit Revenue is calculated as ticketed passenger revenue per ASK.
12 Target Total Shareholder Returns within the top quartile of the ASX100 and global listed airline peer group as stated in the 2016 Annual Report, with reference to the 2016-2018 Long Term Incentive Plan (LTIP).

Review of Operations continued

For the half-year ended 31 December 2016

1. Maintaining an Optimal Capital Structure



- The Group's Financial Framework targets an optimal capital structure with a net debt range of between $4.8 billion and $6 billion, based on the current level of capital invested. This capital structure lowers the Group's cost of capital, preserves financial strength, and therefore enhances long-term shareholder value.
- Net Debt was $5.97 billion as at 31 December 2016, with capital expenditure for 2016/17 weighted to the first half. This is within the Group's target range.
- Capital allocation decisions, including distributions to shareholders are sized to ensure the Group remains within the target net debt range on a forward basis.
- The Group's optimal capital structure is consistent with investment grade credit metrics from Standard & Poor's and Moody's Investor Services.

2. ROIC > WACC Through the Cycle

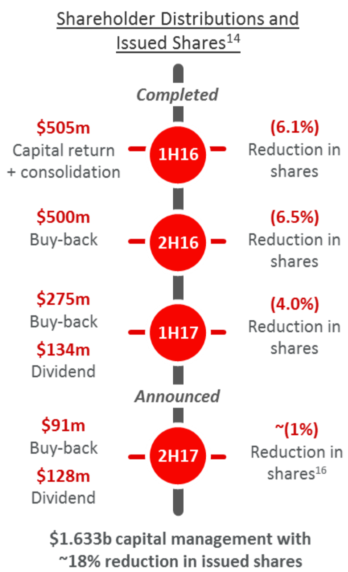
Rolling twelve month Return On Invested Capital

21.7 %

1H17	**21.7%**
FY16	22.7%
1H16	22.8%
FY15	16.2%
1H15	4.1%

The rolling twelve month Return on Invested Capital (ROIC) was 21.7 per cent. With efficient use of capital, increased fleet utilisation and cost reduction through the Qantas Transformation Program, ROIC was above the Group's threshold of ROIC greater than 10 per cent.

3. Disciplined Allocation of Capital



The Qantas Group takes a disciplined approach to allocating capital with the aim to grow invested capital and return surplus to shareholders.

- Net capital expenditure[13] of $1 billion was invested during the first half of 2016/17
- The Group paid a fully franked dividend of seven cents per ordinary share, totalling $134 million and returned $275 million to shareholders in the first half through an on-market share buy-back. This resulted in a further four per cent reduction in shares on issue.[14]
- $327 million cash in excess of short-term liquidity requirements was used to refinance nine aircraft out of maturing operating leases.

For the second half of 2016/17, the Group will return $219 million in capital management initiatives to shareholders including a fifty per cent franked[15] interim dividend of seven cents per ordinary share totalling $128 million and the completion of the on-market buy-back announced in August 2016 ($91 million remaining). This will result in an approximate one per cent further reduction in shares on issue.[16]

Where there is a surplus, the Group will distribute a dividend every six months to be supplemented with other capital initiatives should additional surplus exist.

13 Net capital expenditure is equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) plus the impact to invested capital of commencing new aircraft operating leases.
14 Reduction in shares on issue calculated against balance as at 1 July 2015.
15 Conduit Foreign Income (CFI) credits are attached to the full unfranked portion so no withholding tax will need to be deducted for foreign shareholders.
16 Indicative reduction in shares calculated using the closing price on the 21 February 2017 of $3.48.

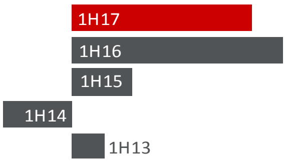
Review of Operations continued

For the half-year ended 31 December 2016

Maintainable EPS Growth over the Cycle

Statutory Earnings Per Share

27.3 cents



1H17	**27.3**
1H16	31.9
1H15	9.2
1H14	(10.6)
1H13	4.8

Statutory earnings per share was 27.3 cents for the first half of 2016/17 with Statutory Profit After Tax of $515 million and a 16.6 per cent reduction in shares on issue since 30 June 2015.

UNDERLYING PBT

The Qantas Group achieved an Underlying PBT of $852 million in the first half of 2016/17. This strong earnings result was driven by the continued delivery of benefits from the Qantas Transformation Program, targeted capacity changes in both the domestic and international markets and the benefits of lower fuel prices captured by the Group's disciplined hedging program.

Net passenger revenue decreased by three per cent, primarily reflecting a $50 million reduction in the domestic resource market and continued international yield pressure. Transformation benefits offset inflation and the cost of additional capacity resulting in flat operating expenses (excluding fuel). A reduction in the Group's fuel expense was driven by lower AUD fuel prices and fuel efficiency measures in the Qantas Transformation Program.

Group Underlying Income Statement Summary	December 2016 $M	December 2015 $M	Change $M	Change %
Net passenger revenue	7,064	7,307	(243)	(3)
Net freight revenue	416	458	(42)	(9)
Other revenue	704	698	6	1
Total Revenue	8,184	8,463	(279)	(3)
Operating expenses (excluding fuel) [17]	(4,885)	(4,883)	(2)	–
Fuel[17]	(1,489)	(1,716)	227	13
Depreciation and amortisation	(677)	(585)	(92)	(16)
Non-cancellable aircraft operating lease rentals	(192)	(254)	62	24
Share of net profit / (loss) of investments accounted for under the equity method	8	6	2	33
Total Expenditure	(7,235)	(7,432)	197	3
Underlying EBIT	949	1,031	(82)	(8)
Net finance costs	(97)	(110)	13	12
Underlying PBT	852	921	(69)	(7)

Operating Statistics		December 2016	December 2015	Change	Change %
Available Seat Kilometres (ASK)[18]	M	75,732	74,650	1,082	1.4
Revenue Passenger Kilometres (RPK)[19]	M	61,348	60,652	696	1.1
Passengers carried	'000	26,758	26,211	547	2.1
Revenue seat factor[20]	%	81.0	81.2	(0.2 pts)	(0.2)
Unit Revenue (RASK)	c/ASK	8.02	8.46	(0.44)	(5)
Total Unit Cost	c/ASK	(6.90)	(7.23)	0.33	5
Ex-fuel Unit Cost[21]	c/ASK	(5.00)	(4.90)	(0.10)	(2)

17 Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT. Operating expenses exclude $138 million of items which have been identified by management as not representing the underlying performance of the business. Fuel expenses excludes a $1 million gain relating to mark-to-market movements being recognised in a different period to the Underlying exposure.
18 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
19 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
20 Revenue Seat Factor – RPK divided by ASK. Also known as seat factor, load factor or load.
21 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 actuarial assumptions per ASK.

Review of Operations continued

For the half-year ended 31 December 2016

Group capacity (Available Seat Kilometres) increased by 1.4 per cent, and demand (Revenue Passenger Kilometres) increased by 1.1 per cent, resulting in a stable Revenue Seat Factor. Unit Revenue decreased five per cent as a result of intensified competitive pressures in the international market, while Qantas Domestic continues to adjust to softening demand in the resources sector. The Group's Ex-fuel Unit Cost increased by two per cent with the down gauging of fleet in Qantas Domestic to protect margin. Down gauging aircraft in the resource markets increased Ex-fuel Unit Cost while protecting Unit Revenue.

CONTINUED DELIVERY OF BUSINESS TRANSFORMATION

The Group has delivered total benefits from the Qantas Transformation Program of $1.9 billion as at 31 December 2016. Since implementing the program in 2013/14, ex-fuel expenditure has been reduced by nine per cent[22] and all major milestones have been met on time or exceeded.

In the first half of 2016/17 Transformation benefits of $212 million were achieved, which consisted of:

- Cost reduction of $141 million, including $15 million of fuel efficiency benefits
- Net revenue benefits of $71 million

The target metrics and progress to date as at 31 December 2016 include:

		Target		Progress to Date
		Metric	Timeframe	
ACHIEVING OUR TARGETS	Accelerated Transformation Benefits	$2.1 billion gross benefits >10 per cent[23] Group ex-fuel expenditure reduction	2016/17	$1.9 billion benefits realised Ex-fuel expenditure reduced by 9 per cent
		5,000 FTE	2016/17	4,735 FTE reduction[24]
	Deleverage Balance Sheet	>$1 billion debt reduction[25]	2014/15	Delivered on schedule
		Debt/EBITDA[26]<3.5 times FFO/net debt[27] > 45 per cent	2016/17	Delivered ahead of schedule
	Cash Flow	Sustainable positive free cash flow[28]	2014/15 onwards	Delivered on schedule
	Fleet Simplification	11 fleet types to seven	2015/16	Eight fleet types Retaining two x non-reconfigured B747
	Customer and Brand	Customer Advocacy (NPS)	Ongoing	Strong NPS results across the business[29]
		Maintain premium on-time performance Qantas Domestic	Ongoing	Premium on-time performance at 86 per cent with shorter turn times[30]

The Group-wide policy of implementing an 18-month wage freeze, whilst not included as part of the Qantas Transformation Program, is helping to offset inflation, build a more competitive and sustainable wage position going forward and closes the gap against our major domestic competitors. Thirty eight agreements have been closed with the wage freeze, including eight which closed in the first half of 2016/17.

22 Includes Underlying operating expenses (excluding fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable aircraft operating lease rentals, adjusted for movements in FX rates and capacity. First half 2016/17 compared to first half 2013/14.
23 Target assumes steady foreign exchange rates and capacity.
24 Actioned Full Time Equivalent employee reduction as at 31 December 2016.
25 Reduction in net debt including capitalised operating lease liabilities.
26 Management's estimate based on Moody's methodology.
27 Management's estimate based on Standard and Poor's methodology.
28 Net free cash flow – operating cash flows less investing cash flows (excluding Aircraft operating lease refinancing). Net free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.
29 Measured as Average first half 2016/17 Net Promoter Score based on Qantas internal reporting.
30 Qantas mainline operations (excluding QantasLink) for the period first half 2016/17 compared to financial year 2015/16. Source: BITRE.

Review of Operations continued

For the half-year ended 31 December 2016

CASH GENERATION

Cash Flow Summary	December 2016 $M	December 2015 $M	Change $M	Change %
Operating cash flows	1,173	1,373	(200)	(15)
Investing cash flows (excluding aircraft operating lease refinancing)	(885)	(603)	(282)	(47)
Net free cash flow	**288**	**770**	**(482)**	**(63)**
Aircraft operating lease refinancing	(327)	(587)	260	44
Financing cash flows	(271)	(807)	536	66
Cash at beginning of the period	1,980	2,908	(928)	(32)
Effect of foreign exchange on cash	(2)	7	(9)	>(100)
Cash at the end of the period	1,668	2,291	(623)	(27)

Debt Analysis	December 2016 $M	June 2016 $M	Change $M	Change %
Net on balance sheet debt[31]	3,421	2,880	541	19
Capitalised operating lease liabilities[32]	2,546	2,766	(220)	(8)
Net debt[33]	5,967	5,646	321	6

The Qantas Group generated $288 million of net free cash flow in the period.

Operating cash flows of $1.2 billion decreased slightly from the prior period, with the prior period including a $185 million inflow from the sale of Sydney Airport Terminal Three.

Net capital expenditure[34] was $1 billion which included investing cash flows (excluding operating lease refinancing) of $885 million and new operating leases of $138 million. This included investment in two A321-200 aircraft for Jetstar, three F100 aircraft for Qantas Domestic and the deposits on the B787-9 for Qantas International. It also included customer experience initiatives such as airport lounges and the completion of the Airbus A330 and Boeing 737 cabin reconfigurations.

Financing cash flows of $271 million included proceeds from borrowings of $422 million, scheduled debt repayments of $227 million and $409 million returned to shareholders in the first half of 2016/17.

With reduced financial leverage and minimal near-term refinancing risk, the Group continues to optimise the mix of liquidity, lessening the requirement for short-term liquidity held in cash. The Group used excess cash to purchase aircraft out of maturing operating leases, reducing the cash at period end which resulted in a significant unencumbered aircraft pool worth over US$3.8 billion[35]. Qantas continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changes in market conditions.

FLEET

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

At 31 December 2016, the Qantas Group fleet[36] totalled 308 aircraft. During the first half of financial year 2016/17, the Group added five aircraft to the fleet:

- Qantas – three Fokker 100 aircraft
- Jetstar – two A321-200 aircraft

The Qantas Group's scheduled passenger fleet average age is within the targeted 8-10 year range.

31 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents.
32 Capitalised operating lease liabilities are measured at fair value at the lease commencement date and remeasured over the lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate.
33 Net debt includes on balance sheet debt and capitalised aircraft operating lease liabilities under the Group's Financial Framework.
34 Equal to investing cash flows, excluding aircraft operating lease refinancing adjusted for the notional value of operating lease aircraft disposals/acquisitions.
35 Based on AVAC market values.
36 Includes Jetstar Asia, Qantas Freight and Network Aviation and excludes aircraft owned by Jetstar Japan and Jetstar Pacific.

Review of Operations continued

For the half-year ended 31 December 2016

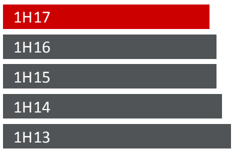
SEGMENT PERFORMANCE

Segment Performance Summary	December 2016 $M	December 2015 $M	Change $M	Change %
Qantas Domestic	371	387	(16)	(4)
Qantas International	208	270	(62)	(23)
Jetstar Group	275	262	13	5
Qantas Freight	27	38	(11)	(29)
Qantas Loyalty	181	176	5	3
Corporate	(88)	(83)	(5)	(6)
Unallocated/Eliminations	(25)	(19)	(6)	(32)
Underlying EBIT	949	1,031	(82)	(8)
Net finance costs	(97)	(110)	13	12
Underlying PBT	852	921	(69)	(7)

QANTAS DOMESTIC

Revenue

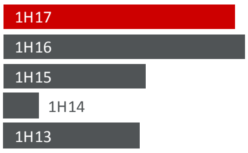
2,916 $M



1H17	**2,916**
1H16	3,007
1H15	3,007
1H14	3,086
1H13	3,220

Underlying EBIT

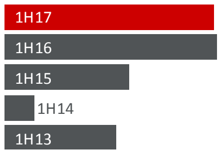
371 $M



1H17	**371**
1H16	387
1H15	227
1H14	57
1H13	218

Operating Margin

12.7 %



1H17	**12.7%**
1H16	12.9%
1H15	7.5%
1H14	1.8%
1H13	6.8%

Metrics		December 2016	December 2015	Change
ASKs	M	18,254	18,536	(1.5%)
Seat factor	%	77.3	76.5	0.8pts

Qantas Domestic reported an Underlying EBIT of $371 million. Highlights of the result included:

- Improving revenue trend from a first quarter Unit Revenue decline to a flat Unit Revenue movement in the second quarter
- Record customer advocacy (NPS)[37] result
- Proactive capacity management resulting in a stable Operating Margin

Qantas Domestic has reduced resource-related capacity by 13 per cent by down gauging aircraft in response to changing resource sector demand. Resource related passenger revenue was down $50 million[38] compared to first half of 2015/16. Non-resource market capacity was flat in the period with strong business and premium leisure market growth offsetting East-West[39] capacity moderation. Qantas Domestic achieved a record customer advocacy (NPS) result with investment in B737 and A330 cabin upgrades and strong on-time performance. As part of the broader Group lounge upgrade program the Domestic Business Lounge and Qantas Club in Brisbane will be opening by mid-2017. With ongoing innovation and focus on speed and ease of travel, in flight Wi-Fi will be rolled out on Qantas Domestic aircraft from March 2017.

37 Average first-half Net Promotor Score based on internal Qantas reporting.
38 Regular Public Transport (RPT) resources routes ticketed passenger revenue compared to first half 2015/16.
39 Flying from the Australian East Coast to the Australian West Coast and vice versa.

Review of Operations continued

For the half-year ended 31 December 2016

QANTAS INTERNATIONAL

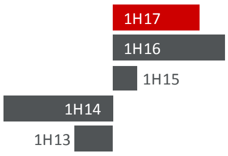
Revenue

2,841 $M

1H17	**2,841**
1H16	2,953
1H15	2,748
1H14	2,621
1H13	2,818

Underlying EBIT

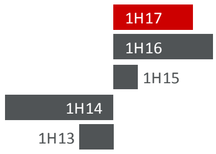
208 $M



1H17	**208**
1H16	270
1H15	59
1H14	(262)
1H13	(91)

Operating Margin

7.3 %



1H17	**7.3%**
1H16	9.1%
1H15	2.1%
1H14	(10.0%)
1H13	(3.2%)

METRICS		December 2016	December 2015	Change
ASKs	M	32,756	31,492	4.0%
Seat factor	%	81.3	83.3	(2.0pts)

Qantas International achieved an Underlying EBIT of $208 million. Unit Revenue declined by nine per cent as competitive pressures intensified offsetting fuel benefits. Key highlights of the 2016/17 result included:

- Ex-fuel Unit Cost[40] improvement of one per cent
- Qantas Transformation delivering utilisation increase of 1.5 per cent[41]
- Record customer advocacy[42] result with continued investment in product and services

By leveraging existing Group assets in response to shifting demand, Qantas International added additional services to high growth markets in Asia. Over the course of the first half of the financial year, Qantas International increased capacity to Hong Kong, Singapore, Manila, Japan and Jakarta, consistent with its strategic objective of aligning with the region's passenger growth.

The segment continues to invest in product and service including the new Brisbane International Lounge completed in October 2016, the London Lounge due for completion in 2017 and the design of the B787-9 Dreamliner premium economy seat.

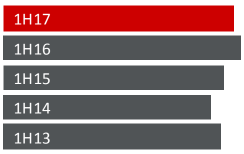
The Qantas Transformation Program has delivered >$750 million benefits to date for Qantas International. This restructured cost base allows Qantas International to continue to deliver a Return on Invested Capital above the Group's Weighted Average Cost of Capital, despite challenging market conditions.

Operating costs will further improve with the delivery of the B787-9 aircraft from October 2017. These new aircraft will deliver both network opportunities and cost efficiencies, with direct flights from Perth to London to begin in March 2018.

JETSTAR GROUP

Revenue

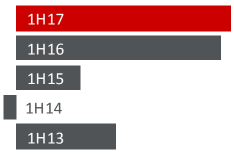
1,859 $M



1H17	**1,859**
1H16	1,913
1H15	1,773
1H14	1,671
1H13	1,757

Underlying EBIT

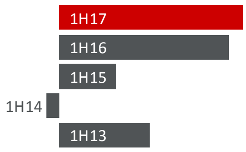
275 $M



1H17	**275**
1H16	262
1H15	81
1H14	(16)
1H13	128

Operating Margin

14.8 %



1H17	**14.8%**
1H16	13.7%
1H15	4.6%
1H14	(1.0%)
1H13	7.3%

METRICS		December 2016	December 2015	Change
ASKs	M	24,722	24,622	0.4%
Seat factor	%	83.3	82.2	1.1pts

40 Ex-fuel Unit Cost is measured as Underlying EBIT excluding ticketed passenger revenue and fuel, adjusted for net codeshare commissions, the impact of changes in FX rates, discount rates and other actuarial assumptions, and average sector length per ASK.
41 Calculated as average block hours per aircraft per day. Compared to first half 2015/16.
42 Measured as Net Promoter Score (NPS), based on Qantas Internal reporting.

Review of Operations continued

For the half-year ended 31 December 2016

The Jetstar Group reported a record Underlying EBIT of $275 million, an increase of five per cent from the segment's prior half in 2015/16. The result saw a contribution from across the Jetstar Group's domestic and international businesses, with highlights including:

– Highest Operating Margin in the Domestic Market[43]
– Controllable Ex-fuel Unit Cost[44] flat compared to prior period
– Record first half profit for Jetstar International with B787-8 efficiencies and strong revenue performance in core markets
– Improved performance of Jetstar Airlines in Asia[45]

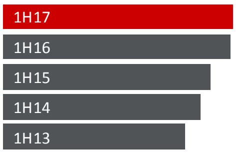
Jetstar Airlines in Asia improvement was driven by increased profitability in Jetstar Japan, which is the largest low cost carrier (LCC) in the Japanese market[46]. Jetstar Asia in Singapore performed well, notwithstanding a challenging competitive market. Jetstar Pacific was impacted by aggressive market growth in Vietnam.

Jetstar continues to invest in the customer with the launch of its small business product designed to meet price driven customer needs. Jetstar has also provided comprehensive service training to more than 2,700 of its people and will continue to roll this training out across the network.

QANTAS LOYALTY

Revenue

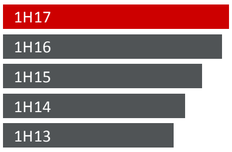
743 $M



1H17	**743**
1H16	734
1H15	669
1H14	640
1H13	590

Underlying EBIT

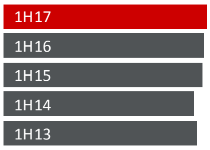
181 $M



1H17	**181**
1H16	176
1H15	160
1H14	146
1H13	137

Operating Margin

24.4 %



1H17	**24.4%**
1H16	24.0%
1H15	23.9%
1H14	22.8%
1H13	23.2%

METRICS		December 2016	December 2015	Change
QFF members	M	11.6	11.2	3.7%

Qantas Loyalty reported a record Underlying EBIT of $181 million for the half. Diversifying the Group's non-cyclical earnings at Qantas Loyalty remains a key pillar of the Group's long-term strategy. Highlights in the first half of 2016/17 included:

– New Woolworths program launched
– Strong Qantas Frequent Flyer credit card issuance, outperforming the market[47]
– Qantas Cash market share grew to 17 per cent
– Growing contribution from diversified businesses
– Record customer advocacy[48]

Qantas Loyalty continues to strengthen its core Frequent Flyer Program as well as diversify its earnings through investment in new businesses. The Qantas Frequent Flyer and Business Rewards programs continue to attract new partners and renew existing partnerships. A new Woolworths program was announced that includes better member earn rates than under the previous program. In addition 13 new partnerships commenced in the first half of 2016/17 including Airbnb, Caltex and Jaguar Land Rover. Core to the Loyalty strategy is diversification into new businesses that leverage the assets of the 11.6 million member base, in-house marketing expertise and digital capability. Qantas Assure Life, the segment's latest product offering was announced in February 2017, with more initiatives to be announced in the remainder of the financial year.

43 Operating margin is calculated as Underlying EBIT divided by total revenue. The Domestic market refers to Qantas Domestic, Jetstar Domestic, Virgin Australia and Tiger Air Australia.
44 Controllable Ex-fuel Unit Cost is measured as total underlying expenses excluding fuel and share of profit/(loss) of investments accounted for under the equity method, adjusted for the impact of changes in FX rates, average sector length, Jetstar branded airline costs and charter revenue per ASK.
45 Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific.
46 Measured as a percentage of market share. Source: Diio.
47 Based on number of personal credit card accounts with interest free periods. Market growth calculated excluding Qantas' contribution to market. Based on December 2016 compared to June 2016. Source: RBA credit and card charges statistics.
48 Measured as Net Promoter Score (NPS). Based on Qantas internal reporting.

Review of Operations continued

For the half-year ended 31 December 2016

QANTAS FREIGHT

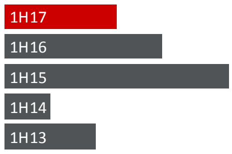
Revenue

482 $M

1H17	**482**
1H16	525
1H15	550
1H14	568
1H13	531

Underlying EBIT

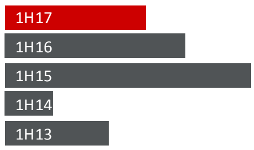
27 $M



1H17	**27**
1H16	38
1H15	54
1H14	11
1H13	22

Operating Margin

5.6 %



1H17	**5.6%**
1H16	7.2%
1H15	9.8%
1H14	1.9%
1H13	4.1%

METRICS		December 2016	December 2015	Change
International capacity[49]	B	1.7	1.7	2.4%
International load[50]	%	54.7	54.8	(0.1pts)

Qantas Freight reported an Underlying EBIT of $27 million. The result reflected a resilient freight performance in challenging global cargo markets. Key drivers of the result included:

- Cost reduction through Qantas Transformation and lower fuel prices
- Significant levels of wide body capacity in international markets impacting yields
- Strong customer advocacy improvement (9 points)[51], with customer feedback driving new innovation

Qantas Freight retains a leading position in the Australian cargo market with over 80 per cent domestic market share[52]. During the first half of 2016/17, the business successfully launched dedicated freighter operations for Australia Post Group and also executed a contract with Van Milk to fly fresh milk to Ningbo China on dedicated B767 Freighter services. The Freight business is well positioned to tap into the growing Australia to China freight market.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax was $715 million for the half year ended 31 December 2016.

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

	December 2016 $M	December 2015 $M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX		
Underlying PBT	**852**	**921**
Ineffectiveness and non-designated derivatives relating to other reporting periods	**1**	**(14)**
Other items not included in Underlying PBT		
– Transformation costs	(73)	(48)
– Wage Freeze and Record Results employee bonus[53]	(80)	(67)
– Net reversal of impairment	20	–
– Net gain on sale of property, plant and equipment	–	201
– Other	(5)	(10)
Total other items not included in Underlying PBT	**(138)**	**76**
Statutory Profit Before Tax	**715**	**983**

49 International Freighter capacity measured as international available freight tonne kilometres.
50 International Freighter load is measured as international revenue freight tonne kilometres divided by International available freight tonne kilometres.
51 Measured as Net Promoter Score (NPS). Average 1H17 compared to six months average at January 16. Based on Qantas internal reporting.
52 Source: BITRE. As at November 2016.
53 Payable to non-executive employees.

Review of Operations continued

For the half-year ended 31 December 2016

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

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

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

ii. **Other items not included in Underlying PBT**

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

Items outside of Underlying include $80 million relating to the Wage Freeze and Records Results employee bonus (2015: $67 million), $73 million of redundancy, restructuring and other costs incurred directly in relation to the Qantas Transformation Program (2015: $48 million), net impairment reversal of $20 million, primarily in relation to the investment in Helloworld due to an increase in the share price of Helloworld and other expenses of $5 million (2015: $10 million). In the first half of 2015/16 items outside of Underlying PBT also included a $201 million gain from the sale of Sydney Domestic Airport Terminal Three.

MATERIAL BUSINESS RISKS

The aviation industry is subject to a number of inherent risks. These include, but are not limited to, exposure to changes in economic conditions, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as aviation incidents, natural disasters, war or an epidemic. Qantas is subject to a number of specific business risks which may impact the achievement of the Group's strategy and financial prospects. The nature of these risks has not changed with the focus remaining on improving the controls in place to manage or mitigate these risks.

- Competitive intensity: Market capacity growth ahead of underlying demand impacts industry profitability.
  - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness in recent years has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners and optimising its network. Qantas brings domestic strength and the unrivalled customer offering of Qantas Loyalty. Qantas International has embarked on a major restructure of its legacy cost base through the Qantas Transformation Program with the objective of achieving a cost base comparable to direct competitors.
  - The Australian domestic aviation market is a highly competitive environment. The Qantas Group's market-leading domestic position and dual-brand strategy allow Qantas to effectively mitigate the impact of market changes. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic is focused on removing the cost base disadvantage to its competitor through Qantas Transformation while maintaining a revenue premium. Jetstar is working to maintain its lowest seat cost and yield advantage. These priorities deliver Qantas Domestic and Jetstar Domestic the highest operating margins in their respective markets enabling the Group to retain market share of Underlying EBIT in excess of capacity share.
- Fuel and foreign exchange volatility: The Qantas Group is subject to fuel and foreign exchange risks. These risks are an inherent part of the operations of an airline. The Qantas Group manages these risks through a comprehensive hedging program. For 2016/17 the Group's hedging profile is positioned such that the worst case total fuel cost is $3.2[54] billion with 65 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2016/17 is $3.13[55] billion)[56]. Complementing the hedging program, increased focus on operational agility supports the Group's ability to manage the residual uncertainty.
- Industrial relations: The associated risks of transformation including industrial action relating to Qantas' collective agreements with its employees. The risk is being mitigated through continuous employee engagement initiatives and ongoing, constructive dialogue with all union groups and other relevant stakeholders. In the latest Group Engagement survey which took place in 2015/16, the Group's engagement score was at a record 79 per cent up four percentage points since 2014/15. The Group has successfully closed 38 Enterprise Bargaining Agreements (EBAs) subsequent to the commencement of the Qantas Transformation Program inclusive of an 18 month wage freeze. To support the implementation of the 18 month wage freeze a bonus payment of five per cent was announced in July 2015 to be made to all employees covered by an 18 month wage freeze. In addition, in August 2016 in recognition of the contribution towards a record result, the Group announced a further $3,000 bonus to all full-time employees and $2,500 to all part-time employees covered by an 18 month wage freeze.
- Integrity of data and continuity of critical systems: The Group's operations depend on the continuity of a number of information technology and communication services and the integrity and protection of the privacy of data. The Group's ongoing investment in cybersecurity, together with its extensive Control and Risk Framework[57] work to reduce the likelihood of outages, ensure early detection and mitigation of the impact.
- Key business partners and alliances: The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are mitigated through the Group Risk Management Framework.

54 Worst case total fuel cost based on the addition of separate 2-standard deviation uncorrelated moves in Brent forward market prices to U$64/bbl and AUD/USD rate at 0.74, for the remainder of 2016/17.
55 Current forward market price total fuel cost based on a Brent forward market price of A$74/bbl for remainder of 2016/17.
56 As at 22 February 2017.
57 An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document 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 31 and forms part of the Directors' Report for the half-year ended 31 December 2016.

ROUNDING

Qantas is a company of the kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 2016/191 dated 1 April 2016. In accordance with the Class Order, all financial information presented has been rounded to the nearest million dollars, unless otherwise stated.

ASIC GUIDANCE

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

In line with previous years and in accordance with the Corporations Act 2001, the Directors’ Report is unaudited. Notwithstanding this, the Directors’ Report (including the Review of Operations) contains disclosures which are extracted or derived from the Consolidated Interim Financial Report for the half-year ended 31 December 2016 which has been reviewed by the Group’s Independent Auditor.

Signed pursuant to a Resolution of the Directors:

LEIGH CLIFFORD, AO
Chairman

ALAN JOYCE
Chief Executive Officer

Sydney
23 February 2017

Consolidated Income Statement

For the half-year ended 31 December 2016

	Notes	December 2016 $M	December 2015 $M
REVENUE AND OTHER INCOME			
Net passenger revenue		7,064	7,307
Net freight revenue		416	458
Other	3	704	698
Revenue and other income		**8,184**	**8,463**
EXPENDITURE			
Manpower and staff related		2,027	1,913
Fuel		1,488	1,729
Aircraft operating variable		1,767	1,750
Depreciation and amortisation		677	585
Non-cancellable aircraft operating lease rentals		192	254
Share of net (profit)/loss of investments accounted for under the equity method		(8)	(6)
Other	4	1,229	1,144
Expenditure		**7,372**	**7,369**
Statutory profit before income tax expense and net finance costs		**812**	**1,094**
Finance income		24	36
Finance costs		(121)	(147)
Net finance costs		**(97)**	**(111)**
Statutory profit before income tax expense		**715**	**983**
Income tax expense	5	(200)	(295)
Statutory profit for the period		**515**	**688**
Attributable to:			
Members of Qantas		515	688
Non-controlling interests		–	–
Statutory profit for the period		**515**	**688**
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic/diluted earnings per share (cents)		**27.3**	**31.9**

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 2016

	December 2016 $M	December 2015 $M
Statutory profit for the period	**515**	**688**
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	104	(203)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1]	14	73
Recognition of effective cash flow hedges on capitalised assets, net of tax	–	(43)
Net changes in hedge reserve for time value of options, net of tax	39	(110)
Foreign currency translation of controlled entities	(1)	1
Foreign currency translation of investments accounted for under the equity method	(7)	17
Share of other comprehensive income of investments accounted for under the equity method	4	–
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial gains/(losses), net of tax	187	(20)
Other comprehensive income/(loss) for the period	**340**	**(285)**
Total comprehensive income for the period	**855**	**403**
Total comprehensive income attributable to:		
Members of Qantas	855	403
Non-controlling interests	–	–
Total comprehensive income for the period	**855**	**403**

1 These amounts were allocated to revenue of $nil (2015: $(6) million), fuel expenditure of $20 million (2015: $107 million), and income tax expense of $(6) million (2015: $(28) million) in the Consolidated Income Statement.

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

Consolidated Balance Sheet

As at 31 December 2016

CURRENT ASSETS	Notes	December 2016 $M	June 2016 $M
Cash and cash equivalents		1,668	1,980
Receivables		832	795
Other financial assets		245	229
Inventories		352	336
Assets classified as held for sale		14	17
Other		111	101
Total current assets		**3,222**	**3,458**
NON-CURRENT ASSETS			
Receivables		139	134
Other financial assets		41	46
Investments accounted for under the equity method		238	197
Property, plant and equipment		12,168	11,670
Intangible assets		956	909
Deferred tax assets		–	39
Other		479	252
Total non-current assets		**14,021**	**13,247**
Total assets		**17,243**	**16,705**
CURRENT LIABILITIES			
Payables		2,161	1,986
Revenue received in advance	7	3,320	3,525
Interest-bearing liabilities		439	441
Other financial liabilities		46	203
Provisions		776	873
Total current liabilities		**6,742**	**7,028**
NON-CURRENT LIABILITIES			
Revenue received in advance	7	1,467	1,521
Interest-bearing liabilities		4,653	4,421
Other financial liabilities		39	61
Provisions		367	414
Deferred tax liabilities		298	–
Total non-current liabilities		**6,824**	**6,417**
Total liabilities		**13,566**	**13,445**
Net assets		**3,677**	**3,260**
EQUITY			
Issued capital		3,350	3,625
Treasury shares		(74)	(50)
Reserves		135	(220)
Retained earnings		261	(100)
Equity attributable to the members of Qantas		**3,672**	**3,255**
Non-controlling interests		5	5
Total equity		**3,677**	**3,260**

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2016

December 2016 $M	Issued Capital	Treasury Shares	Employee Compensation Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Defined Benefit Reserve	Retained Earnings	Non-controlling Interests	Total Equity
Balance as at 1 July 2016	**3,625**	**(50)**	**72**	**(118)**	**(3)**	**(171)**	**(100)**	**5**	**3,260**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD									
Statutory profit for the period	–	–	–	–	–	–	515	–	515
Other comprehensive income/(loss)									
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	104	–	–	–	–	104
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	–	–	–	14	–	–	–	–	14
Net changes in hedge reserve for time value of options, net of tax	–	–	–	39	–	–	–	–	39
Defined benefit actuarial gains, net of tax	–	–	–	–	–	187	–	–	187
Foreign currency translation of controlled entities	–	–	–	–	(1)	–	–	–	(1)
Foreign currency translation of investments accounted for under the equity method	–	–	–	–	(7)	–	–	–	(7)
Share of other comprehensive income of investments accounted for under the equity method	–	–	–	4	–	–	–	–	4
Total other comprehensive income/(loss)	**–**	**–**	**–**	**161**	**(8)**	**187**	**–**	**–**	**340**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**161**	**(8)**	**187**	**515**	**–**	**855**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY									
Contributions by and distributions to owners									
Share buy-back	(275)	–	–	–	–	–	–	–	(275)
Dividend Paid	–	–	–	–	–	–	(134)	–	(134)
Treasury shares acquired	–	(65)	–	–	–	–	–	–	(65)
Share-based payments	–	–	28	–	–	–	–	–	28
Shares vested and transferred to employees	–	41	(13)	–	–	–	(20)	–	8
Total contributions by and distributions to owners	**(275)**	**(24)**	**15**	**–**	**–**	**–**	**(154)**	**–**	**(438)**
Total transactions with owners	**(275)**	**(24)**	**15**	**–**	**–**	**–**	**(154)**	**–**	**(438)**
Balance as at 31 December 2016	**3,350**	**(74)**	**87**	**43**	**(11)**	**16**	**261**	**5**	**3,677**

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2016

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

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

Consolidated Cash Flow Statement

For the half-year ended 31 December 2016

	December 2016 $M	December 2015 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	8,276	9,023
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies, Wage Freeze bonus, Record Results bonus and related costs)	(6,920)	(7,473)
Cash generated from operations	**1,356**	**1,550**
Cash payments to employees for redundancies and related costs	(31)	(50)
Cash payments to employees for Wage Freeze and Record Results Bonus	(71)	(53)
Interest received	21	34
Interest paid	(104)	(109)
Dividends received from investments accounted for under the equity method	3	2
Income taxes paid	(1)	(1)
Net cash from operating activities	**1,173**	**1,373**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment and intangible assets	(860)	(997)
Interest paid and capitalised on qualifying assets	(20)	(11)
Payments for investments accounted for under the equity method	(16)	(38)
Proceeds from disposal of property, plant and equipment	11	414
Net loan repayment from investments accounted for under the equity method	–	29
Net cash used in investing activities (excluding aircraft operating lease refinancing)	(885)	(603)
Aircraft operating lease refinancing	(327)	(587)
Net cash used in investing activities	**(1,212)**	**(1,190)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to shareholders	(134)	–
Payments for share buy-back	(275)	–
Payments for capital return	–	(505)
Proceeds from borrowings	422	–
Repayments of borrowings	(227)	(227)
Net receipts for aircraft security deposits and hedges related to debt	8	–
Payments for treasury shares	(65)	(75)
Net cash used in financing activities	**(271)**	**(807)**
Net decrease in cash and cash equivalents held	**(310)**	**(624)**
Cash and cash equivalents at the beginning of the period	**1,980**	**2,908**
Effect of exchange rate changes on cash and cash equivalents	(2)	7
Cash and cash equivalents at the end of the period	**1,668**	**2,291**

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 2016

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(A) REPORTING ENTITY

Qantas Airways Limited (Qantas) is a for-profit company limited by shares, incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) and which is subject to the operation of the Qantas Sale Act.

The Consolidated Interim Financial Report of Qantas for the half-year ended 31 December 2016 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 2016 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 2016 was authorised for issue in accordance with a resolution of the Directors on 23 February 2017.

(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 2016. This report should also be read in conjunction with any public announcements made by Qantas in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

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

Qantas is a company of the kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 2016/191 dated 1 April 2016. In accordance with that Class Order, all financial information presented has been rounded to the nearest million dollars, unless otherwise stated.

(C) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Qantas Group in this Consolidated Interim Financial Report are the same as those applied by the Qantas Group in the Consolidated Annual Financial Report for the year ended 30 June 2016.

(D) COMPARATIVES

Where applicable, various 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 AASB 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 2016.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

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

(A) UNDERLYING PROFIT BEFORE TAX (UNDERLYING PBT)

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

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

	December 2016 $M	December 2015 $M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX		
Underlying PBT	**852**	**921**
Ineffectiveness and non-designated derivatives relating to other reporting periods	**1**	**(14)**
Other items not included in Underlying PBT		
– Transformation costs	(73)	(48)
– Wage Freeze and Record Results employee bonus	(80)	(67)
– Net reversal of impairment	20	–
– Net gain on sale of property, plant and equipment	–	201
– Other	(5)	(10)
Total other items not included in Underlying PBT	**(138)**	**76**
Statutory Profit Before Tax	**715**	**983**

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

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

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

ii. Other Items Not Included in Underlying PBT

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

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

Transformation costs relating to the Qantas Transformation Program of $73 million were incurred during the period (2015: $48 million).

The net impairment reversal of $20 million includes a reversal of impairment of $22 million in relation to the investment in Helloworld due to an increase in the share price of Helloworld. The reversal of impairment has been recognised as an Item outside of Underlying PBT consistent with the treatment of the original impairment. The Group has now reversed a total of $25 million of the original $50 million impairment recognised in 2013/14.

The Wage Freeze and Record Results employee bonus of $80 million relates to the Enterprise Bargaining Agreements (EBAs) employees that were open for negotiation or had agreed to an 18 month pay freeze (2015: $67 million).

In the first half of 2015/16 items outside of Underlying PBT also included a $201 million gain from the sale of Sydney Domestic Airport Terminal Three.

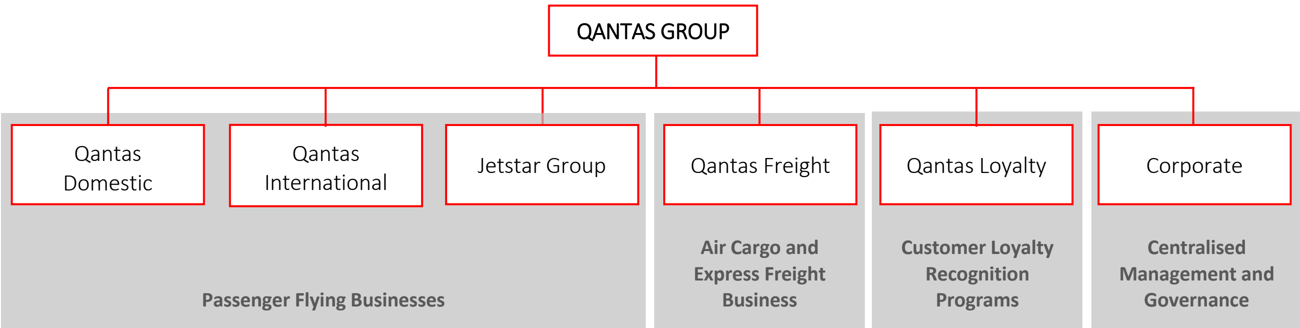
Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

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

(B) OPERATING SEGMENTS

The Qantas Group comprises the following operating segments:



i. Underlying EBIT

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

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

ii. Analysis by Operating Segment

December 2016 $M	Qantas Domestic	Qantas International	Jetstar Group	Qantas Freight	Qantas Loyalty	Corporate	Unallocated/ Eliminations[2]	Consolidated
REVENUE AND OTHER INCOME								
External segment revenue and other income	2,682	2,528	1,786	477	672	7	32	8,184
Inter-segment revenue and other income	234	313	73	5	71	–	(696)	–
Total segment revenue and other income	**2,916**	**2,841**	**1,859**	**482**	**743**	**7**	**(664)**	**8,184**
Share of net profit/(loss) of investments accounted for under the equity method	2	3	3	–	–	–	–	8
Underlying EBITDAR[1]	**739**	**466**	**483**	**43**	**190**	**(82)**	**(21)**	**1,818**
Non-cancellable aircraft operating lease rentals	(76)	(28)	(84)	(3)	–	–	(1)	(192)
Depreciation and amortisation	(292)	(230)	(124)	(13)	(9)	(6)	(3)	(677)
Underlying EBIT	**371**	**208**	**275**	**27**	**181**	**(88)**	**(25)**	**949**
Underlying net finance costs						(97)		(97)
Underlying PBT						**(185)**		**852**
Six Month ROIC %[3]								**12.2%**
Twelve Month ROIC %[3]								**21.7%**

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 and other businesses of the Qantas Group which are not considered to be reportable segments including consolidation elimination entries.
3 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital (Refer to Note 2(C).

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

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

ii. Analysis by Operating Segment (continued)

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

1 Underlying EBITDAR represents Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.
2 Unallocated/Eliminations represents unallocated and other businesses of the Qantas Group which are not considered to be reportable segments including consolidation elimination entries.
3 ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital (Refer to Note 2(C).

(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.

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

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

i. ROIC EBIT

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

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

	Twelve months to 31 December 2016 $M	Twelve months to 31 December 2015 $M
Underlying EBIT		
– For the six months ended 30 June	720	733
– For the six months ended 31 December	949	1,031
Total Underlying EBIT for the year	**1,669**	**1,764**
Add: Non-cancellable aircraft lease rentals	399	508
Less: Notional depreciation[1]	(177)	(234)
ROIC EBIT for the twelve months ended 31 December	**1,891**	**2,038**
Average invested capital for the twelve months ended 31 December	**8,708**	**8,936**
ROIC %	**21.7%**	**22.8%**

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 in accordance with the Group's accounting policies with the calculated depreciation reported above known as notional depreciation.

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

NOTE 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, notwithstanding that in accordance with Australian Accounting Standards these assets are not recognised on balance sheet.

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

	December 2016 $M	December 2015 $M
INVESTED CAPITAL		
Receivables (current and non-current)	971	967
Inventories	352	337
Other assets (current and non-current)	590	459
Investments accounted for under the equity method	238	193
Property, plant and equipment	12,168	11,578
Intangible assets	956	837
Assets classified as held for sale	14	88
Payables	(2,161)	(1,944)
Provisions (current and non-current)	(1,143)	(1,134)
Revenue received in advance (current and non-current)	(4,787)	(4,910)
Capitalised operating leased assets[1]	2,112	2,537
Invested Capital as at 31 December	**9,310**	**9,008**
Average Invested Capital for the six months ended	**8,687**	**8,986**
Average Invested Capital for the twelve months ended	**8,708**	**8,936**

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 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 2016 %	December 2015 %
Six month ROIC %[1]	**12.2**	**13.1**
Twelve month ROIC%	**21.7**	**22.8**

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

iv. Underlying PBT per Share

	December 2016 cents	December 2015 cents
Underlying PBT per share	**45.1**	**42.7**

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

NOTE 3. REVENUE AND OTHER INCOME

(A) REVENUE AND OTHER INCOME BY GEOGRAPHIC AREAS

	December 2016 $M	December 2015 $M
Net passenger and freight revenue		
Australia	5,407	5,606
Overseas	2,073	2,159
Total net passenger and freight revenue	**7,480**	**7,765**
Other income	704	698
Total revenue and other income	**8,184**	**8,463**

Net passenger and freight revenue is 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.

(B) OTHER INCOME

	December 2016 $M	December 2015 $M
Frequent Flyer marketing revenue, membership fees and other revenue	222	210
Frequent Flyer store and other redemption revenue[1]	154	157
Retail, advertising and other property revenue	71	75
Contract work revenue	67	62
Other	190	194
Total other income	**704**	**698**

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

NOTE 4. OTHER EXPENDITURE

	December 2016 $M	December 2015 $M
Commissions and other selling costs	257	292
Computer and communication	241	219
Capacity hire	146	153
Property	121	121
Non-aircraft operating lease rentals	112	112
Wage Freeze and Record Results employee bonus	80	67
Marketing and advertising	60	60
Redundancies	27	12
Contract work materials	6	5
Inventory write-off	2	13
Discount rate and other actuarial assumption changes	(42)	18
Net impairment of property, plant, equipment, intangible assets and investments	(20)	3
Ineffective and non-designated derivatives	(1)	–
Net gain on disposal of property, plant and equipment	(5)	(201)
Other	245	270
Total other expenditure	**1,229**	**1,144**

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

NOTE 5. INCOME TAX EXPENSE

	December 2016 $M	December 2015 $M
RECONCILIATION BETWEEN INCOME TAX EXPENSE AND STATUTORY PROFIT BEFORE INCOME TAX		
Statutory profit before income tax expense	**715**	**983**
Income tax expense using the domestic corporate tax rate of 30 per cent	(215)	(295)
Adjusted for:		
Non-assessable share of net profit for investments accounted for under the equity method	2	1
Non-deductible losses for foreign branches and controlled entities	(2)	(10)
Utilisation of previously unrecognised capital losses	–	(7)
Non-assessable gain on disposal of property, plant and equipment	–	19
Other net non-assessable/(non-deductible) items	8	4
(Under)/over provision from prior periods	7	(7)
Income tax expense	**(200)**	**(295)**

	December 2016 $M	December 2015 $M
RECOGNISED DIRECTLY IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Cash flow hedges	67	(121)
Defined benefit actuarial (losses)/gains	80	(9)
Income tax benefit recognised directly in the Consolidated Statement of Comprehensive Income	**147**	**(130)**

Income tax payable was less than 30 per cent of the Qantas Group's Statutory Profit Before Tax due to:
- Utilisation of carry forward tax losses that reduce taxable income of $378 million (31 December 2015: $895 million);
- Carry forward tax losses at 31 December 2016 of $1,096 million (30 June 2016: $1,474 million).

NOTE 6. DIVIDENDS AND OTHER SHAREHOLDER DISTRIBUTIONS

(A) DIVIDENDS DECLARED AND PAID

The Group paid a fully franked dividend of seven cents per ordinary share, totalling $134 million (2015: nil) on 12 October 2016.

The Directors have declared a fifty per cent franked interim dividend of seven cents per ordinary share for the period, totalling $128 million (2015: nil). The record date for determining entitlements to the interim dividend is 8 March 2017. The dividend will be paid on 10 April 2017. For non-Australian shareholders, no Dividend Withholding Tax will be withheld as Conduit Foreign Income (CFI) credits will be attached to the unfranked portion.

(B) OTHER SHAREHOLDER DISTRIBUTIONS

On 24 August 2016, the Group announced an on-market buy-back of up to $366 million. As of 31 December 2016, the Group has purchased $275 million of ordinary shares on issue at a weighted average share price of $3.16. The remaining $91 million of the announced buy-back will be completed during the second half of 2016/17.

NOTE 7. REVENUE RECEIVED IN ADVANCE

	December 2016 $M			June 2016 $M		
	Current	Non-current	Total	Current	Non-current	Total
Unavailed passenger revenue	2,283	–	2,283	2,522	–	2,522
Unredeemed Frequent Flyer revenue	903	1,342	2,245	877	1,367	2,244
Other revenue received in advance	134	125	259	126	154	280
Total revenue received in advance	**3,320**	**1,467**	**4,787**	**3,525**	**1,521**	**5,046**

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

NOTE 8. COMMITMENTS

(A) CAPITAL EXPENDITURE COMMITMENTS

The Group's capital expenditure commitments as at 31 December 2016 are $12,222 million (30 June 2016: $11,623 million). The Group has certain rights within its aircraft purchase contracts which can defer the above capital commitments.

The Group's capital expenditure commitments are predominantly denominated in US Dollars. Reported capital expenditure commitments are translated to the Australian dollar presentational currency at the 31 December 2016 closing exchange rate of $0.72 (30 June 2016: $0.75).

(B) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

	December 2016 $M	June 2016 $M
AS LESSEE		
Finance lease and hire purchase liabilities (included in the Consolidated Balance Sheet)		
Aircraft and engines – payable:		
Not later than one year	146	149
Later than one year but not later than five years	633	586
Later than five years	934	1,034
Total aircraft and engines	**1,713**	**1,769**
Less: future lease and hire purchase finance charges and deferred lease benefits	(271)	(300)
Total finance lease and hire purchase liabilities	**1,442**	**1,469**

	December 2016 $M	June 2016 $M
Finance lease and hire purchase liabilities (included in the Consolidated Balance Sheet)		
Current liabilities	104	103
Non-current liabilities	1,338	1,366
Total finance lease and hire purchase liabilities	**1,442**	**1,469**

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

(C) OPERATING LEASE COMMITMENTS

	December 2016 $M	June 2016 $M
AS LESSEE		
Non-cancellable operating lease commitments		
Aircraft and engines – payable:		
Not later than one year	319	366
Later than one year but not later than five years	881	952
Later than five years	134	187
Total aircraft and engines	**1,334**	**1,505**
Non-aircraft – payable:		
Not later than one year	183	188
Later than one year but not later than five years	458	503
Later than five years but not later than 10 years	316	320
Later than 10 years	339	367
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	(4)	(2)
Total non-aircraft	**1,292**	**1,376**
Total non-cancellable operating lease commitments	**2,626**	**2,881**

Condensed Notes to the Consolidated Interim Financial Report continued

For the half-year ended 31 December 2016

NOTE 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.

	December 2016			June 2016		
	Carrying Amount Held at			Carrying Amount Held at		
$M	Fair Value Through Profit And Loss	Amortised Cost	Fair Value	Fair Value Through Profit And Loss	Amortised Cost	Fair Value
Financial assets						
Cash and cash equivalents	–	1,668	1,672	–	1,980	1,986
Receivables	–	971	971	–	929	929
Other financial assets[1]	286	–	286	275	–	275
Financial liabilities						
Payables	–	2,161	2,161	–	1,986	1,986
Interest-bearing liabilities	–	5,092	5,238	–	4,862	4,952
Other financial liabilities[1]	85	–	85	264	–	264

[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.

NOTE 10. POST BALANCE DATE EVENTS

Other than as noted in Note 6 - Dividends and Other Shareholder Distributions, there has not arisen in the interval between 31 December 2016 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 2016.

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 2016 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG
Sydney
23 February 2017

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 16 to 30 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 2016 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

  ii. complying with *Australian Accounting Standard AASB 134: Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that Qantas Airways Limited and its controlled entities will be able to pay its debts as and when they become due and payable.

Signed pursuant to a Resolution of the Directors:

LEIGH CLIFFORD, AO
Chairman

ALAN JOYCE
Chief Executive Officer

Sydney
23 February 2017

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 2016 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 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the interim period ended on that date;
- notes 1 to 10 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 2016.

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 2016 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

KPMG
Sydney
23 February 2017

Andrew Yates
Partner

Julian McPherson
Partner

Operational Statistics

For the half-year ended 31 December 2016

(unaudited)		December 2016	December 2015	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK)				
Passengers carried	'000	11,332	11,220	1.0%
Revenue passenger kilometres (RPK)	M	14,119	14,189	(0.5%)
Available seat kilometres (ASK)	M	18,254	18,536	(1.5%)
Revenue seat factor	%	77.3	76.5	0.8pts
JETSTAR DOMESTIC				
Passengers carried	'000	6,831	6,962	(1.9%)
Revenue passenger kilometres (RPK)	M	8,080	8,273	(2.3%)
Available seat kilometres (ASK)	M	9,662	9,750	(0.9%)
Revenue seat factor	%	83.6	84.8	(1.2pts)
QANTAS INTERNATIONAL				
Passengers carried	'000	3,317	3,200	3.7%
Revenue passenger kilometres (RPK)	M	26,643	26,230	1.6%
Available seat kilometres (ASK)	M	32,756	31,492	4.0%
Revenue seat factor	%	81.3	83.3	(2.0pts)
JETSTAR INTERNATIONAL				
Passengers carried	'000	3,135	2,720	15.3%
Revenue passenger kilometres (RPK)	M	9,188	8,481	8.3%
Available seat kilometres (ASK)	M	11,007	10,535	4.5%
Revenue seat factor	%	83.5	80.5	3.0pts
JETSTAR ASIA				
Passengers carried	'000	2,142	2,109	1.6%
Revenue passenger kilometres (RPK)	M	3,319	3,480	(4.6%)
Available seat kilometres (ASK)	M	4,054	4,337	(6.5%)
Revenue seat factor	%	81.9	80.2	1.7pts
QANTAS GROUP OPERATIONS				
Passengers carried	'000	26,758	26,211	2.1%
Revenue passenger kilometres (RPK)	M	61,348	60,652	1.1%
Available seat kilometres (ASK)	M	75,732	74,650	1.4%
Revenue seat factor	%	81.0	81.2	(0.2pts)
Aircraft in service at end of period	#	308	300	8
EMPLOYEES				
Full-time equivalent employees at end of period (FTE)	#	30,179	29,353	2.8%
RPK per FTE (annualised)	'000	4,066	4,133	(1.6%)
ASK per FTE (annualised)	'000	5,019	5,086	(1.3%)