ASX and Media Release

QANTAS FIRST-HALF FINANCIAL RESULT[1]

RECORD PERFORMANCE; SHARE BUY-BACK; INVESTMENT FOR CUSTOMERS, EMPLOYEES

Key points:

- Underlying profit before tax: $921 million, up $554 million
- Statutory profit before tax: $983 million, up $694 million
- Revenue: $8.5 billion, up 5 per cent
- Operating cash flow: $1.4 billion, up 95 per cent
- Free cash flow: $770 million, up $576 million
- Rolling 12-month ROIC: 22.8 per cent
- Earnings per share: 31.9 cents, up 22.7 cents
- $500 million on-market share buy-back
- New investment in lounges, wi-fi and pilot recruitment

SYDNEY, 23 February 2016: Qantas today reported an underlying profit before tax of $921 million and a statutory profit before tax of $983 million for the six months ended 31 December 2015.

The underlying result is a record first-half performance and means Qantas' 2015 calendar-year performance was the best in its 95-year history.

Every part of the Qantas Group contributed strongly to the result, with record underlying profits for Qantas Domestic, the Jetstar Group and Qantas Loyalty.

The Group continues to expand margins through both revenue growth and cost discipline. Revenue increased by 5 per cent to $8.5 billion, while total unit costs were down by 7 per cent compared with the first half of last year.

The $2 billion Qantas Transformation program is reshaping the Group into a more agile and innovative business. In the half, the Group unlocked $261 million in cost and revenue benefits through transformation initiatives, with $1.36 billion in total benefits now realised since 2014. Total transformation benefits in the full year are expected to be $450 million. Volatility in the global economy underlines the importance of transformation as the key to building shareholder value and sustainable returns over the long term.

The Group secured a first-half benefit of $448 million through effective fuel hedging, which enabled it to participate in lower global fuel prices.

[1] Refer to the Review of Operations for definition and explanation of non-statutory measures. Unless otherwise stated, amounts are reported on an underlying basis.

CEO COMMENTS

Chief Executive Officer Alan Joyce said the national carrier was ready to make the most of an exciting future.

"This record result reflects a stronger, leaner, more agile Qantas," Mr Joyce said. "I'm extremely proud of our people, who are working hard to transform the Qantas Group and make flying with Qantas and Jetstar better than ever for our customers.

"Without a focus on revenue, costs and balance sheet strength, today's result would not have been possible.

"Both globally and domestically, the aviation industry is intensely competitive. That's why it's so important that we maintain our cost discipline, invest to grow revenue, and continue innovating with new ventures and technology."

REWARDING SHAREHOLDERS - $500 MILLION BUY-BACK

In line with the Group's financial framework and commitment to enhance long-term shareholder value, the Qantas Board has approved an on-market share buy-back of up to $500 million. The buy-back will start in early March.

"The strength of our performance and balance sheet means we can continue to reward our shareholders for their confidence in our business," Mr Joyce said.

"We're pleased to be able to build on last year's $505 million capital return with the buy-back we announce today."

Qantas will continue to assess its capital structure ahead of its full-year results and determine whether and how to distribute surplus capital at that point.

INVESTING FOR CUSTOMERS - HEATHROW LOUNGE & WI-FI

Qantas has invested in aircraft, product, service and technology as a core principle of its transformation program, enabling the Group to earn record customer satisfaction, maintain its lead in key markets, and grow revenue at the same time as reducing cost.

Following the announcement in August 2015 of a milestone order for the Boeing 787-9 Dreamliner, the Group today announces new customer-focused investments.

"Our record performance is the platform to keep investing in the experiences that matter to our customers and take Qantas' service to new levels," Mr Joyce said.

Heathrow Lounge

Having launched premium lounges in Singapore, Hong Kong and Los Angeles over the past three years, Qantas will create a new lounge in London Heathrow to be opened in the first quarter of 2017 (see Qantas Newsroom for separate release).

The lounge will be designed in collaboration with Woods Bagot and Rockpool Group and will offer significantly more space and views of the airfield

"The Kangaroo Route is at the heart of Qantas' network and London remains one of our most important destinations," Mr Joyce said. "Heathrow is the right location for our next flagship global lounge and we think customers will love what we've got planned."

Inflight Wi-Fi

Qantas also confirmed today that it will partner with ViaSat to develop an industry-leading wi-fi service across its domestic fleet, harnessing the nbn™ network. The nbn network opens up the potential for fast, high-quality connectivity that will enable Qantas customers to stream live sports, movies and TV shows on board.

On-board trials are expected to begin in late 2016 with a full roll-out across domestic passenger services planned from early 2017 (see Qantas Newsroom for separate release).

"Bringing high-speed on-board wi-fi to the Australian domestic market has been an ambition of ours for a long time. What we've been waiting for is the ability to deliver the same speeds in flight that people expect on the ground – and we now have access to the technology to make it happen," Mr Joyce said.

INVESTING IN EMPLOYEES - PILOT RECRUITMENT

As it continues to improve scheduling efficiency, respond to market opportunities and prepare for the arrival of the B787-9, the Qantas Group is reviewing its crew recruitment needs.

The entry into service of the B787-9 in late 2017 creates the opportunity for promotions of current Qantas pilots as well as new positions to be filled through external recruitment.

This is Qantas' first significant pilot recruitment program since 2009 and is expected to see 170 new pilots join the pilot workforce over the next three years. It follows recruitment for cabin crew to help meet the demand created by additional international flying.

"I'm delighted that we can announce new possibilities for our current flight crew as well as the ability for aspiring Qantas pilots to join us," Mr Joyce said.

"The applicants that meet the Qantas standard will join the world's most trusted group of pilots."

GROUP PERFORMANCE

Qantas Domestic

Qantas Domestic reported underlying EBIT of $387 million, compared with $227 million in the first half of last year. The business achieved strong operating margin growth of 5.4 percentage points for a 12.9 per cent operating margin in the half.

Unit revenue increased by 2 per cent across all domestic routes and by 4 per cent across non-resources routes. This reflects an approximate $50 million decrease in resource-related revenue in the half.

In total, Group domestic underlying EBIT (Qantas and Jetstar) was $556 million, and the Group maintained a profit share of around 80 per cent in the domestic market.

While demand continues to be weak in the resources sectors, other sectors are healthy, including financial services and government.

Qantas Domestic is managing capacity in response to the transitioning economy, deploying smaller aircraft in markets such as Western Australia and intra-Queensland. A lower dollar has seen steady growth in domestic tourism, which both Qantas and Jetstar are supporting with targeted capacity increases.

Qantas Domestic also continues to improve operational efficiency, with a significant rise in on-time performance on a 5 per cent increase in aircraft utilisation, and unit costs down 1 per cent.

Customer satisfaction was up 7 percentage points compared to the same half last year, and reached an all-time record in January.

Qantas International

Qantas International reported underlying earnings before interest and tax (EBIT) of $270 million, compared with $59 million in the first half of last year. This marks its best performance since before the Global Financial Crisis.

The business increased operating margins by 7 percentage points for a 9.1 per operating margin in the half. Unit revenue was up by 3 per cent in the half while unit costs fell by 2 per cent.

As the lower dollar drives more inbound tourism, Qantas International is adding flights and seats on Asian and North American routes, including Tokyo, Singapore, Hong Kong and San Francisco. Aircraft utilisation was up by more than 5 per cent in the half, building on a 15 per cent increase between financial years 2012 and 2015.

Qantas International's growing global network is complemented by three cornerstone partnerships – with American Airlines, China Eastern and Emirates – and a broader network of alliance partners in all regions.

Customer satisfaction saw a 7 percentage point increase in the half, reflecting continued investment in lounges, catering and new A330 cabins.

Jetstar Group

The Jetstar Group reported record underlying EBIT of $262 million, compared with $81 million in the first half of last year.

Jetstar increased margins by 9.1 percentage points for an operating margin of 13.7 per cent in the half. Unit revenue in the domestic Australian market was up by 10 per cent while controllable unit costs across Jetstar's domestic and international network were reduced by 2 per cent in the half. Jetstar's all-Dreamliner long-haul fleet has resulted in significant efficiency gains across international routes.

The Jetstar Group in Asia was profitable in the half, including a first profit for Jetstar Japan since its start-up in 2012. Jetstar's pan-Asian network and brand strength are competitive advantages for Qantas that few other major airline groups can match.

Qantas Loyalty

Qantas Loyalty reported record underlying EBIT of $176 million, compared with $160 million in the first half of last year.

Revenue was up 10 per cent, with almost 40 per cent of revenue growth now coming from new ventures as Loyalty diversifies its earnings.

The core Qantas Frequent Flyer and Aquire SME loyalty programs continue to grow, with record customer satisfaction, 24 program partners added in the half and a new agreement reached with Woolworths. There was 5 per cent growth in the number of Qantas Frequent Flyer co-branded credit cards and 6.3 per cent growth in Frequent Flyer Members to 11.2 million.

In adjacent businesses, the Qantas Cash travel money card saw a 20 per cent increase in currency loaded to reach a cumulative total of $1.5 billion. The Qantas Assure health insurance joint venture with NIB will extend the loyalty business into a new sector, rewarding customers with Qantas Points for staying physically active.

Qantas Freight

Qantas Freight reported underlying EBIT of $38 million, compared with $54 million in the first half of last year.

As forecast in the Group's financial year 2015 results announcement, the global cargo market remains challenging, with lower demand domestically and in key international markets contributing to a 5 per cent fall in revenue in the half.

Qantas Freight's focus is on increasing efficiency through transformation, investing in customer service, and maximising the new markets opened up by Qantas International's expansion.

FLEET UPDATE

The Group today confirmed the following changes to its fleet plan:

- Two Qantas Boeing 747-400 aircraft that were previously scheduled for retirement by the end of financial year 2016 will be retained, helping meet demand requirements in the strong international market as Qantas International transitions to the Boeing 787-9.
- Three Fokker F100 aircraft will be acquired for Qantas Domestic's intra-WA market, freeing up Boeing 737-800s to be used on international routes, including Perth-Singapore and Brisbane-Christchurch.

FINANCIAL POSITION

Qantas met the objectives of its financial framework in the half, including regaining an investment-grade credit rating from Standard & Poor's, achieving ROIC above 10 per cent and returning surplus capital to shareholders. The Group's credit metrics are expected to remain materially above investment-grade thresholds for the remainder of financial year 2016.

Total short-term liquidity of $3.3 billion includes $2.3 billion in cash and $1 billion in undrawn facilities. Fifty per cent of the Group's fleet – valued at over US$3.5 billion – is now unencumbered, adding to a strong total liquidity position.

Net capital expenditure in the half was $490 million and forecast capital expenditure over the full year is expected to be approximately $1 billion.

Total net capital expenditure for financial years 2017 through 2019 is expected to be between $3.6 billion and $4.5 billion.

OUTLOOK

The Group's current operating expectations are follows:

- Group capacity is expected to increase by 5 per cent in financial year 2016 compared with financial year 2015. In the second half of financial year 2016:
  - Group domestic capacity is expected to grow by approximately 2 per cent.
  - Qantas International capacity is expected to grow by 9 per cent.
  - Jetstar International capacity is expected to grow by 12 per cent, with the higher seat count of the Boeing 787-8.
- Underlying fuel costs in financial year 2016 are expected to be no more than $3.4 billion, $3.3 billion at current forward Australian dollar prices.
- Depreciation and amortisation expense in financial year 2016 is expected to increase to $1.25 billion.
- Transformation benefits (fuel efficiency, cost and revenue) in financial year 2016 are expected to be $450 million.
- Net capital expenditure in financial year 2016 is expected to be approximately $1 billion.

Having regard to industry and economic dynamics, no Group profit guidance is provided at this time.

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REVIEW OF OPERATIONS

A STRONG PLATFORM FOR SUSTAINABLE GROWTH

The Qantas Group has continued to deliver against its strategy to maximise long-term shareholder value, reporting a record first half Underlying Profit Before Tax[1] of $921 million for the half-year ended 31 December 2015. Statutory Profit Before Tax increased to $983 million. The record first half underlying result, which compared to Underlying Profit Before Tax of $367 million in the prior period, reflected utilisation-driven growth and operating margin[2] expansion as the Group continued to remove costs and increase revenue.

Qantas built on the long-term competitive advantages of the integrated Group portfolio at the same time as it continued to transform its business through the $2 billion Qantas Transformation program. As at 31 December 2015, $1.36 billion of benefits had been realised in two years of the three and a half year program, with $261 million of benefits realised in the first half of 2015/16.

Customer advocacy (NPS) continued to improve with strong results – improvement in Qantas Domestic, Qantas International and Qantas Loyalty.

The strong revenue performance – a five per cent increase on the prior period, was the result of increased utilisation of existing Group aircraft and continued disciplined investment in the customer through product and service enhancements.

All operating segments generated Return on Invested Capital (ROIC) in excess of the Group's Weighted Average Cost of Capital (WACC), contributing to a Group six month year to date ROIC of 13.1 per cent and twelve month ROIC of 22.8 per cent.

The Group's disciplined hedging program, which seeks to protect against unfavourable movements in AUD fuel prices while retaining participation to favourable price movements, captured the benefit from lower AUD fuel prices in the half contributing to a $448 million reduction in the total fuel cost compared to the prior period.

Group Domestic earnings, comprising Underlying Earnings Before Interest and Tax from Qantas Domestic and Jetstar Domestic, increased by over 90 per cent to $556 million building on their position as the two highest margin carriers[3] in the Australian market. The improvement was driven by increased asset utilisation and enhanced dual brand coordination, with dynamic management of capacity to optimise presence of each flying brand in a shifting domestic demand environment.

Qantas held credit metrics above its investment grade-level targets in the period. In recognition of the Group's disciplined Financial Framework and strong balance sheet, Standard and Poor's reinstated Qantas' investment grade credit rating on 17 November 2015.

Qantas takes a disciplined approach to continually review its optimal capital structure and, where there is surplus capital, to assess how to best enhance shareholder value with the appropriate mix of growth investment and shareholder returns. With the Group having returned to investment grade leverage metrics, and based on the current operating outlook, Qantas determined there was surplus capital available to be distributed to shareholders. The shareholder distribution announced at the Group's first half 2015/16 results is in the form of an on-market share buy-back of up to $500 million.

The Group's portfolio strategy, designed to maximise Group outcomes at the same time as growing non-cyclical earnings, provides a strong platform for sustainable growth into the future. Highlights in the first half included:

- Qantas Domestic maintaining its position as the largest and highest margin full-service carrier in the domestic market, with a network, frequency and product advantage for its premium customer base
- Qantas International leveraging utilisation[4] of existing assets for growth into Asia and the United States, and deepening cornerstone alliances with American Airlines and China Eastern to add to the Emirates partnership

1 Underlying Profit Before Tax (Underlying PBT) is a non-statutory measure and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Group. The primary reporting measure of the Qantas Domestic, Qantas International, Qantas Freight, Qantas Loyalty and Jetstar Group 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 Before Tax. Refer to page 10.
2 Calculated as Underlying EBIT divided by total revenue.
3 Operating margin percentage compared to Virgin Australia and Tigerair.
4 Utilisation based on average block hours per aircraft per day.

REVIEW OF OPERATIONS (continued)

- Jetstar Group building on its position as the leading low fares airline in Australia, while Jetstar Group Airlines[5] in Asia continued to strengthen its portfolio in the world's fastest growing aviation market
- Qantas Loyalty investing in digital and data capabilities to leverage customer insights and digital opportunities for break-out growth, with the announcement of the Qantas Assure health insurance joint venture
- Qantas Freight leveraging its leading domestic market share[6] and unique international traffic rights to strengthen the Group's returns

The Qantas Group's financial framework is aligned with shareholder objectives, designed to deliver maintainable Earnings per Share (EPS) growth over the cycle to achieve Total Shareholder Returns (TSR) in the top quartile of the ASX100 index and a basket of global airlines. In the first half of 2015/16, Qantas' performance was consistent with its long-term targets with EPS of 31.9 cents – up from 9.2 cents in the prior period.

In order to deliver against these long-term targets, the financial framework has three clear priorities. The Group met the target of each pillar in the first half of 2015/16:

1. Maintaining our Optimal Capital Structure

- Credit metrics held above investment grade targets, with further improvement in FFO/net debt[7] and Gross debt/adjusted EBITDA[8] forecast in 2015/16
- Minimal refinancing risk and diverse funding profile with weighted average debt maturity around five years
- Retaining strong short-term liquidity[9] of $3.3 billion
- Optimised total liquidity mix to lower cost of capital through the refinancing of 24 operating leased aircraft to unencumbered owned aircraft[10]

2. Return on Invested Capital above WACC[11] through the cycle

- Twelve month ROIC[12] of 22.8 per cent, six month YTD ROIC[13] of 13.1 per cent, meeting target for full-year ROIC greater than 10 per cent through the cycle
- All operating segments continue to deliver ROIC greater than WACC
- Continued delivery of Qantas Transformation, with $261 million benefits realised in the half
- Utilised Group portfolio of brands and diverse fleet mix to respond to downturn in the resources sector while shifting assets to growth markets in domestic Australia and international markets
- Disciplined hedging program, capturing benefit of lower AUD fuel prices in 2015/16 with high level of protection in place for 2016/17

3. Disciplined Allocation of Capital

- Net capital expenditure[14] of $490 million in the half in line with 2015/16 guidance for net capital expenditure of approximately $1 billion
- Capital expenditure in the half included a $350 million investing cash inflow from the sale of the assets relating to Sydney Airport Terminal Three
- Returning surplus capital to shareholders with the announcement of an EPS accretive on-market share buyback of up to $500 million

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5 Includes Jetstar Japan, Jetstar Asia in Singapore and Jetstar Pacific in Vietnam.
6 Based on Available Freight Tonne Kilometres.
7 Funds from operations divided by net debt based on Standard and Poor's methodology.
8 Metric based on Moody's methodology.
9 Includes cash and cash equivalents of $2.3 billion and undrawn facilities of $1 billion.
10 Transfer of title for five out of 24 aircraft to be completed in 2016
11 Weighted Average Cost of Capital.
12 Twelve month ROIC is the ROIC EBIT for the twelve months ended 31 December 2015 divided by the Average Invested Capital for the period 1 January 2015 to 31 December 2015.
13 Six month YTD ROIC is the ROIC EBIT for the six months ended 31 December 2015 divided by the Average Invested Capital for the period 1 July 2015 to 31 December 2015.
14 Net capital expenditure is equal to investing cash flows (excluding operating lease refinancing) ($603 million) adjusted for the notional value of operating lease aircraft disposals/acquisitions ($113 million).

REVIEW OF OPERATIONS (continued)

UNDERLYING PBT

The Qantas Group's first half 2015/16 Underlying PBT increased to $921 million from $367 million, a record first half performance. The improvement in earnings was driven by strong revenue growth, cost reduction initiatives in the Qantas Transformation program, and the benefit from lower AUD fuel prices.

Revenue increased five per cent to $8.46 billion in the half, with a $360 million improvement in net passenger revenue and a $45 million higher contribution from other revenue sources. The five per cent improvement in net passenger revenue reflected increased utilisation of existing assets across the Group and in particular by Qantas International. Group capacity, measured by Available Seat Kilometres, increased by 3.8 per cent while unit revenue[15] increased by two per cent.

The stronger passenger revenue performance included the benefit from foreign exchange movements, most notably by Qantas International, which in turn offset the negative impact of foreign exchange on the Group's non-fuel expenditure. The Group incurred a revenue reduction of approximately $50 million relating to the continued weakening of resources sector traffic in Western Australia and Queensland. Other revenue improved due to the increased contribution from Qantas Loyalty's new and adjacent businesses and increased frequent flyer redemption activity.

Underlying expenses decreased two per cent, with a reduction in the Group's fuel cost partially offset by higher depreciation and amortisation expenses. Increased operating expenses related to growth, and the negative impact of foreign exchange movements against the Australian dollar also contributed. The $448 million reduction in the Group's fuel cost included the benefit from lower AUD fuel prices as well as fuel efficiency measures in the Qantas Transformation program, offset by fuel from increased flying activity.

The contribution from Qantas' share of investments accounted for under the equity method swung to a $6 million profit in the period from a $20 million loss in the prior period, reflecting the improved performance of Jetstar Group Airlines in Asia. Underlying net finance costs improved by $23 million following the reduction in the Group's net debt and lower interest rates.

Group Underlying Income Statement Summary	**December 2015 $M**	**December 2014 $M**	**Change $M**	**Change %**
Net passenger revenue	7,307	6,947	360	5
Net freight revenue	458	485	(27)	(6)
Other revenue	698	626	72	12
Revenue	**8,463**	**8,058**	**405**	**5**
Operating expenses (excluding fuel)[16]	(4,883)	(4,595)	(288)	(6)
Fuel[16]	(1,716)	(2,164)	448	21
Depreciation and amortisation	(585)	(538)	(47)	(9)
Non-cancellable aircraft operating lease rentals	(254)	(241)	(13)	(5)
Share of net profit/(loss) of investments accounted for under the equity method[16]	6	(20)	26	>100
Expenses	**(7,432)**	**(7,558)**	**126**	**2**
Underlying EBIT[1]	**1,031**	**500**	**531**	**>100**
Net finance costs[16]	(110)	(133)	23	17
Underlying PBT[1]	**921**	**367**	**554**	**>100**

15 Ticketed passenger revenue per Available Seat Kilometre (RASK).
16 Underlying operating expenses (excluding fuel) – total Underlying expenses excluding share of net profit/(loss) of investments accounted for under the equity method, depreciation and amortisation, lease rentals, fuel and net finance costs. Underlying expenses differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 9 which relate to other reporting periods and other items identified by Management. Refer to the reconciliation of Underlying PBT to Statutory Profit Before Tax. Operating expenses impacted by increased flying activity (3.8 per cent increase in ASKs), CPI increases and adverse impact of foreign exchange, offset by transformation cost reductions.

REVIEW OF OPERATIONS (continued)

Operating Statistics		December 2015	December 2014	Change	Change %
Available Seat Kilometres (ASK)[17]	M	74,650	71,936	2,714	3.8
Revenue Passenger Kilometres (RPK)[18]	M	60,652	57,575	3,077	5.3
Passengers Carried	'000	26,211	25,421	790	3.1
Revenue Seat Factor[19]	%	81.2	80.0	1.2pts	
Unit Revenue (RASK)	c/ASK	8.46	8.30	0.16	2.0
Yield (constant FX)[20]	c/RPK	10.42	10.64	(0.22)	(2.1)
Comparable ex fuel unit cost[21]	c/ASK	(4.93)	(4.95)	0.02	0.4

Group capacity (Available Seat Kilometres) increased by 3.8 per cent with increased utilisation of aircraft at Qantas Domestic, Qantas International, and Jetstar Group. Demand (Revenue Passenger Kilometres) increased by 5.3 per cent, resulting in a 1.2 percentage point increase in revenue seat factor in the half.

Unit revenue[22] (Revenue per Available Seat Kilometre) increased two per cent, with a 2.1 per cent decline in yield (constant foreign exchange) from ticketed passenger revenue more than offset by higher passenger loads and the benefit from currency movements on passenger revenue. The Australian dollar trading in line with its historical average provides an advantage to the Group portfolio, with more of the Australian leisure market holidaying closer to home and increased inbound leisure demand. Total unit cost[23] improved by seven per cent in the period. Comparable ex fuel unit cost, improved by 0.4 per cent as the Group continued to deliver the $2 billion Qantas Transformation program.

Segment Performance Summary	December 2015 $M	December 2014 $M	Change $M	Change %
Qantas Domestic	387	227	160	70
Qantas International	270	59	211	>100
Qantas Freight	38	54	(16)	(30)
Qantas Loyalty	176	160	16	10
Jetstar Group	262	81	181	>100
Corporate	(83)	(79)	(4)	(5)
Unallocated/Eliminations	(19)	(2)	(17)	>(100)
Underlying EBIT	**1,031**	**500**	**531**	**>100**
Net finance costs	(110)	(133)	23	17
Underlying PBT	**921**	**367**	**554**	**>100**

Qantas Domestic reported first half Underlying EBIT of $387 million, a $160 million improvement from the first half of 2014/15. The improved result was driven by a two per cent increase in unit revenue and a one per cent reduction in comparable ex fuel unit cost[24].

Qantas International's first half Underlying EBIT of $270 million was a $211 million improvement on the prior period and the strongest first half performance since the segment was reported separately from 2011/12. Unit revenue growth of three per cent and a comparable ex fuel unit cost improvement of two per cent came on top of a 6.5 per cent increase in capacity, all contributing to the strong result.

17 ASK – total number of seats available for passengers, multiplied by the number of kilometres flown.
18 RPK – total number of passengers carried, multiplied by the number of kilometres flown.
19 Revenue Seat Factor – RPKs divided by ASKs. Also known as seat factor, load factor or load.
20 Yield – passenger revenue divided by RPKs (both current and prior period have been calculated using current foreign exchange rates).
21 Comparable ex fuel unit cost – unit cost is adjusted to aid comparability between reporting periods. Comparable ex fuel unit cost is calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for changes in discount rates, changes in foreign exchange rates, share of net profit/(loss) of investments accounted for under the equity method and changes in block codeshare agreements per ASK.
22 Calculated as ticketed passenger revenue per ASK (RASK).
23 Total unit cost – Underlying PBT less ticketed passenger revenue per ASK.
24 Qantas International and Qantas Domestic Comparable ex fuel unit cost is calculated as Underlying EBIT less ticketed passenger revenue and fuel adjusted for changes in foreign exchange rates, discount rates and changes in block codeshare agreements per ASK.

REVIEW OF OPERATIONS (continued)

Jetstar Group reported a record Underlying EBIT of $262 million, a $181 million increase on the prior period. The record result reflected a very strong domestic Australia performance, a controllable unit cost[25] improvement of two per cent, and a positive profit contribution from Jetstar Group Airlines in Asia. The result included a $23 million adverse EBIT impact from Indonesian volcanoes during the period.

Qantas Loyalty Underlying EBIT increased 10 per cent to a record $176 million. A 9.7 per cent increase in revenue included a significant contribution from the growth of adjacent businesses such as Qantas Cash.

Qantas Freight reported Underlying EBIT of $38 million, a $16 million decrease on the first half of 2014/15, with a decline in international air freight demand, the conclusion of favourable Australian air Express legacy agreements and fuel price reductions offsetting reduced fuel costs.

BUILDING ON THE GROUP'S LONG-TERM COMPETITIVE ADVANTAGES

Qantas remains focused on value creation for its shareholders, combining a disciplined financial framework with targeted investment to build on the Group's long-term competitive advantages. The strategic focus of the Group in the first half of 2015/16 included:

- Maximising the Group's leading domestic position through continual evolution of the dual brand strategy
- Growing Qantas International efficiently with cornerstone partnerships (deepened alliances with American Airlines and China Eastern in addition to partnership with Emirates)
- Aligning Qantas and Jetstar with Asia's growth by increasing services between Australia and the region as well as building a pan-Asia brand through Jetstar Group Airlines
- Focusing on developing our people, culture, and leadership capabilities
- Investing in customer, brand, technology and digital for long-term success
- Leveraging digital and data opportunities for break-out growth

At the same time as pursuing these objectives, Qantas is committed to embedding sustainability across the Group. This includes an enhanced degree of transparency in sustainability reporting, as well as initiatives to integrate Environment, Social and Governance outcomes with the Group's strategy and financial objectives.

In the first half of 2015/16, sustainability highlights included Qantas receiving the Carbon Disclosure Project 'Climate Leadership Award' for the Australian company with the highest carbon disclosure score and highest quality overall disclosure. In the Dow Jones Sustainability Index for Australia and Asia Pacific, Qantas was the highest ranking company in its industry for Brand, Governance and Risk Management.

QANTAS TRANSFORMATION – DELIVERING AGAINST A BALANCED SCORECARD

The Qantas Transformation program is targeting the delivery of $2 billion of gross cost and revenue benefits by the end of 2016/17, to achieve a permanent shift in the Group's cost base and competitive position. With all milestones to date having been met or exceeded, the Group uses a balanced scorecard to ensure the three goals of cost efficiency, improved customer experience and increased people engagement are all met.

25 Controllable unit cost is calculated as underlying expenses less fuel and adjusted for the impact of Jetstar branded associates, changes in discount rates, changes in foreign exchange rates, charter revenue, costs associated with the setup of regional operations in New Zealand and movements in average sector length per available seat kilometre.

REVIEW OF OPERATIONS (continued)

The target metrics and progress to date are as follows:

Achieving Our Targets	Target Metric by FY17	Progress to Date
Accelerated transformation benefits	$2 billion gross benefits	$1,359 million benefits realised
	> 10 per cent Group ex-fuel expenditure reduction	Ex-fuel expenditure[26] reduced by 7.9 per cent
	5,000 full time equivalent reduction	4,500[27] full time equivalent reduction
De-leverage balance sheet	Greater than $1 billion debt[28] reduction	Delivered on schedule
	Debt/EBITDA < four times	Delivered ahead of schedule
	FFO/net debt > 45 per cent	Delivered ahead of schedule
Cash flow	Sustainable positive free cash flow	Delivered on schedule
Fleet simplification	11 fleet types to seven	Eight fleet types, retaining two non-reconfigured B747-400
Customer and brand	Customer advocacy (NPS)	NPS improvement for Qantas Domestic, Qantas International and Qantas Loyalty[29]
	Most on-time domestic carrier: Qantas Domestic	Premium on-time performance maintained with increase to 89.3 per cent[30]

With $1.36 billion of benefits realised through 31 December 2015, including $261 million in the first half of 2015/16, the Group expects to realise a total of $450 million of benefits in 2015/16.

CONTINUED STRONG CASH GENERATION

Cash Flow Summary	December 2015 $M	December 2014 $M	Change $M	Change %
Operating cash flows	1,373	703	670	95
Investing cash flows (excluding aircraft lease refinancing)	(603)	(509)	(94)	(18)
Net free cash flow[31]	**770**	**194**	**576**	**>100**
Aircraft operating lease refinancing	(587)	-	(587)	>(100)
Financing cash flows	(807)	(320)	(487)	>(100)
Cash at beginning of period	2,908	3,001	(93)	(3)
Effect of foreign exchange on cash	7	17	(10)	(59)
Cash at period end	**2,291**	**2,892**	**(601)**	**(21)**

26 Includes Underlying operating expenses (excluding fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable operating lease rentals, compared to first half 2013/14 adjusted for movements in foreign exchange rates and capacity.
27 Actioned FTEs as at 31 December 2015. Approximately 270 FTEs still to exit as at 31 December 2015.
28 Reduction in net debt including capitalised operating lease liabilities.
29 Measured as Net Promotor Score average first half 2015/16 compared to average first half 2014/15.
30 Qantas mainline operations (excluding QantasLink). Source: BITRE
31 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 distributions to shareholders.

REVIEW OF OPERATIONS (continued)

Debt Analysis	December 2015 $M	June 2015 $M	Change $M	Change %
Net on balance sheet debt[32]	3,041	2,558	483	19
Net debt including capitalised operating lease liabilities[33]	6,261	6,306	(45)	(1)

Operating cash flows of $1.37 billion almost doubled compared to the prior period due to the strong margin expansion that accompanied the growth undertaken in the half. Investing cash flows of $603 million (excluding aircraft operating lease refinancing for 24 aircraft of $587 million) includes a $350 million investing cash inflow from the sale of the Sydney Airport Terminal Three assets. Financing cash flows of $807 million included a $505 million shareholder distribution in the form of a return of capital announced at the full year 2014/15 and paid in November 2015.

The Group's total liquidity position remained strong with $3.3 billion in short-term liquidity. With the Group having returned to its optimal capital structure, it provides the flexibility to optimise the liquidity mix with a higher proportion of unencumbered fleet – a cheaper source of liquidity than holding high levels of cash. Following the refinancing of operating leased aircraft to unencumbered owned aircraft, 50 per cent of the Group's fleet was unencumbered with an increase in value to more than US$3.5 billion compared to around US$3 billion in 2014/15.

Net on balance sheet debt increased as a result of reducing cash through the refinancing of aircraft out of operating leases. Net debt, including capitalised operating lease liabilities, decreased to $6.26 billion from $6.31 billion at 30 June 2015.

Qantas targets investment grade credit metrics through the cycle, and in 2015/16 expects to see further improvement in both FFO/net debt and debt/adjusted EBITDA compared to 2014/15 where each metric was within or better than investment grade.

FLEET

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

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

At 31 December 2015, the Qantas Group fleet totalled 300 aircraft. During the first half of 2015/16, the Group purchased four new aircraft:

- Qantas – one Fokker 100
- Jetstar Group – three B787-8s

In addition during the half, the Group removed three aircraft from service including two lease returns. These included one B747-400 and two A330-200s.

The Qantas Group's scheduled passenger fleet average age is now eight years, at the bottom end of the targeted 8-10 year range.

QANTAS DOMESTIC

		December 2015	December 2014	Change	Change %
Total Revenue and Other Income	$M	3,007	3,007	–	–
Revenue Seat Factor	%	76.5	76.0	0.5pts	
Underlying EBIT	$M	387	227	160	70
Operating Margin	%	12.9	7.5	5.4pts	

32 Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt reduced by cash and cash equivalents and aircraft security deposits.
33 Net debt including operating lease liabilities (under the Group's Financial Framework) includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities.

REVIEW OF OPERATIONS (continued)

Qantas Domestic reported a 70 per cent increase in Underlying EBIT to $387 million. The improved result was driven by operating margin expansion on reduced capacity, as Qantas Domestic continued to reduce capacity in the major resources markets of Western Australia and Queensland while adding growth where there was stronger demand on the East Coast of Australia. Revenue was flat on the prior period on a capacity reduction of 1.2 per cent resulting in unit revenue growth of 2.3 per cent. Comparable ex fuel unit cost improved by one per cent.

Excluding the impact of the drop off in resources markets, unit revenue increased four per cent in the half with a strong performance on ‘Triangle’ routes of Sydney-Melbourne-Brisbane and leisure routes including East Coast and Tasmania.

With continued resource sector weakness, revenue from the sector was down around $50 million with a similar decline expected in the second half of 2015/16. Qantas Domestic have responded by replacing higher-gauge aircraft, including B737-800s, with smaller-gauge Fokker 100 and B717-200 aircraft. This strategy, which continues into the second half of the year, allows Qantas Domestic to maintain its overall network presence and frequency advantage while ensuring its capacity footprint matches the altered demand environment.

Network changes and reduced turn times of Qantas Domestic’s B737-800 fleet facilitated a five per cent increase in asset utilisation enabling aircraft to be deployed for further efficient capacity increases in Qantas International. At the same time, Qantas Domestic has improved other key operational metrics with higher seat factor, improved on-time performance and a seven percentage point increase in customer advocacy (Net Promoter Score). Cabin reconfigurations, including significant product enhancements, continued during the first half with nine of 16 A330 aircraft and 12 of 67 B737-800 aircraft now completed.

QANTAS INTERNATIONAL

		December 2015	**December 2014**	**Change**	**Change %**
Total Revenue and Other Income	$M	2,953	2,748	205	7.5
Revenue Seat Factor	%	83.3	82.4	0.9pts	
Underlying EBIT	$M	270	59	211	>100
Operating Margin	%	9.1	2.1	7.0pts	

Qantas International reported an Underlying EBIT of $270 million, a $211 million improvement on the prior period. Leveraging increased utilisation of existing aircraft, Qantas International grew capacity by 6.5 per cent adding additional services to the United States and Asia. Qantas International’s performance retained the benefit of the lower AUD fuel price. At the same time, the segment’s margin expanded with unit revenue growth of three per cent and comparable ex fuel unit cost reduction of two per cent.

With continued investment in product enhancements, including cabin reconfigurations, and customer service training, customer advocacy increased seven percentage points to a record. Eight out of 10 international A330-300 aircraft cabin reconfigurations have been completed, with consistently positive customer feedback surrounding the improved in-flight experience.

Aircraft utilisation increased by greater than five per cent in the period, in addition to the 15 per cent lift in productivity achieved between 2011/12 and 2014/15. The increase in aircraft utilisation, coupled with a more agile approach to capacity and network management, facilitated the introduction of new services including Sydney-San Francisco and Brisbane-Narita, increased services to Hong Kong, Philippines during the period in addition to Perth-Singapore which resumed in June 2015.

Qantas International continued to implement its strategy of forging cornerstone alliances in key markets, with deepened alliances with China Eastern from November 2015 and American Airlines[34] from December 2015 in addition to the partnership with Emirates. The American Airlines partnership broadens Qantas’ network in the United States and is expected to produce synergies in sales and marketing, customer experience, as well as Frequent Flyer benefits. The China Eastern alliance provides Qantas with a strong partner to tap into the rapidly growing inbound Chinese market into Australia, as well as a strong platform to jointly grow services between Australia and China in the future. The Emirates partnership continues to deliver for customers with its unrivalled network offering to Europe, Middle East and North Africa.

34 American Airlines partnership is subject to regulatory approval.

REVIEW OF OPERATIONS (continued)

JETSTAR GROUP

		December 2015	December 2014	Change	Change %
Total Revenue and Other Income	$M	1,913	1,773	140	7.9
Revenue Seat Factor	%	82.2	80.3	1.9pts	
Underlying EBIT	$M	262	81	181	>100
Operating Margin	%	13.7	4.6	9.1pts	

Jetstar Group reported record Underlying EBIT of $262 million, up from $81 million in the prior period. The result was driven by the standout performance of Jetstar in the domestic Australia market, with unit revenue growth of 10 per cent amid strong low fares demand. Segment revenue increased eight per cent off a four per cent increase in capacity, with increased fleet utilisation and the completion of the transition to an all B787-8 Dreamliner fleet for Jetstar International long-haul services out of Australia. The first half result included a $23 million adverse impact from the Indonesian volcano eruptions on Jetstar's Australian and Singapore-based operations.

Controllable unit cost improved by two per cent compared to the prior period. International business efficiency gains were led by the 11 strong B787-8 fleet. Jetstar Group continued to implement its Lowest Seat Cost program, which targets ongoing improvement in controllable unit cost which in turn facilitates low fares leadership across all the Group's markets.

Jetstar Group Airlines in Asia (comprising Jetstar Japan, Jetstar Asia in Singapore, and Jetstar Pacific in Vietnam) were collectively profitable in the first half, compared to a loss in the prior comparative period. Jetstar Japan reported its maiden six-month profit on the back of improved utilisation and expansion of international routes.

Product and service innovation continued to be integral to Jetstar's strategy, with new ancillary revenue product offerings and digital investment driving ancillary revenue growth.

QANTAS LOYALTY

		December 2015	December 2014	Change	Change %
Qantas Frequent Flyer Members	M	11.2	10.5	0.7	6.3
Revenue	$M	734	669	65	9.7
Underlying EBIT	$M	176	160	16	10
Operating Margin	%	24.0	23.9	0.1pts	

Qantas Loyalty reported record Underlying EBIT of $176 million, up 10 per cent on the prior period. Revenue growth of 9.7 per cent included ongoing strength of the core Qantas Frequent Flyer and Aquire businesses as well as a significant and growing contribution from adjacent businesses in the Qantas Loyalty portfolio. Membership rose to 11.2 million as at 31 December 2015, a 6.3 per cent increase from the 10.5 million members in December 2014.

Qantas Frequent Flyer saw a five per cent growth in the issuance of co-branded credit cards, outpacing industry growth[35] rates as Australian consumers continued to be attracted by the program's rewards. Qantas Frequent Flyer achieved record member advocacy with further improvements to the member value proposition including a reduction in economy points and carrier charges on redemption flights and launching points upgrades on classic redemptions. Qantas Frequent Flyer and Aquire, the rewards program for small to medium-sized enterprises, added 24 new partners including adding Vodafone as a telecommunications earn partner.

In line with its strategy to diversify earnings through new business ventures, Qantas Loyalty reported a 20 per cent growth in Qantas Cash currency loaded during the first half 2015/16 compared to the first half 2014/15, reaching a cumulative $1.5 billion since Qantas Cash commenced. The business continued to add capability to its data analytics and research unit, Red Planet, while investing in a pipeline of break-out growth opportunities to drive future earnings growth. The latest of the consumer-centric, digitally-led ventures to be pursued by Qantas Loyalty is Qantas Assure, announced in November

35 Based on number of personal credit card accounts with interest free periods; growth comparison for 12 months to December 2015; RBA credit and card charges statistics

2015 and launching in the fourth quarter of 2015/16. The health insurance partnership with nib Health Funds, will bring together Qantas Loyalty's distribution strength and loyalty offering with a leading health insurance product.

QANTAS FREIGHT

		December 2015	December 2014	Change	Change %
Total Revenue and Other Income	$M	525	550	(25)	(5)
Load Factor (International)[36]	%	54.8	57.7	(2.9)pts	
Underlying EBIT	$M	38	54	(16)	(30)
Operating Margin	%	7.2	9.8	(2.6)pts	

Qantas Freight reported Underlying EBIT of $38 million, a decrease of $16 million. The lower profit in the half was consistent with Management guidance provided at the 2014/15 result in August 2015 and reflected a revenue decrease of five per cent in challenging cargo markets.

Qantas Transformation benefits and lower fuel prices were offset by fuel surcharge reductions and a decline in air freight demand in international markets. Qantas Freight continued to focus on customer enhancements in the period, including the pilot of a customer advocacy program and selling to new markets Haneda (Tokyo), San Francisco and Vancouver.

RECONCILIATION OF UNDERLYING PBT TO STATUTORY PROFIT BEFORE TAX

The Statutory Profit Before Tax of $983 million for the half-year ended 31 December 2015 is $694 million higher than the prior corresponding period.

Underlying PBT

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

Reconciliation of Underlying PBT to Statutory Profit Before Tax	**December 2015 $M**	**December 2014 $M**
Underlying PBT	**921**	**367**
Hedge ineffectiveness relating to other reporting periods	**(14)**	**(31)**
Other items not included in Underlying PBT		
– Net gain on disposal of property, plant and equipment	201	–
– Transformation costs[37]	(48)	(42)
– One-off employee bonus	(67)	–
– Net gain on disposal of investments in controlled entities	–	12
– Other	(10)	(17)
Total other items not included in Underlying PBT	**76**	**(47)**
Statutory Profit Before Tax	**983**	**289**

36 Load Factor (International) – International Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK).
37 Transformation costs includes redundancies, restructuring costs (including fleet related), impairment of intangible assets and other transformation costs.

REVIEW OF OPERATIONS (continued)

Hedge Ineffectiveness relating to other reporting periods

On the adoption of AASB 9 (2013) on 1 July 2014, there is better alignment between Underlying PBT and Statutory Profit Before Tax, however, there continues to be a difference between Statutory Profit Before Tax and Underlying PBT resulting from derivative mark-to-market movements being recognised in the Consolidated Income Statement in a different period to the underlying exposure.

Other items not included in Underlying PBT

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

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

Transformation costs relating to the $2 billion Qantas Transformation Program of $48 million were incurred during the period.

Net gain on disposal of property, plant and equipment of $201 million relates to the disposal of Sydney Airport Terminal Three and related assets to Sydney Airport Corporation Limited announced on 18 August 2015.

One-off employee bonus of $67 million relates to Enterprise Bargaining Agreements (EBAs) employees that were open for negotiation or had agreed to the 18 month pay freeze as announced on 20 August 2015.

MATERIAL BUSINESS RISKS

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

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

- **Competitive intensity**: Market capacity growth ahead of underlying demand impacts industry profitability.
  - Australia’s liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness in recent years has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic airline partnerships with strong global partners 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 comparable ex fuel unit cost to our direct competitors. Market capacity growth was moderate for the half-year ended 31 December 2015 resulting in unit revenue improvement in the Group’s international business.
  - The Australian domestic aviation market continues to attract increased competition. The Qantas Group’s market-leading domestic position and dual-brand strategy allow Qantas to position itself to respond to market changes. This strategy leverages Qantas Domestic (including QantasLink) for business and premium leisure customers and Jetstar to serve price-sensitive customers. Qantas Domestic is focused on improving its cost base relative to its competitor while maintaining a revenue margin. Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs. Market capacity growth was moderate for the half-year ended 31 December 2015 supporting stronger passenger loads and improving yields in the Group’s domestic business.

REVIEW OF OPERATIONS (continued)

- **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 risk management program. For 2015/16 the Group's hedging profile is positioned such that the worst case total fuel cost is $3.4 billion[38] with 53 per cent participation rate in lower fuel prices (at current forward market price total fuel cost for 2015/16 is $3.3 billion[39]).
- **Industrial relations**: The risks of 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 employee groups and other relevant stakeholders. The Group continues to successfully close EBAs containing an 18-month wage freeze, subsequent to the commencement of the Qantas Transformation program. In recognition of the contribution made by all employees to strengthen the Group's long-term competitive position through the wage freeze and the delivery of all Qantas Transformation targets ahead of schedule, a one-off bonus payment is being made to all employees covered by an 18-month wage freeze.
- **Continuity of critical systems**: The Group's operations depend on the continuity of a number of information technology and communication services. The Group has an extensive control and Group Risk Management Framework[40] to reduce the likelihood of outages, ensure early detection and to mitigate the impact.
- **Key business partners**: The Qantas Group has relationships with a number of key business partners. Any potential exposures as a result of these partnerships are managed through the Group Risk Management Framework.

38 As at 19 February 2016, worst case total fuel cost based on a 2-standard deviation move in Brent forward market prices to A$68/bbl for the remainder of 2015/16.
39 As at 19 February 2016, current forward market price total fuel cost based on Brent forward market price of A$49/bbl for remainder of 2015/16.
40 An overview of the Group Risk Management Framework is available through the Qantas Group Business Practices Document on www.qantas.com.