QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

APPENDIX 4D AND
CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2013

ABN 16 009 661 901

ASX CODE: QAN

Table of Contents

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 2013 $M	December 2012 $M	Change $M	Change %
Revenue and other income	7,903	8,242	(339)	(4.1)
Statutory (loss)/profit after tax	(235)	109	(344)	(315.6)
Statutory (loss)/profit after tax attributable to members of Qantas	(235)	109	(344)	(315.6)
Underlying (loss)/profit before tax	(252)	220	(472)	(214.5)

DIVIDENDS

No interim dividend will be paid in relation to the half-year ended 31 December 2013.

EXPLANATION OF RESULTS

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

This information should be read in conjunction with the Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2013. 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 2013 $	June 2013 $
Net tangible assets per ordinary share	2.25	2.29

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

The Qantas Group incorporated the following entities during the period:

- QF EXIM B787 No. 1 Pty Limited (incorporated in Australia on 15 November 2013)
- QF EXIM B787 No. 2 Pty Limited (incorporated in Australia on 15 November 2013)

DIRECTORS' REPORT

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2013 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 on 14 November 2007*
Alan Joyce *Chief Executive Officer*	*Current, appointed 28 July 2008 – appointed Chief Executive Officer on 28 November 2008*
Maxine Brenner	*Current, appointed 29 August 2013*
Peter Cosgrove, AC, MC	*Ceased, appointed 6 July 2005 and ceased 28 January 2014*
Patricia Cross	*Ceased, appointed 1 January 2004 and ceased 18 October 2013*
Richard Goodmanson	*Current, appointed 19 June 2008*
Jacqueline Hey	*Current, appointed 29 August 2013*
Garry Hounsell	*Current, appointed 1 January 2005*
William Meaney	*Current, appointed 15 February 2012*
Paul Rayner	*Current, appointed 16 July 2008*
Barbara Ward, AM	*Current, appointed 19 June 2008*

REVIEW OF OPERATIONS

The Qantas Group reported an Underlying PBT[1] loss of $252 million for the half-year ended 31 December 2013. Statutory Loss Before Tax of $305 million and Statutory Loss After Tax of $235 million.

The operating environment during the half year was difficult, including:

- Capacity growth running ahead of demand in the Australian aviation market pressuring revenue
- Foreign Government owned or sponsored airline competition in all markets
- Fuel cost increase

Performance highlights include:

- Record result for Qantas Loyalty[2]
- Comparable unit cost improvement[3]

As a result of the deterioration in business performance and operating environment, Qantas has announced:

- An acceleration of the Qantas Transformation Program, targeting $2 billion in cost savings by financial year 2016/2017
- A reduction of 5,000 full time equivalent positions
- Significant changes to fleet plans and network
- A reduction in capital expenditure of $1 billion across financial years 2014/2015 and 2015/2016

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[1] Underlying Profit Before Tax (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 as net finance costs are managed centrally. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT. Refer to page 15 for a reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax.

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

[3] Comparable unit cost is adjusted to aid comparability between reporting periods. Comparable unit cost is calculated as Underlying PBT less passenger revenue and fuel, adjusted for the impact of Boeing settlement (first half 2012/2013), changes in foreign exchange rates, B767-300 phased fleet retirement (first half 2013/2014), Share of net loss of investments accounted for using the equity method and movements in average sector length per ASK. Comparable unit cost is the primary measure of unit cost used by the Qantas Group adjusted to aid comparability between reporting periods.

REVIEW OF OPERATIONS (continued)

Underlying PBT

The Qantas Group half-year Underlying PBT decreased to a loss of $252 million. The result was driven by revenue decline resulting from market growth running ahead of demand in both the domestic and international markets. Improvements in fuel efficiency and comparable unit cost[3] were offset by unfavourable fuel cost and foreign exchange movements. The first half 2012/2013 included the Boeing settlement[4] following the restructuring of the B787-8 deliveries.

Group Underlying Income Statement Summary		December 2013	December 2012	Change	% Change
Net passenger revenue[5]	$M	6,786	7,042	(256)	(4)
Net freight revenue	$M	500	475	25	5
Other revenue[5]	$M	617	725	(108)	(15)
Revenue	$M	**7,903**	**8,242**	**(339)**	**(4)**
Operating expenses (excluding fuel and Share of net loss of investments accounted for using the equity method)[6]	$M	(4,771)	(4,754)	(17)	-
Share of net loss of investments accounted for using the equity method	$M	(26)	(16)	(10)	(63)
Fuel[6]	$M	(2,255)	(2,181)	(74)	(3)
Depreciation and amortisation	$M	(746)	(719)	(27)	(4)
Non-cancellable aircraft operating lease rentals	$M	(261)	(265)	4	2
Expenses	$M	**(8,059)**	**(7,935)**	**(124)**	**(2)**
Underlying EBIT[7]	$M	**(156)**	**307**	**(463)**	**>(100)**
Net finance costs[6]	$M	(96)	(87)	(9)	(10)
Underlying PBT	$M	**(252)**	**220**	**(472)**	**>(100)**

Operating statistics		December 2013	December 2012	Change	% Change
Available Seat Kilometres (ASK)[8]	M	71,844	71,374	470	1
Revenue Passenger Kilometres (RPK)[9]	M	56,393	57,095	(702)	(1)
Passengers Carried	‘000	25,094	24,701	393	2
Revenue Seat Factor[10]	%	78.5	80.0	(1.5)	(2)
Yield (excluding FX)[11]	c/RPK	10.10	10.43	(0.33)	(3)
Comparable Unit Cost[3]	c/ASK	5.04	5.13	0.09	2

4 Boeing settlement of $125 million in first half of 2012/2013.

5 Net passenger revenue has been adjusted in first half of 2013/2014 to include charter revenue previously reported as Other revenue. First half 2012/2013 net passenger revenue and other revenue has been reclassified accordingly. These items remain excluded from the calculation of yield.

6 Underlying operating expenses (excluding fuel and Share of net loss of investments accounted for using the equity method), fuel and net finance costs differ from equivalent statutory expenses due to items excluded from Underlying PBT, such as adjustments for impacts of AASB 139 which relate to other reporting periods and other items identified by Management. Refer to page 15 for a reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax.

7 Underlying Earnings Before Net Finance Costs and Tax (EBIT) is the primary reporting measure for all segments except Corporate/Unallocated.

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

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

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

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

REVIEW OF OPERATIONS (continued)

Revenue fell four per cent driven by rapid capacity growth in all markets. International competitor capacity has increased 46 per cent into and out of Australia since 2009, more than double the world average at a time of sustained high fuel costs and economic volatility. Foreign airlines have continued to grow capacity aggressively in the Asia-Pacific attracted by the region's relative economic strength. Australian domestic market capacity has continued to grow ahead of demand, driven by competitor capacity growth ahead of the Qantas Group since July 2011. More recently, demand has been impacted by the resource sector slowdown, cautious business environment and low consumer confidence. These conditions have put considerable downward pressure on Group net passenger revenue resulting in three per cent yield decline and a two per cent revenue seat factor reduction during the half.

Net freight revenue increased following the acquisition and consolidation of Australian air Express from November 2012, offset by reductions in Qantas Freight capacity as a result of Qantas International network changes.

Other revenue continued to grow when adjusted for the one-off Boeing settlement in the first half of financial year 2012/2013[4]. Qantas Loyalty delivered continued growth in members and revenue to achieve another record result[2]. Jetstar further improved its ancillary revenues[12] per passenger, on top of four per cent growth in passenger numbers. Third party contract revenue was lower due to the sale of catering centres in the prior corresponding period.

Comparable unit cost[3] improved two per cent reflecting the delivery of Qantas Transformation benefits, successful growth in Qantas Loyalty and continuing cost control across the business.

Fuel costs increased three per cent on prior corresponding period to a record for any half-year period. This was driven by a nine per cent increase in Australian dollar fuel price offset by hedge gains and a three per cent fuel efficiency gain[13] resulting from fleet modernisation and reconfiguration initiatives.

The increase in net finance costs was driven by the increase in net debt.

Segment Performance Summary		December 2013	December 2012	Change	% Change
Qantas Domestic	$M	57	218	(161)	(74)
Qantas International	$M	(262)	(91)	(171)	>(100)
Qantas Loyalty	$M	146	137	9	7
Qantas Freight	$M	11	22	(11)	(50)
Qantas Brands Eliminations	$M	-	2	(2)	(100)
Qantas Brands	**$M**	**(48)**	**288**	**(336)**	**>(100)**
Jetstar Group	$M	(16)	128	(144)	>(100)
Corporate/Unallocated	$M	(92)	(108)	16	15
Eliminations	$M	-	(1)	1	100
Underlying EBIT	$M	**(156)**	**307**	**(463)**	**>(100)**
Net Finance Costs	$M	(96)	(87)	(9)	(10)
Underlying PBT	$M	**(252)**	**220**	**(472)**	**>(100)**

Qantas Domestic reported a half-year Underlying EBIT of $57 million with intense competition and market capacity growth impacting yield and revenue seat factor in addition to unfavourable Australian dollar fuel cost and foreign exchange.

Qantas International Underlying EBIT loss of $262 million for the half-year represents a $171 million reduction on the prior corresponding period. The reduction in Underlying EBIT was due to market capacity oversupply and unfavourable fuel cost and foreign exchange. International market capacity in and out of Australia increased by nine per cent[14] on prior corresponding period as a result of aggressive competitor growth largely from foreign government owned or sponsored airlines. The strength of the Qantas Emirates partnership partially offset revenue decline with codeshare bookings on the

[12] Ancillary revenue per passenger excludes management and branding fee revenue related to Consolidated Entities adjusted for customer mix.
[13] Fuel efficiency is measured as litres per ASK adjusted for movements in average sector length.
[14] BITRE data – November 2013.

REVIEW OF OPERATIONS (continued)

alliance double those under previous alliances.

Qantas Loyalty achieved a record[2] half-year Underlying EBIT of $146 million, a seven per cent improvement on prior corresponding period. Partner expansion and new growth initiatives have driven program membership up eight per cent, to 9.7 million members in December 2013.

Jetstar's half-year Underlying EBIT loss of $16 million reflects the impact of domestic competitive pressures and $29 million in start-up losses through its Jetstar-branded airlines through Asia.

Qantas Freight half-year Underlying EBIT of $11 million is down $11 million on prior corresponding period. This was driven by changes in the Qantas International network, increased market capacity and weaker market conditions. The result also reflects the sale of StarTrack in November 2012 and subsequent integration of Australian air Express into the Qantas Freight domestic business that is now complete.

Qantas' guiding strategic principles remain consistent

Qantas' guiding strategic principles are consistent with our objective to transform the Group's cost base and competitive position to deliver sustainable returns to shareholders:

- Safety is always our first priority
- The first choice for our customers in every market we serve
- Maintaining dual-brand strength in domestic market
- Reshaping Qantas International to remain competitive
- Maintaining the Jetstar opportunity in Asia
- Broadening Qantas Loyalty for strong, diversified earnings
- Driving efficiency and productivity

However, the Group must accelerate the pace of Transformation.

Qantas' priorities are to strengthen the core of our business and protect the sources of our long-term competitive advantage:

- The customer experience on the ground, in the air, and for Frequent Flyers;
- Qantas' domestic dual-brand strength

Qantas is accelerating our business Transformation to drive a recovery in earnings. This will be achieved through operational and structural initiatives while continuing to deliver superior customer product and services and continuing to work closely with our people. The immediate priorities are to:

- Accelerate cost reduction
- Right-size fleet and network
- Work existing assets harder
- Defer growth
- Align capital expenditure to financial performance
- Accelerate simplification

Earnings recovery through accelerating Qantas Transformation

Qantas is accelerating the delivery of strategic initiatives to enable it to remove the cost gap to its domestic competition and to obtain a competitive cost base compared to its international competitors.

Qantas Transformation initiatives delivered to date include:

- Comparable unit cost[3] reduction of 19 per cent over four years to end of financial year 2012/2013 through measures including:
  - Consolidation of engineering and catering facilities
  - 22 per cent improvement in labour efficiency[15] since 2008 across the Group
- Network optimisation
  - Development of strategic partnerships
  - Transferred European hub from Singapore to Dubai
  - Exited under-performing routes
  - Re-timing of the Asian network

[15] Efficiency improvement is measured as average full-time equivalent employees per passenger.

REVIEW OF OPERATIONS (continued)

- Fleet renewal and simplification
  - Reconfiguration of Boeing B747-400 and A380-800 aircraft
  - Retirement of B737-400 fleet
  - Retirement of the B767-300 fleet

To address its legacy cost base and work practices and offset the impact of inflation; the more than $500 million[16] increase in fuel price and foreign exchange movement and the reduction in the Group yields of 11 per cent[17], Qantas is targeting an earnings-led recovery through $2 billion in cost savings by financial year 2016/2017. To achieve this the Qantas Group will implement approximately 250 initiatives.

- Right-sizing fleet and network
  - Right Aircraft, Right Route – Qantas will exit underperforming routes and make aircraft changes on certain routes to better match capacity to demand through:
    - Withdrawing Qantas International from underperforming Perth-Singapore route in first quarter financial year 2014/2015
    - Operating all Sydney-Singapore and Brisbane-Singapore services with A330-300s in first quarter of financial year 2014/2015

  - Work existing assets harder – Increase aircraft utilisation through reduced turnaround times, schedule re-design and simplification of the Group's passenger fleet from 11 aircraft types to just seven by financial year 2015/2016 through:
    - Reduction in domestic wide-body aircraft with remaining aircraft focused on East-West and peak Sydney-Melbourne-Brisbane (Triangle) services
    - Free-up A330-200s to enter Qantas International as replacement aircraft
    - Retirement of all B767-300 aircraft by third quarter of financial year 2014/2015
    - Retirement of the six oldest B747-400 (not reconfigured) aircraft by second-half of financial year 2015/2016
    - Re-time services between Melbourne and London to reduce A380-800 ground time in Heathrow and improve revenue in second quarter of financial year 2014/2015

  - Deferring Growth – Qantas will revise its growth forecast to better align with immediate priorities and market demand resulting in:
    - Deferral of eight remaining A380-800 aircraft with ongoing review of delivery dates to meet potential future requirements
    - Deferral of the last three of 14 B787-8 orders
    - Restructure of the A320-200 order book
    - Suspend new growth for Jetstar in Asia and support existing businesses

- Productivity and Consolidation – To contain costs Qantas will create a step change in labour productivity and rationalise activities to achieve a reduction of 5,000 full-time equivalent positions across the Group, expecting to incur approximately $500 million in redundancy costs across financial years 2013/2014 and 2014/2015. This will be achieved through:
  - Operational positions affected by fleet and network changes
  - Reducing management and non-operational areas by approximately 1,500 full-time equivalent positions
  - Freezing wages until the Qantas Group makes a full-year underlying profit
    - Ongoing for executives
    - Immediate for open Enterprise Bargaining Agreements (EBAs)
    - Proposed for other EBA-covered staff
  - Restructure of line maintenance operations
  - Restructure of catering facilities, including the previously announced closure of the Adelaide catering centre
  - Efficiency gain in the engineering supply chain
  - Closure of Avalon maintenance base, as previously announced

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[16] Increase in Australian dollar fuel price and foreign exchange movements between financial year 2008/2009 and financial year 2012/2013.
[17] Yield[11] decline between financial year 2008/2009 and financial year 2012/2013 adjusted for sector length.

REVIEW OF OPERATIONS (continued)

- Technology – Qantas will use new technology initiatives to enhance efficiency including:
  - Roll out of B787-8
  - Improve Freight supply chain and terminals
  - Rationalise its software applications

- Suppliers – Qantas will improve terms with key suppliers through:
  - Renegotiating commercial contracts across the Group
  - Improved vendor management

Unlocking value through a structural review

Since December 2013 Qantas has been working through a careful, methodical structural review process. Qantas will take the time necessary to make the right strategic decisions for the future. The review has confirmed Qantas has valuable and desirable assets in the portfolio:

- Brisbane airport terminal lease returned to Brisbane Airport Corporation together with related assets for $112 million to be recognised in the second half of 2013/2014
- Sydney and Melbourne terminal discussions continue

Qantas will take the time necessary to make the right strategic decisions for the future, and no final decisions have been made about other assets within the Group's portfolio.

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, significant aviation incidents, changes in government regulations, fuel and foreign exchange volatility and other exogenous events such as natural disasters, war or 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 demand impacts industry profitability
  - Australia's liberal aviation policy settings coupled with the strength of the Australian economy relative to global economic weakness has attracted more offshore competitors to the Australian international aviation market, predominantly state-sponsored airlines. Qantas is responding by building key strategic partnerships and accelerating cost base reduction through Qantas Transformation. Qantas continues to leverage its considerable fleet flexibility to adjust capital expenditure in line with financial performance and appropriately manage its network.
  - The Australian domestic aviation market has attracted increased competition in recent years. The resulting intensity of competition as a result of continued capacity growth ahead of demand is being mitigated by maintaining the Qantas Group's market leading domestic position and executing Qantas Group's dual brand strategy. This strategy leverages Qantas Domestic (including QantasLink) to serve business and premium leisure customers and Jetstar to serve price sensitive customers. Qantas Domestic is focused on removing the cost base disadvantage to its competitor through its transformation initiatives and fleet renewal, while Jetstar is working to maintain its low-cost scale advantage and continually lower unit costs.

- **Jetstar-branded airlines in Asia** – The most recent Jetstar-branded airlines being established across Asia (Jetstar Japan and Jetstar Hong Kong) are in the start-up phase. The inherent risk associated with start-up operations, including obtaining necessary regulatory approvals, is being mitigated through strong local partners, leveraging their strength in each market, sharing risk through appropriate equity structures and appropriate contractual protection in relation to, inter alia, fleet procurement transactions.

- **Credit rating** – In the period Qantas' credit rating was downgraded to Ba2 negative watch and BB+ stable by Moody's and Standard and Poor's respectively. This may increase the price of new debt funding and/or reduce the Group's access to some sources of unsecured credit (including certain operational and working capital facilities) over time.

REVIEW OF OPERATIONS (continued)

Qantas mitigates the potential impact of risk on the Group's financial prospects by maintaining a strong capital base to maintain creditor confidence, sustain future development of the business and maximise shareholder value. Qantas targets a capital structure consistent with an investment grade credit rating while maintaining adequate liquidity. The Group maintains access to a broad range of capital sources and the capacity to manage capital expenditure through a flexible fleet order book and processes to strategically prioritise investments and divest non-core assets.

The immediate priority to transform the cost base will result in credit metrics remaining outside the investment grade range for the immediate future. Qantas Transformation is to be funded through the reprioritisation of capital, asset sales and future free cash flow benefits from Qantas Transformation from financial year 2014/2015 onwards.

In addition, due to the size and complexity of the operations, Qantas is also exposed to a number of other risks that may impact the Group:

- **Industrial relations** – The risk of industrial action relating to Qantas' collective agreements with its employees is being mitigated through continuous stakeholder and employee engagement initiatives. The success of these programs is reflected through improving employee engagement scores.

- **Continuity of critical systems** – The Group's operations depend on the continuous functioning of a number of information technology and communication services. The Group has an extensive control and management framework to reduce the likelihood of outages, ensure early detection and to mitigate the impact.

Securing the future with financial discipline

- Maintaining a strong liquidity position
- Prudent capital management

Cash Flow Summary		**December 2013**	**December 2012**	**Change**	**% Change**
Cash generated from operations	$M	692	788	(96)	(12)
Other operating cash flows	$M	(111)	(8)	(103)	>(100)
Operating cash flows	$M	581	780	(199)	(26)
Investing cash flows	$M	(939)	(575)	(364)	(63)
Net free cash flow[18]	$M	**(358)**	**205**	**(563)**	**>(100)**
Financing cash flows	$M	(82)	(547)	465	85
Effect of foreign exchange on cash	$M	6	2	4	>100
Cash at period end	$M	**2,395**	**3,058**	**(663)**	**(22)**

The Group finished the period with a strong liquidity position of $3.0 billion[19]. Net free cash flow was negative in the period as a result of the operating result and the weighting of investing cash flows in the first half of the 2013/2014 financial year. Total financial year 2013/2014 investing cash flows are expected to be $1.2 billion.

The operating cash flows were favourable to prior corresponding period after allowing for one off receipts in the first half of 2012/2013 for Boeing Settlement[4] and proceeds related to the sale of StarTrack and catering facilities. This was driven by a recovery in bookings which had temporarily declined pending regulatory approval of the transfer of our European Hub through Dubai announced in September 2012 and increased sales through our strategic partner airlines.

Seven new unencumbered A320-200 aircraft were added to the fleet.

The Group continues to retain significant flexibility in its financial position, funding strategies and fleet plan to ensure that it can respond to changing market conditions.

[18] Net free cash flow – Operating cash flows less investing cash flows. Net free cash flow is a measure of the amount of operating cash flows that are available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.
[19] Includes cash and cash equivalents and $630 million undrawn revolver facility at 31 December 2013.

REVIEW OF OPERATIONS (continued)

Debt and Gearing Analysis		December 2013	December 2012	Change	% Change
Net on balance sheet debt[20]	$M	3,829	3,226	603	19
Net Debt including operating lease liabilities[21]	$M	5,334	4,847	487	10
Adjusted Equity[22]	$M	5,549	5,717	(168)	(3)
Gearing Ratio[23]		49:51	46:54	3 pts	7

Fleet

The Qantas Group remains committed to a fleet strategy that provides for long-term fleet flexibility, renewal and simplification. The fleet strategy is designed to support the strategic objectives of the Group's two flying brands, whilst retaining significant flexibility to respond to changes in market conditions.

At 31 December 2013, the Qantas Group fleet, including Jetstar Asia, Qantas Freight and Network Aviation, totalled 318 aircraft. During the first half of 2013/2014 the Group purchased 15 aircraft and leased 2 aircraft:

- Qantas – four B737-800s (owned), two Bombardier Q400s (owned) and two B717-200s (leased).
- Jetstar (including Jetstar Asia) – two B787-8s (owned) and seven A320-200s (owned).

The Group removed 11 aircraft from service during the first half of 2013/2014 including four lease returns. This included one B747-400, five B767-300s, three B737-400s and two EMB120s.

The Qantas Group's scheduled passenger fleet average age is now 7.6 years, the lowest average age since privatisation. The benefits of fleet investment include improved customer satisfaction, environmental outcomes, operational efficiencies and cost reductions.

With the fleet modernisation program nearing completion the low fleet age will enable planned capital expenditure net of operating lease liability[24], to be reduced by $1 billion over two years to $800 million in financial year 2014/2015 and $800 million in financial year 2015/2016.

Qantas Domestic

- Domestic market yields and revenue seat factor adversely impacted by market capacity growth running ahead of demand
- Comparable unit cost[3] improvement of one per cent
- Superior on-time performance
- Record levels of customer advocacy

		December 2013	December 2012	Change	% Change
Total Revenue and Other Income	$M	3,086	3,220	(134)	(4)
Revenue Seat Factor	%	74.9	76.9	(2.0)pts	(3)
Underlying EBIT	$M	57	218	(161)	(74)

[20] Net on balance sheet debt includes interest-bearing liabilities and the fair value of hedges related to debt less cash, cash equivalents and aircraft security deposits.
[21] Net Debt including operating lease liabilities includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities[24].
[22] Adjusted Equity includes Equity adjusted to exclude hedge reserves.
[23] Gearing Ratio is net debt including operating lease liability to net debt including operating lease liability and adjusted equity. The gearing ratio is used by management to represent the Qantas Group's debt obligation including obligations under operating leases[24].
[24] Operating lease liability is the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet. This operating lease liability has been calculated as the present value of future non-cancellable operating lease rentals of aircraft in service, using a discount rate of seven per cent applied in Standard and Poor's methodology.

REVIEW OF OPERATIONS (continued)

Qantas Domestic Underlying EBIT of $57 million for the half-year ended 31 December 2013 was down from $218 million in the prior corresponding period.

The reduction in Underlying EBIT was largely driven by rapid domestic market capacity growth, unfavourable fuel cost and foreign exchange. Revenue has been further impacted by softening resource sector demand, particularly in the Western Australian and Queensland markets. This challenging competitive environment resulted in reduced revenue seat factor and weaker yields. However Qantas continues to be the clear choice for business travellers and has maintained over 80 per cent share of corporate market revenue.

Qantas Domestic's comparable unit cost[3] improved one per cent on prior corresponding period. Cost savings included transformation benefits following consolidation of the Qantas Heavy Maintenance Bases and completion of the fleet renewal.

Qantas Domestic recorded its best half-year of domestic customer advocacy since recording commenced in August 2008. Qantas Domestic was recognised through a number of industry awards:
- 'Best Domestic Airline'[25] four years running
- 'Best Economy'[26] noting that Qantas Domestic was the world's best by a wide margin
- 'Best Lounges'[26]

Qantas Domestic has achieved superior on time performance for the fifth year running[27] beating its main competitor in an unprecedented 12 out of 12 months in calendar year 2013.

Qantas Domestic continued to strengthen its customer proposition through improved lounge experiences by investing in new and expanded lounges in Melbourne, Perth, Tamworth and Coolangatta airports and continued investment in front-line team training.

Qantas Domestic continues to support the regional market position through QantasLink and Network Aviation services. QantasLink launched two-class B717-200 services on Canberra and Tasmania routes[28] and took delivery of two Bombardier Q400 aircraft and two B717-200 aircraft during the period. QantasLink relocated into the Qantas Sydney terminal creating a more seamless travel experience for Qantas customers through smoother connections and reduced check-in times. Qantas' Charter operations have increased market share 25 per cent since July 2012 to 30 per cent.

Qantas International

- International market yields and revenue seat factor adversely impacted by market capacity oversupply
- Comparable unit cost[3] improvement of four per cent
- Strengthening alliances through Emirates partnership and new codeshare agreements with China Southern
- Record customer advocacy among business flyers

		December 2013	December 2012	Change	% Change
Total Revenue and Other Income	$M	2,621	2,818	(197)	(7)
Revenue Seat Factor	%	80.8	82.7	(1.9) pts	(2)
Underlying EBIT	$M	(262)	(91)	(171)	>(100)

Qantas International Underlying EBIT loss of $262 million for the half-year represents a $171 million deterioration on the prior corresponding period.

25 Australian Federation of Travel Agents National Industry Awards 2010-2013.
26 AirlineRatings.com's Airline Excellence Awards, January 2014.
27 BITRE data - January 2009 to December 2013.
28 Tasmania Services commencing mid-April 2014.

REVIEW OF OPERATIONS (continued)

The reduction in Underlying EBIT was due to lower revenues, unfavourable fuel cost and foreign exchange. Revenues reduced due to market capacity oversupply. International market capacity in and out of Australia increased by nine per cent[29] as a result of aggressive competitor behaviour largely from foreign government owned or sponsored airlines. The strength of the alliance with Emirates partially offset the revenue decline with codeshare bookings doubling compared to previous alliances.

Comparable unit cost improved four per cent reflecting ongoing benefits from the Transformation program, including the reduction in heavy maintenance, retirement of older B747-400 aircraft, improved fleet utilisation and improved fleet economics following A380-800 and B747-400 reconfigurations.

Continued investment in Qantas' international product and service offerings resulted in record advocacy levels amongst business flyers as business customers continue to take advantage of a broader network proposition through the Emirates alliance and product enhancements including the lounge offering, Business Sleeper Service, Select on Q-Eat and Chauffeur Drive.

Qantas International continued to strengthen its intra-Asia proposition, including announcing a new codeshare partnership with China Southern. Qantas International now has agreements with three major China-based carriers providing access to one of the world's largest and fastest growing economies.

Jetstar

- Domestic business profitable every year since 2004
- Competitive environment impacting yields, in particular in South East Asia
- Low Cost Carrier (LCC) business fundamentals remain strong
  - Continued growth in ancillary revenue per passenger[12]
  - Unit cost[30] improvement
  - Successful introduction of the B787-8 Dreamliner
- Strong brand presence across Asia

		December 2013	**December 2012**	**Change**	**% Change**
Total Revenue and Other Income	$M	1,671	1,757	(86)	(5)
Seat Factor	%	78.5	79.0	(0.5) pts	(1)
Underlying EBIT	$M	(16)	128	(144)	>(100)

Jetstar Underlying EBIT for the half-year ended 31 December 2013 was a loss of $(16) million, down from $128 million profit in the prior corresponding period.

The decline in earnings was primarily driven by market capacity oversupply driving yield decline in South East Asia, market growth ahead of demand in the Australian domestic market and unfavourable fuel cost and foreign exchange.

Jetstar's LCC fundamentals remain strong. Jetstar Group improved unit cost[30] by two per cent and ancillary revenue per passenger[12] by one per cent compared to the prior corresponding period.

Jetstar has been profitable in the Australian domestic market every year since launch. Domestic seat factor increased by 0.5 points to 82.3 per cent as a result of five per cent passenger growth on capacity growth of four per cent.

Jetstar International successfully introduced the B787-8 Dreamliner into long-haul operations out of Australia during the period.

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[29] BITRE data - November 2013.

[30] Unit cost - Jetstar Group unit cost is measured using controllable unit cost in line with industry benchmarks for low-cost carriers. Controllable unit cost is adjusted to aid comparability between reporting periods. Controllable unit cost is measured as total underlying expenses excluding fuel, carbon tax, Jetstar Asia and Share of net loss of investments accounted for using the equity method, adjusted for changes in foreign exchange rates and movements in average sector length per ASK.

REVIEW OF OPERATIONS (continued)

Jetstar Asia continues to provide a strategically important gateway to Asia, operating in a highly competitive market with LCC capacity up 34 per cent[31] putting significant downward pressure on yields. This was partially offset by unit cost

improvement of two per cent[33] coupled with four per cent increase in ancillary revenue per passenger[12] compared to the prior corresponding period.

Japan continues to be a substantial opportunity for the Group, with Jetstar Japan in a strong competitive position. Jetstar Japan is the largest domestic LCC in Japan[32] with over three million passengers carried since launch, market leading On Time Performance and strong customer advocacy.

Jetstar Pacific continues to realise the benefits from the fleet renewal program, achieving a seven per cent unit cost[33] improvement compared to prior corresponding period. In addition commercial initiatives have enabled an eight per cent increase in ancillary revenue per passenger[12].

Jetstar Hong Kong's preparation for operational launch continues while seeking necessary regulatory approvals.

Qantas Loyalty

- Record[34] Underlying EBIT of $146 million, up seven per cent on the prior corresponding period
- Member growth of over 700,000 members in the period to 9.7 million members with approximately 2,000 members joining each day
- Billings[35] up nine per cent to $662 million
- New growth initiatives - Qantas Cash and AQUIRE
- Net promoter score at record high[36]

		December 2013	December 2012	Change	% Change
Members	M	9.7	9.0	0.7	8
Billings[35]	$M	662	607	55	9
Underlying EBIT	$M	146	137	9	7

Qantas Loyalty achieved another record[34] result with a seven per cent improvement in Underlying EBIT to $146 million for the half-year ended 31 December 2013. Underlying EBIT improved 10 per cent excluding Qantas Cash and AQUIRE start-up costs. This has been driven by strong billings growth, continuing member engagement and continued member growth to 9.7 million members, with more than 700,000 members added over the last 6 months[37].

Billings[35] increased by nine per cent to $662 million. Credit card billings were up by 10 per cent driven by promotional campaigns and new products.

Qantas Loyalty continues to grow with new growth initiatives Qantas Cash and AQUIRE exceeding expectations.

There have been over 200,000[38] card activations since the launch of Qantas Cash. In addition to faster, smarter check-in, boarding and lounge access, the prepaid multi-currency travel card gives members new ways to earn points and the ability to hold up to ten different currencies on one card.

31 Diio Report published 9 January 2014.
32 Based on fleet as at 31 December 2013 and domestic ASKs compared to Peach Aviation and AirAsia Japan/Vanilla Air.
33 Unit cost - Unit cost is measured using controllable unit cost in line with industry benchmarks for low-cost carriers. Controllable unit cost is adjusted to aid comparability between reporting periods. Controllable unit cost is measured as total underlying expenses excluding fuel, adjusted for changes in foreign exchange rates and movements in average sector length per ASK.
34 Qantas Loyalty record Underlying EBIT result compared to prior periods normalised for changes in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009.
35 Billings represent point sales to partners.
36 Net promoter score is at its highest level since reporting started in 2008.
37 Members added in the last six months to 31 December 2013.
38 As at February 2014.

REVIEW OF OPERATIONS (continued)

Qantas Loyalty is launching AQUIRE in March 2014. Small to medium enterprise (SMEs) are showing strong interest in AQUIRE with over 25,000 SMEs pre-registered. This innovative business rewards program enables businesses to earn rewards on everyday business expenses and provides the flexibility to use rewards for multiple purposes including employee rewards and flight savings.

Qantas Loyalty added eight new partners during the period providing members with expanded opportunities to earn and redeem points including, Coral Sea Hotels, Kerzner International Resorts, Fresh Fragrances, Jumeirah Hotels & Resorts, Vendome, iSelect, Dimmi, and Qatar Airways.

Qantas Freight

- Increased revenue in a competitive environment
- Integration of Australian air Express

		December 2013	December 2012	Change	% Change
Total Revenue and Other Income	$M	568	531	37	7
Revenue Load Factor[39]	%	53.9	55.9	(2) pts	(4)
Underlying EBIT	$M	11	22	(11)	(50)

Qantas Freight's Underlying EBIT was $11 million for the half-year ended 31 December 2013, down $11 million on prior corresponding period. This was driven by the sale of StarTrack and acquisition of Australian air Express during first half of financial year 2012/2013 together with an eight per cent reduction in international freight capacity and challenging air freight markets.

The integration of Australian air Express is now complete, delivering full run-rate synergy benefits from the second half of financial year 2013/2014 and creating Australia's leading independent air freight provider. The consolidation of Australian air Express contributed to the increase in revenue in the period.

Reconciliation of Underlying PBT to Statutory PBT

The half-year ended 31 December 2013 Statutory Loss Before Tax of $305 million is $453 million down on 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 International, Qantas Domestic, Jetstar Group, Qantas Loyalty and Qantas Freight operating segments is Underlying EBIT. The primary reporting measure of the Corporate/Unallocated segment is Underlying PBT as net finance costs are managed centrally.

Underlying PBT is derived by adjusting Statutory (Loss)/Profit Before Tax for the impacts of AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT.

[39] Revenue Load Factor – Revenue Freight Tonne Kilometre (RFTK) over Available Freight Tonne Kilometre (AFTK).

REVIEW OF OPERATIONS (continued)

Reconciliation of Underlying PBT to Statutory (Loss)/Profit Before Tax		**December 2013**	**December 2012**	**Change**	**% Change**
Underlying PBT	$M	**(252)**	**220**	**(472)**	**>(100)**
Items not included in Underlying PBT					
- AASB 139 mark-to-market movements relating to other reporting periods	$M	54	34	20	59
Items not included in Underlying PBT					
- Net impairment of property, plant and equipment	$M	(23)	(62)	39	63
- Redundancies and restructuring	$M	(59)	(68)	9	13
- Net profit on disposal of jointly controlled entity	$M	-	30	(30)	(100)
- B787-8 introduction costs	$M	(9)	-	(9)	(100)
- Other	$M	(16)	(6)	(10)	>(100)
Total items not included in Underlying PBT	**$M**	**(107)**	**(106)**	**(1)**	**(1)**
Statutory (Loss)/Profit Before Tax	**$M**	**(305)**	**148**	**(453)**	**>(100)**

AASB 139 mark-to-market movements relating to other reporting periods

All derivative transactions undertaken by the Qantas Group represent economic hedges of underlying risk and exposures. The Qantas Group does not enter into speculative derivative transactions. Notwithstanding this, AASB 139 requires certain mark-to-market movements in derivatives which are classified as ’ineffective’ to be recognised immediately in the Consolidated Income Statement. The recognition of derivative valuation movements in reporting periods which differ from the designated transaction causes volatility in statutory profit that does not reflect the hedging nature of these derivatives.

Underlying PBT reports all hedge derivative gains and losses in the same reporting period as the underlying transaction by adjusting the reporting period’s statutory profit for derivative mark-to-market movements that relate to underlying exposures in other reporting periods.

All derivative mark-to-market movements which have been excluded from Underlying PBT will be recognised through Underlying PBT in future periods when the underlying transaction occurs.

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 major transformational/restructuring initiatives, transactions involving investments and impairments of assets outside the ordinary course of business.

Items not included in Underlying PBT in the first half of the 2013/2014 year were driven by the Qantas Transformation. Costs include aircraft impairment due to early retirement following strategic network changes, further consolidation of engineering and catering facilities and the integration of Australian air Express.

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 42 and forms part of the Directors' Report for the half-year ended 31 December 2013.

ROUNDING

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

ASIC GUIDANCE

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

In line with previous years and in accordance with the Corporations Act 2001, the Directors' Report is unaudited. Notwithstanding this, the Directors' Report (including the Review of Operations) contains disclosures which are extracted or derived from the Consolidated Interim Financial Report for the half-year ended 31 December 2013 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
27 February 2014

CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December 2013

	Note	December 2013 $M	December 2012 Restated[1] $M
Revenue and other income			
Net passenger revenue		6,786	7,042
Net freight revenue		500	475
Other	3	617	725
		7,903	**8,242**
Expenditure			
Manpower and staff related		1,894	1,930
Fuel		2,241	2,135
Aircraft operating variable		1,647	1,616
Depreciation and amortisation		746	719
Non-cancellable aircraft operating lease rentals		261	265
Share of net loss of investments accounted for using the equity method		26	16
Other	3	1,299	1,319
		8,114	**8,000**
Statutory (loss)/profit before income tax expense and net finance costs		**(211)**	**242**
Finance income		42	66
Finance costs		(136)	(160)
Net finance costs		**(94)**	**(94)**
Statutory (loss)/profit before income tax expense		**(305)**	**148**
Income tax benefit/(expense)	4	70	(39)
Statutory (loss)/profit for the period		**(235)**	**109**
Statutory (loss)/profit for the period attributable to members of Qantas		**(235)**	**109**
(Loss)/earnings per share attributable to members of Qantas:			
Basic/diluted (loss)/earnings per share (cents)		(10.6)	4.8

[1] Refer to Note 12 for the Application of New or Revised Accounting Standards relating to defined benefit superannuation plans.

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 2013

	December 2013 $M	December 2012 Restated[1] $M
Statutory (loss)/profit for the period	**(235)**	**109**
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	39	25
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[2]	(43)	(25)
Recognition of effective cash flow hedges on capitalised assets, net of tax	(5)	11
Foreign currency translation of controlled entities	5	2
Foreign currency translation of investments accounted for using the equity method	2	(2)
Items that will not subsequently be reclassified to profit or loss		
Defined benefit actuarial gains, net of tax	117	165
Other comprehensive income for the period	**115**	**176**
Total comprehensive income for the period	**(120)**	**285**
Total comprehensive income attributable to members of Qantas	**(120)**	**285**

[1] Refer to Note 12 for the Application of New or Revised Accounting Standards relating to defined benefit superannuation plans.

[2] These amounts were allocated against revenue of ($70 million) (2012: ($14 million)), fuel expenditure of $9 million (2012: ($22 million)) and income tax expense of $18 million (2012: $11 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 2013

	Note	December 2013 $M	June 2013 Restated[1] $M
Current assets			
Cash and cash equivalents		2,395	2,829
Receivables		1,341	1,436
Other financial assets	6	261	180
Inventories		346	364
Assets classified as held for sale	11	90	42
Other		142	110
Total current assets		**4,575**	**4,961**
Non-current assets			
Receivables		132	174
Other financial assets	6	86	27
Investments accounted for using the equity method	5	223	190
Property, plant and equipment		13,932	13,827
Intangible assets		725	714
Other		308	139
Total non-current assets		**15,406**	**15,071**
Total assets		**19,981**	**20,032**
Current liabilities			
Payables		1,881	1,859
Revenue received in advance		3,037	3,032
Interest-bearing liabilities	7	844	835
Other financial liabilities	6	92	86
Provisions		747	835
Liabilities classified as held for sale	11	28	-
Total current liabilities		**6,629**	**6,647**
Non-current liabilities			
Revenue received in advance		1,220	1,186
Interest-bearing liabilities	7	5,431	5,245
Other financial liabilities	6	42	54
Provisions		395	435
Deferred tax liabilities		601	625
Total non-current liabilities		**7,689**	**7,545**
Total liabilities		**14,318**	**14,192**
Net assets		**5,663**	**5,840**
Equity			
Issued capital		4,630	4,693
Treasury shares		(21)	(43)
Reserves		108	128
Retained earnings		942	1,057
Equity attributable to members of Qantas		**5,659**	**5,835**
Non-controlling interests		4	5
Total equity		**5,663**	**5,840**

[1] Refer to Note 12 for the Application of New or Revised Accounting Standards relating to defined benefit superannuation plans.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2013

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

1 Refer to Note 12 for the Application of New or Revised Accounting Standards relating to defined benefit superannuation plans.
2 45,415,538 shares were bought back and cancelled during the half-year ended 31 December 2013.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2013

December 2012 Restated[1] $M	**Issued Capital**	**Treasury Shares**	**Employee Compensation Reserve**	**Hedge Reserve**	**Foreign Currency Translation Reserve**	**Retained Earnings**	**Non-controlling Interests**	**Total Equity**
Balance as at 1 July 2012	4,729	(42)	48	41	(53)	1,162	4	5,889
Impact of application of revised standards	-	-	-	-	-	(421)	-	(421)
Restated balance at 1 July 2012	4,729	(42)	48	41	(53)	741	4	5,468
Total comprehensive income for the period								
Statutory profit for the period	-	-	-	-	-	109	-	109
Other comprehensive income								
- Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	25	-	-	-	25
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(25)	-	-	-	(25)
- Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	11	-	-	-	11
- Defined benefit actuarial gains, net of tax	-	-	-	-	-	165	-	165
- Foreign currency translation of controlled entities	-	-	-	-	2	-	-	2
- Foreign currency translation of investments accounted for using the equity method	-	-	-	-	(2)	-	-	(2)
Total other comprehensive income	**-**	**-**	**-**	**11**	**-**	**165**	**-**	**176**
Total comprehensive income for the period	**-**	**-**	**-**	**11**	**-**	**274**	**-**	**285**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
- Shares bought back[2]	(12)	-	-	-	-	-	-	(12)
- Treasury shares acquired	-	(16)	-	-	-	-	-	(16)
- Share-based payments	-	-	11	-	-	-	-	11
- Shares vested and transferred to employees	-	12	(12)	-	-	-	-	-
- Share-based payments unvested and lapsed	-	-	(4)	-	-	4	-	-
Total contributions by and distributions to owners	**(12)**	**(4)**	**(5)**	**-**	**-**	**4**	**-**	**(17)**
Total transactions with owners	**(12)**	**(4)**	**(5)**	**-**	**-**	**4**	**-**	**(17)**
Balance as at 31 December 2012	**4,717**	**(46)**	**43**	**52**	**(53)**	**1,019**	**4**	**5,736**

1 Refer to Note 12 for the Application of New or Revised Accounting Standards relating to defined benefit superannuation plans.
2 8,823,745 shares were bought back and cancelled during the half-year ended 31 December 2012.

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 2013

	December 2013 $M	December 2012 $M
Cash flows from operating activities		
Cash receipts from customers	8,533	8,507
Cash payments to suppliers and employees (excluding redundancies)	(7,841)	(7,719)
Cash generated from operations	**692**	**788**
Cash payments to employees for redundancies	(44)	(79)
Interest received	40	67
Interest paid	(109)	(134)
Dividends received from investments in entities accounted for using the equity method	2	139
Income taxes paid	-	(1)
Net cash from operating activities	**581**	**780**
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets	(833)	(833)
Net payments for aircraft assigned to equity accounted investees[1]	(25)	(6)
Interest paid and capitalised on qualifying assets	(20)	(32)
Proceeds from disposal of property, plant and equipment	26	13
Proceeds from sale and operating leaseback of non-current assets	-	9
Net proceeds from repayment of loans receivable from investments accounted for using the equity method	-	125
Loan provided to equity accounted investees	(28)	-
Proceeds from disposal of equity accounted investees	-	189
Proceeds from disposal of controlled entities, net of cash disposed	-	17
Payments for the acquisition of controlled entities, net of cash acquired	-	(24)
Payments for investments in equity accounted investees	(59)	(33)
Net cash used in investing activities	**(939)**	**(575)**
Cash flows from financing activities		
Payments for shares bought back[2]	(63)	(12)
Payments for treasury shares	-	(16)
Proceeds from borrowings	125	34
Repayments of borrowings	(465)	(312)
Proceeds from sale and finance leaseback of non-current assets	330	-
Net payments for aircraft security deposits and hedges related to debt	(9)	(241)
Net cash used in financing activities	**(82)**	**(547)**
Net decrease in cash and cash equivalents held	**(440)**	**(342)**
Cash and cash equivalents held at the beginning of the period	**2,829**	**3,398**
Effects of exchange rate changes on cash and cash equivalents	6	2
Cash and cash equivalents held at the end of the period	**2,395**	**3,058**

[1] Net payments for aircraft assigned to Jetstar Japan Co., Ltd and Jetstar Hong Kong Airways Limited.
[2] 45,415,538 shares were bought back and cancelled during the half-year ended 31 December 2013 (2012: 8,823,745 shares).

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

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 2013 comprise 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 2013 is available at www.qantas.com 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 2013 was authorised for issue in accordance with a resolution of the Directors on 27 February 2014.

(b) Statement of compliance

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

The Consolidated Interim Financial Report does not include all of the information required for an Annual Financial Report and should be read in conjunction with the Consolidated Annual Financial Report of the Qantas Group for the year ended 30 June 2013. 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. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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

(c) Significant accounting policies

Except as described below, the significant accounting policies applied by the Qantas Group in this Consolidated Interim Financial Report are the same as those applied by the Qantas Group in the Consolidated Annual Financial Report for the year ended 30 June 2013.

The Group has mandatorily applied the following new Australian Accounting Standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

AASB 10 Consolidated Financial Statements
AASB 11 Joint Arrangements
AASB 13 Fair Value Measurement
AASB 119 Employee Benefits (2011)

The nature and the effect of the changes are explained in Note 12 - Application of New or Revised Accounting Standards.

(d) Comparatives

Where applicable, various comparative balances have been reclassified to align with current period presentation. A provision for long service leave which is expected to be settled beyond the next 12 months is measured as the present

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 1. Statement of Significant Accounting Policies (continued)

(d) Comparatives (continued)

value of expected future payments to be made in respect of services provided by employees up to period end. Notwithstanding this pattern of expected future payments, for 31 December 2013, the provision is presented as a current liability in the Balance Sheet if the employees' entitlements have vested (i.e. the employee has reached the minimum period of service required to become entitled to long service leave). For comparability, current provisions for 30 June 2013 have been reclassified on a consistent basis resulting in an increase in current provisions of $277 million with a corresponding decrease in non-current provisions (30 June 2012: $309 million).

(e) Estimates

The preparation of the Consolidated Interim Financial Report in conformity with AASBs requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this Consolidated Interim Financial Report, the significant judgements made by Management in applying the Qantas Group's accounting policies and the key sources of uncertainty in estimates were materially the same as those applied to the Consolidated Annual Financial Report for the year ended 30 June 2013.

(f) Carrying amount of non-financial assets

(i) Assets classified as held for sale

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

(ii) Cash generating units

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

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

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

In the case of Qantas Brands, the management of this CGU is structured into four operating segments being Qantas Domestic, Qantas International, Qantas Loyalty and Qantas Freight (as set out in Note 2).

The Qantas Brands' aircraft fleet is considered a network asset of Qantas Brands. As a network asset, the aircraft fleet cannot be allocated at a lower level than the Qantas Brands CGU for impairment testing other than on an arbitrary basis.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 1. Statement of Significant Accounting Policies (continued)

(f) Carrying amount of non-financial assets (continued)

Accountability and business performance is managed at an operating segment level. However, decisions to acquire, dispose or utilise the fleet are made centrally, after considering the impact across all Qantas Brands operating segments with no single operating segment having decision rights.

Accordingly, the Qantas Brands CGU, which includes the aircraft fleet and other supporting assets of the Qantas Brands operating segments, is the smallest group of assets that generates cash inflows that are largely independent of cash inflows from other groups of assets (namely the Jetstar Group CGU).

That is, the cash inflows of the Qantas Domestic, Qantas International, Qantas Loyalty and Qantas Freight segments as reported in Note 2 cannot be generated without the Qantas Brands aircraft fleet and other supporting assets.

Note 2. Underlying PBT and Operating Segments

(a) Underlying PBT

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

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

Refer to Note 2(f) for a Description of Underlying PBT and Reconciliation from Statutory PBT.

(b) Operating Segments

The Qantas Group comprises the following operating segments:

Qantas Brands

Qantas Domestic, Qantas International, Qantas Loyalty and Qantas Freight operating segments are collectively referred to as Qantas Brands. Qantas Brands is a cash generating unit (CGU) comprising those operations of the Qantas Group which are dependent on the Qantas fleet and the Qantas brand to collectively generate cash inflows and derive value.

To drive business focus, assign accountability and monitor performance, the Qantas Brands operations are managed through four operating segments. This management approach has not involved separating the operating segments into stand alone entities or implying the capital structuring or transactions that would be required for such a separation.

The Qantas fleet and the Qantas Brand together support all the operating segments within Qantas Brands. In order to set targets and assess the performance, including accountability of the operating segments (as measured by Underlying EBIT), Qantas Domestic and Qantas International report depreciation expense for passenger aircraft and Qantas Freight reports depreciation expense for freighters.

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 2. Underlying PBT and Operating Segments (continued)

Jetstar Group

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

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

(c) Analysis by Operating Segment[1]

December 2013 **$M**	**Qantas Domestic**	**Qantas International**	**Qantas Loyalty**	**Qantas Freight**	**Eliminations**	**Total Qantas Brands**[2]	**Jetstar Group**	**Corporate / Unallocated**[5]	**Eliminations**	**Consolidated**
Revenue and other income										
External segment revenue	2,803	2,302	582	563	18	**6,268**	**1,593**	**41**	1	**7,903**
Intersegment revenue	283	319	58	5	(616)	**49**	**78**	**(32)**	(95)	**-**
Total segment revenue and other income	**3,086**	**2,621**	**640**	**568**	**(598)**	**6,317**	**1,671**	**9**	**(94)**	**7,903**
Share of net profit/(loss) of investments accounted for using the equity method[3]	2	1	-	-	**-**	**3**	**(29)**	**-**	-	**(26)**
Underlying EBITDAR[4]	**478**	**86**	**148**	**28**	**-**	**740**	**196**	**(85)**	**-**	**851**
Non-cancellable aircraft operating lease rentals	(98)	(14)	-	(2)	**-**	**(114)**	**(147)**	**-**	-	**(261)**
Depreciation and amortisation	(323)	(334)	(2)	(15)	**-**	**(674)**	**(65)**	**(7)**	-	**(746)**
Underlying EBIT	**57**	**(262)**	**146**	**11**	**-**	**(48)**	**(16)**	**(92)**	**-**	**(156)**
Underlying net finance costs								**(96)**		**(96)**
Underlying PBT								**(188)**		**(252)**

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

[2] Qantas Brands is a cash generating unit comprising those operations of the Qantas Group which are dependent on the Qantas fleet and the Qantas brand to collectively generate cash inflows and derive value. Qantas Brands is managed through four operating segments being Qantas Domestic, Qantas International, Qantas Loyalty and Qantas Freight.

[3] Qantas International $1.5 million and Qantas Domestic $1.5 million.

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

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 2. Underlying PBT and Operating Segments (continued)

(d) Analysis by Operating Segment (continued)

December 2012 Restated[1] $M	**Qantas Domestic**	**Qantas International**	**Qantas Loyalty**	**Qantas Freight**	**Eliminations**	**Total Qantas Brands[2]**	**Jetstar Group**	**Corporate / Unallocated[4]**	**Eliminations**	**Consolidated**
Revenue and other income										
External segment revenue	2,942	2,499	535	527	29	**6,532**	**1,673**	**32**	5	**8,242**
Intersegment revenue	278	319	55	4	(596)	**60**	**84**	**(32)**	(112)	**-**
Total segment revenue and other income	**3,220**	**2,818**	**590**	**531**	**(567)**	**6,592**	**1,757**	**-**	**(107)**	**8,242**
Share of net profit/(loss) of investments accounted for using the equity method	2	2	-	2	-	**6**	**(22)**	**-**	-	**(16)**
Underlying EBITDAR[3]	**606**	**286**	**139**	**34**	**2**	**1,067**	**327**	**(102)**	**(1)**	**1,291**
Non-cancellable aircraft operating lease rentals	(76)	(43)	-	(2)	-	**(121)**	**(144)**	**-**	-	**(265)**
Depreciation and amortisation	(312)	(334)	(2)	(10)	-	**(658)**	**(55)**	**(6)**	-	**(719)**
Underlying EBIT	**218**	**(91)**	**137**	**22**	**2**	**288**	**128**	**(108)**	**(1)**	**307**
Underlying net finance costs								**(87)**		**(87)**
Underlying PBT								**(195)**		**220**

[1] Refer to Note 12. The effect of the change in accounting policy as a result of the mandatory application of AASB 119 of $3 million has been reported in Corporate/Unallocated.

[2] Qantas Brands is a cash generating unit comprising those operations of the Qantas Group which are dependent on the Qantas fleet and the Qantas brand to collectively generate cash inflows and derive value. Qantas Brands is managed through four operating segments being Qantas Domestic, Qantas International, Qantas Loyalty and Qantas Freight.

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

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

Basis of Preparation

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

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

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 2. Underlying PBT and Operating Segments (continued)

(d) Analysis by Operating Segment (continued)

Segment Performance measure	Basis of Preparation
External segment revenue	External segment revenue is reported by operating segments as follows: - Net passenger revenue is reported by the operating segment which operated the relevant flight or provided the relevant service. For Qantas Airlines, where a multi-sector ticket covering international and domestic travel is sold, the revenue is reported by Qantas Domestic and Qantas International on a pro-rata basis using an industry standard allocation process. - Net freight revenue includes air cargo and express freight revenue and is reported by the Qantas Freight operating segment. - Frequent Flyer redemption revenue, marketing revenue, membership fees and other related revenue is reported by the Qantas Loyalty operating segment. - Other revenue is reported by the operating segment that earned the revenue.
Inter-segment revenue	Inter-segment revenue for Qantas Domestic, Qantas International and Jetstar Group operating segments primarily represents: - Net passenger revenue arising from the redemption of frequent flyer points for Qantas Group flights by Qantas Loyalty; and - Net Freight revenue from the utilisation of Qantas Brands and Jetstar Group's aircraft bellyspace by Qantas Freight. Inter-segment revenue for Qantas Loyalty primarily represents marketing revenue arising from the issuance of frequent flyer points to Qantas Domestic, Qantas International and Jetstar Group. Inter-segment revenue transactions, which are eliminated on consolidation, occur in the ordinary course of business at prices that approximate market prices. Qantas Loyalty does not derive net profit from intersegment transactions relating to frequent flyer point issuances and redemptions.
Share of net profit/(loss) of investments accounted for using the equity method	Share of net profit/(loss) of associates and jointly controlled entities is reported by the operating segment which is accountable for the management of the investment. The share of net profit/(loss) of associates and jointly controlled entities for Qantas Airlines investments has been equally shared between Qantas Domestic and Qantas International.
Underlying EBITDAR	The significant expenses impacting Underlying EBITDAR are as follows: - Manpower and staff related costs are reported by the operating segment that utilises the manpower. Where manpower supports both Qantas Domestic and Qantas International, costs are reported by Qantas Domestic and Qantas International using an appropriate allocation methodology. - Fuel expenditure is reported by the segment that consumes the fuel in its operations. - Aircraft operating variable costs are reported by the segment that incurs these costs. - All other expenditure is reported by the operating segment to which they are directly attributable or in the case of Qantas Airlines between Qantas Domestic and Qantas International using an appropriate allocation methodology. To apply this accounting policy, where necessary expenditure is recharged between operating segments as a cost recovery.
Depreciation and amortisation	Qantas Domestic, Qantas International and Jetstar Group report depreciation expense for passenger aircraft owned by the Qantas Group and flown by the segment. Qantas Freight reports depreciation expense for freight aircraft owned by the Qantas Group. Other depreciation and amortisation is reported by the segment that uses the related asset.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 2. Underlying PBT and Operating Segments (continued)

(d) Analysis by Operating Segment (continued)

Segment Performance measure	Basis of Preparation
Non-cancellable aircraft operating lease rentals	Qantas Domestic, Qantas International and Jetstar Group report non-cancellable aircraft operating lease rentals for passenger aircraft externally leased by the Qantas Group and flown by the segment. Qantas Freight reports non-cancellable aircraft operating lease rentals for freighter aircraft externally leased by the Qantas Group.

(e) Underlying PBT per Share

	December 2013 cents	December 2012 cents
Basic/diluted Underlying PBT per share	(11.3)	9.8

(f) Description of Underlying PBT and Reconciliation from Statutory 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. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of underlying performance of the Group.

Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 139: Financial Instruments: Recognition and Measurement (AASB 139) which relate to other reporting periods and identifying certain other items which are not included in Underlying PBT.

(i) Adjusting for impacts of AASB 139 which relate to other reporting periods

All derivative transactions undertaken by the Qantas Group represent economic hedges of underlying risk and exposures. The Qantas Group does not enter into speculative derivative transactions. Notwithstanding this, AASB 139 requires certain mark-to-market movements in derivatives which are classified as "ineffective" to be recognised immediately in the Consolidated Income Statement. The recognition of derivative valuation movements in reporting periods which differ from the designated transaction causes volatility in statutory profit that does not reflect the hedging nature of these derivatives.

Underlying PBT reports all hedge derivative gains and losses in the same reporting period as the underlying transaction by adjusting the reporting period's statutory profit for derivative mark-to-market movements that relate to underlying exposures in other reporting periods.

This adjustment is calculated as follows:

- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with current period exposures remain included in Underlying PBT
- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with underlying exposures which will occur in future reporting period are excluded from Underlying PBT
- Derivative mark-to-market movements recognised in the current reporting period's statutory profit that are associated with capital expenditure are excluded from Underlying PBT and subsequently included in Underlying PBT as an implied adjustment to depreciation expense for the related assets commencing when the assets are available for use
- Derivative mark-to-market movements recognised in previous reporting period's statutory profit that are associated with underlying exposures which occurred in the current period are included in Underlying PBT. Ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs are excluded from Underlying PBT

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 2. Underlying PBT and Operating Segments (continued)

(f) Description of Underlying PBT and Reconciliation from Statutory PBT (continued)

All derivative mark-to-market movements which have been excluded from Underlying PBT will be recognised through Underlying PBT in future periods when the underlying transaction occurs.

(ii) Other items not included in Underlying PBT

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

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

(iii) Underlying EBIT

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

The reconciliation of Underlying PBT from Statutory PBT is detailed in the table below.

	December 2013 $M	December 2012 $M
Statutory (loss)/profit before income tax expense	**(305)**	**148**
Adjusted for ineffectiveness and non-designated derivatives relating to other reporting periods		
- Exclude current year derivative mark-to-market movements relating to underlying exposures in future years	(30)	(1)
- Exclude current year derivative mark-to-market movements relating to capital expenditure	7	7
- Include adjustment for implied depreciation expense relating to excluded capital expenditure mark-to-market movements	(3)	(3)
- Include prior years' derivative mark-to-market movements relating to underlying exposures in the current year	(25)	(44)
- Exclude ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs	(3)	7
	(54)	(34)
Other items not included in Underlying PBT		
- Redundancies, restructuring and other transformation costs	59	68
- Net impairment of property, plant and equipment[1]	23	62
- Net impairment of other intangible assets	2	-
- Net profit on disposal of investments accounted for using the equity method	-	(30)
- B787-8 introduction costs	9	-
- Other	14	6
	107	106
Underlying PBT	**(252)**	**220**

[1] As disclosed in Note 3, net impairment of property, plant and equipment for the period ended 31 December 2013 was $32 million (2012: $64 million), of which $23 million (2012: $62 million) is presented as other items not included in Underlying PBT.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 2. Underlying PBT and Operating Segments (continued)

(g) Analysis by Geographical Areas

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

Revenue and other income by geographic areas	December 2013 $M	December 2012 $M
Net passenger and freight revenue		
Australia	5,375	5,418
Overseas	1,911	2,099
	7,286	7,517
Other revenue/income (refer to Note 3)	617	725
	7,903	**8,242**

Non-current assets by geographic areas

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

Note 3. Other Revenue/Income and Other Expenditure

	December 2013 $M	December 2012 $M
Other revenue/income		
Contract work revenue	129	157
Frequent Flyer store and other redemption revenue[1]	140	128
Frequent Flyer membership fees, marketing revenue and other revenue	151	132
Retail, advertising and other property revenue	80	73
Other	117	235
	617	**725**
Other expenditure		
Selling and marketing	314	302
Property	249	241
Computer and communication	192	204
Capacity hire	173	156
Redundancies	45	66
Contract work materials	34	28
Airport security charges	81	76
Net impairment of property, plant and equipment	32	64
Net impairment of goodwill and intangible assets	2	-
Net (gain)/loss on sale of investments accounted for using the equity method	-	(30)
Ineffective and non-designated derivatives	(40)	17
Other	217	195
	1,299	**1,319**

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 4. Income Tax Expense

	December 2013 $M	December 2012 $M
Statutory (loss)/profit before income tax expense	(305)	148
Income tax (benefit)/expense using the domestic corporate tax rate of 30 per cent	(92)	44
Add/(less) adjustments for:		
- Non-assessable gain on disposal of jointly controlled entity	-	(9)
- Over provision in prior year	-	(2)
- Non-deductible share of net loss of associates and jointly controlled entities	8	5
- Recognition of foreign tax losses previously unrecognised	10	-
- Other items	4	1
Income tax (benefit)/expense	**(70)**	**39**

Note 5. Investments Accounted for Using the Equity Method

	December 2013 $M	June 2013 $M
- Helloworld Limited[1]	118	118
- Other	105	72
	223	**190**

	Ownership interest	
	December 2013 %	**June 2013 %**
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]	29	29
Jetstar Hong Kong Airways Limited	33	33
Jetstar Japan Co., Ltd.	33	33
Jetstar Pacific Airlines Aviation Joint Stock Company	30	30
LTQ Engineering Pty Limited	50	50
PT Holidays Tours & Travel	37	37
Tour East (T.E.T) Ltd	37	37

[1] Jetset Travelworld Ltd changed its name to Helloworld Limited on 2 December 2013. Helloworld Limited is a company whose shares are traded on the Australian Securities Exchange (ASX). As at 31 December 2013 the fair value based on a quoted price of Qantas' investment is $53 million. Qantas' share of the net assets of Helloworld is $126 million as at 31 December 2013.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 6. Other Financial Assets and Liabilities

	December 2013 $M	**June 2013 $M**
Other financial assets – current	261	180
Other financial assets – non-current	86	27
Other financial liabilities – current	(92)	(86)
Other financial liabilities – non-current	(42)	(54)
	213	**67**

Other financial assets and liabilities include derivative instruments used to hedge financial exposures. The movement is driven by settlements, changes in market variables (including foreign exchange and fuel price) as well as changes in underlying hedge positions. As a result, the net other financial assets and liabilities increased from a net asset of $67 million at 30 June 2013 to a net asset of $213 million at 31 December 2013.

Note 7. Interest-bearing Liabilities

	December 2013 $M	**June 2013 $M**
Current		
Bank loans – secured	540	545
Other loans – unsecured	63	47
Lease and hire purchase liabilities – secured	241	243
	844	**835**
Non-current		
Bank loans – secured	2,532	2,740
Bank loans – unsecured	994	992
Other loans – unsecured	946	880
Lease and hire purchase liabilities – secured	959	633
	5,431	**5,245**

During the current period there were non-cash financing activities of $130 million (June 2013: $115 million).

Note 8. Dividends

No dividends were declared or paid during the half-year ended 31 December 2013

Note 9. Financial Instruments measured at fair value

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.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 9. Financial Instruments measured at fair value (continued)

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 139.

	Carrying Value December 2013 $M	Fair Value December 2013 $M
Financial Assets		
Cash and cash equivalents	2,395	2,403
Financial Liabilities		
Bank loans – secured	3,072	2,897
Bank loans – unsecured	994	1,020
Other loans – unsecured	1,009	1,062
Lease and hire purchase liabilities	1,200	1,193

The different methods of estimating the fair value of financial instruments have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair value of financial instruments by valuation method are summarised in the table below:

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
31 December 2013				
Derivative financial assets	–	347	–	347
Derivative financial liabilities	–	(134)	–	(134)
Net financial instruments measured at fair value	–	213	–	213
30 June 2013				
Derivative financial assets	–	207	–	207
Derivative financial liabilities	–	(140)	–	(140)
Net financial instruments measured at fair value	–	67	–	67

There were no transfers and no financial instruments were measured at Level 3.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 10. Commitments

(a) Capital Expenditure Commitments

	December 2013 $M	June 2013 $M
Capital expenditure commitments contracted but not provided for in the Consolidated Financial Statements, payable:		
Not later than one year	1,469	1,097
Later than one year but not later than five years	4,740	4,618
Later than five years	3,128	3,444
	9,337	**9,159**

The Qantas Group has a number of cancellation and deferral rights within its aircraft purchase contracts which can reduce or defer the above capital expenditure. The Group also has further opportunities to place ordered aircraft with its associates.

(b) Operating Lease Commitments as Lessee

	December 2013 $M	June 2013 $M
Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements		
Aircraft and engines – payable:		
Not later than one year	500	505
Later than one year but not later than five years	1,134	1,250
Later than five years	185	227
	1,819	1,982
Non-aircraft – payable:		
Not later than one year	200	193
Later than one year but not later than five years	597	568
Later than five years but not later than ten years	173	273
Later than ten years	221	227
Provision for potential under-recovery of rentals on unused premises available for sub-lease (onerous contract provision)	(8)	(4)
	1,183	1,257
	3,002	**3,239**

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 11. Assets and Liabilities Held for Sale

	December 2013 $M	June 2013 $M
Assets Held for Sale		
Property, plant and equipment	45	42
QDS Disposal Group		-
– Property, plant and equipment	10	-
– Inventory	9	-
– Receivables	23	-
– Other assets	3	-
	90	**42**
Liabilities Held for Sale		
QDS Disposal Group		-
– Payables	13	-
– Revenue received in advance	11	-
– Provisions	4	-
	28	**-**

On 29 August 2013, Qantas announced the sale of its wholly owned subsidiary Qantas Defence Services Pty Limited (QDS) and related assets to Northrop Grumman Australia, part of Global aviation firm Northrop Grumman Corporation.

At 31 December 2013, the disposal group representing the company and its related assets was classified as held for sale and recognised at the lower of its carrying amount and fair value less costs to sell. As the fair value less costs to sell exceeded the carrying value no impairment has been recognised on classification to assets held for sale.

Note 12. Application of New or Revised Accounting Standards

The nature and the effect of changes from new standards and amendments identified in Note 1(c) are explained below.

<u>AASB 10 - Consolidated Financial Statements</u>

AASB 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The application of AASB10 has no impact on the Qantas Group.

<u>AASB 11 - Joint arrangements</u>

Under AASB 11, the classification as either joint operations or joint ventures depends on the rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

The application of AASB11 has no impact on the Qantas Group.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

Note 12. Application of New or Revised Accounting Standards (continued)

AASB 13 - Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard (see Note 9).

In accordance with the transitional provisions of AASB 13, the disclosures are provided for the half-year ended 31 December 2013. The application of AASB 13 has no significant impact on the measurements of the Group's carrying value of assets and liabilities.

AASB 119 - Employee Benefits (2011)

As a result of the mandatory application of AASB 119 (2011), the Group has changed its accounting policy with respect to the basis of accounting for defined benefit superannuation plans.

The revised standard eliminated the use of the 'corridor approach' and instead mandates immediate recognition of all re-measurements of a defined benefit liability and defined benefit assets (including actuarial gains or losses) in other comprehensive income. In addition, it changes the measurement principles for the expected return on planned assets and the basis for determining the income or expense relating to defined benefits.

The Qantas Group's previous accounting policy for defined benefit superannuation plans utilised the 'corridor approach' to account for actuarial gains/losses. Under that policy, accumulated actuarial gains/losses were carried off-balance sheet unless they exceeded 10 per cent of the defined benefit assets or obligations in which case they were recognised through the income statement over the average life of the plan.

Under the revised AASB 119 (2011), these accumulated actuarial gains or losses are recognised on-balance sheet. Subsequent actuarial gains or losses are recognised on-balance sheet through other comprehensive income.

Upon application of the amended AASB 119 (2011), the Group has applied the transition provisions in the Standard requiring retrospective application and as a result the following have been restated:

- Consolidated Balance Sheet as at 30 June 2012 (Opening Balance Sheet);
- Consolidated Balance Sheet as at 30 June 2013 (Comparative Balance Sheet);
- Consolidated Income Statement for the six months ended 31 December 2012; and
- Consolidated Statement of Comprehensive Income for the six months ended 31 December 2012.

For the restated Comparative Results refer to Note 12A - Restatement of Comparative Results

The impact of the revised standard on the following Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the six months ended 31 December 2013 have been presented in Note 12B - Impact of Revised Standard on the Current Reporting Period's Results.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 12. Application of New or Revised Accounting Standards (continued)

A. Restatement of Comparative Results

(i) Restatement of Consolidated Balance Sheet as at 30 June 2012 (Condensed Opening Balance Sheet)

	30 June 2012 (as previously reported)[1] $M	AASB 119 Employee Benefits $M	30 June 2012 (Restated) $M
Current assets			
Cash and cash equivalents	3,398	-	3,398
Receivables	1,111	-	1,111
Other financial assets	88	-	88
Inventories	376	-	376
Assets classified as held for sale	73	-	73
Other	414	(293)	121
Non-current assets			
Property, plant and equipment	14,139	-	14,139
Intangible assets	610	-	610
Investments accounted for using the equity method	457	-	457
Other	512	-	512
Total assets	**21,178**	**(293)**	**20,885**
Current liabilities			
Payables	1,876	-	1,876
Revenue received in advance	3,172	-	3,172
Interest-bearing liabilities	1,119	-	1,119
Provisions	879	-	879
Other	381	-	381
Non-current liabilities			
Revenue received in advance	1,136	-	1,136
Interest-bearing liabilities	5,430	-	5,430
Provisions	428	308	736
Deferred tax liabilities	644	(180)	464
Other	224	-	224
Total Liabilities	**15,289**	**128**	**15,417**
Net assets	**5,889**	**(421)**	**5,468**
Issued Capital	4,729	-	4,729
Treasury Shares	(42)	-	(42)
Reserves	36	-	36
Retained earnings	1,162	(421)	741
Non-controlling interests	4	-	4
Total Equity	**5,889**	**(421)**	**5,468**

[1] Refer to Note 1(d)

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 12. Application of New or Revised Accounting Standards (continued)

(ii) Restatement of Consolidated Balance Sheet as at 30 June 2013 (Condensed Comparative Balance Sheet)

	30 June 2013 (as previously reported) [1] $M	AASB 119 Employee Benefits $M	30 June 2013 (Restated) $M
Current assets			
Cash and cash equivalents	2,829	-	2,829
Receivables	1,436	-	1,436
Other financial assets	180	-	180
Inventories	364	-	364
Assets classified as held for sale	42	-	42
Other	394	(284)	110
Non-current assets			
Property, plant and equipment	13,827	-	13,827
Intangible assets	714	-	714
Investments accounted for using the equity method	190	-	190
Other	224	116	340
Total assets	**20,200**	**(168)**	**20,032**
Current liabilities			
Payables	1,859	-	1,859
Revenue received in advance	3,032	-	3,032
Interest-bearing liabilities	835	-	835
Other	86	-	86
Provisions	835	-	835
Non-current liabilities			
Revenue received in advance	1,186	-	1,186
Interest-bearing liabilities	5,245	-	5,245
Provisions	441	(6)	435
Deferred tax liabilities	673	(48)	625
Other	54	-	54
Total Liabilities	**14,246**	**(54)**	**14,192**
Net assets	**5,954**	**(114)**	**5,840**
Issued Capital	4,693	-	4,693
Treasury Shares	(43)	-	(43)
Reserves	128	-	128
Retained earnings	1,171	(114)	1,057
Non-controlling interests	5	-	5
Total Equity	**5,954**	**(114)**	**5,840**

[1] Refer to Note 1(d)

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 12. Application of New or Revised Accounting Standards (continued)

(iii) Restatement of Consolidated Income Statement (Condensed) for the six months ended 31 December 2012

Condensed Consolidated Income Statement	31 December 2012 (as previously reported) $M	AASB 119 Employee Benefits $M	31 December 2012 (Restated) $M
Revenue and other income	8,242	-	8,242
Expenditure			
Manpower and staff related	1,927	3	1,930
Other	6,070	-	6,070
Statutory profit/(loss) before income tax expense and net finance costs	**245**	**(3)**	**242**
Net finance costs	(94)	-	(94)
Statutory profit/(loss) before income tax expense	**151**	**(3)**	**148**
Income tax expense	(40)	1	(39)
Statutory profit/(loss) after income tax expense	**111**	**(2)**	**109**

(iv) Restatement of Consolidated Statement of Comprehensive Income (Condensed) for the six months ended 31 December 2012

	31 December 2012 (as previously reported) $M	AASB 119 Employee Benefits $M	31 December 2012 (Restated) $M
Statutory (loss) profit for the period	111	(2)	109
Items that are or may be subsequently be reclassified to profit or loss			
Effective portion of changes in fair value of cash flow hedges, net of tax	25	-	25
Transfer of hedge reserve to the Consolidated Income Statement, net of tax	(25)	-	(25)
Recognition of effective cash flow hedges on capitalised assets, net of tax	11	-	11
Foreign currency translation of controlled entities	2	-	2
Foreign currency translation of investments accounted for using the equity method	(2)	-	(2)
Items that will not subsequently be reclassified to profit or loss			
Defined benefit actuarial gains, net of tax	-	165	165
Other comprehensive income for the period	**11**	**165**	**176**
Total comprehensive income for the period	**122**	**163**	**285**

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

Note 12. Application of New or Revised Accounting Standards (continued)

B. Impact of Revised Standard on the Current Reporting Period's Results

The impact of the revised standard on the current reporting period's results is as follows:

The Consolidated Income Statement for the half-year ended 31 December 2013 included an increase in Manpower and staff related expenses of $14 million and an increase in income tax benefit of $4 million resulting in a Statutory loss for the period of $10 million.

In addition, the Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2013 included an increase in other comprehensive income of $117 million for the recognition of defined benefit actuarial gains, net of tax. These adjustments resulted in a net increase in total other comprehensive income of $107 million.

The Consolidated Balance Sheet as at 31 December 2013 included a decrease in Other Non-Current Assets of $10 million, a decrease in deferred tax liabilities of $3 million and a decrease in Retained earnings of $7 million.

Note 13. Post Balance Date Events

There has not arisen in the interval between 31 December 2013 and the date of this report any event that would have had a material effect on the Consolidated Interim Financial Report as at 31 December 2013.

On 27 February 2014, the Qantas Group announced the return of the airport terminal lease to Brisbane Airport Corporation together with related assets for approximately $112 million. The transaction is expected to complete in the second-half of 2013/14. This announcement had no impact on the Consolidated Financial Statements for the six months ended 31 December 2013.

On 27 February 2014, the Group also announced details of a major accelerated transformation program and provided an update on the status of the ongoing structural review. This announcement had no impact on the Consolidated Financial Statements for the six months ended 31 December 2013.

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 2013 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

DMcLennan

DUNCAN MCLENNAN
Partner

Sydney

27 February 2014

DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

(a) the Consolidated Interim Financial Report and notes set out on pages 17 to 41, 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 2013 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
27 February 2014

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

Report on the Financial Report

We have reviewed the accompanying Consolidated Interim Financial Report of Qantas Airways Limited, which comprises the Consolidated Balance Sheet as at 31 December 2013, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the half-year ended on that date, notes 1 to 13 comprising a statement of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Qantas Airways Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG
Sydney
27 February 2014

DMcLennan

Duncan McLennan
Partner

OPERATIONAL STATISTICS
For the half-year ended 31 December 2013

(unaudited)		Half-year ended December 2013	Half-year ended December 2012	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK) - SCHEDULED SERVICES				
Passengers carried	000	11,262	11,409	(1.3)%
Revenue passenger kilometres (RPK)	M	14,394	14,749	(2.4)%
Available seat kilometres (ASK)	M	19,227	19,187	0.2%
Revenue seat factor	%	74.9	76.9	(2.0)pts
QANTAS DOMESTIC (EXCLUDING QANTASLINK) – SCHEDULED SERVICES				
Passengers carried	000	8,532	8,698	(1.9)%
Revenue passenger kilometres (RPK)	M	12,621	12,995	(2.9)%
Available seat kilometres (ASK)	M	16,431	16,586	(0.9)%
Revenue seat factor	%	76.8	78.3	(1.5)pts
QANTASLINK - SCHEDULED SERVICES				
Passengers carried	000	2,730	2,711	0.7%
Revenue passenger kilometres (RPK)	M	1,773	1,754	1.1%
Available seat kilometres (ASK)	M	2,796	2,601	7.5%
Revenue seat factor	%	63.4	67.4	(4.0)pts
JETSTAR DOMESTIC - SCHEDULED SERVICES				
Passengers carried	000	6,283	5,975	5.2%
Revenue passenger kilometres (RPK)	M	7,574	7,253	4.4%
Available seat kilometres (ASK)	M	9,207	8,867	3.8%
Revenue seat factor	%	82.3	81.8	0.5pts
QANTAS INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	3,007	2,917	3.1%
Revenue passenger kilometres (RPK)	M	24,138	24,513	(1.5)%
Available seat kilometres (ASK)	M	29,863	29,625	0.8%
Revenue seat factor	%	80.8	82.7	(1.9)pts
JETSTAR INTERNATIONAL – SCHEDULED SERVICES				
Passengers carried	000	2,513	2,628	(4.4)%
Revenue passenger kilometres (RPK)	M	7,157	7,621	(6.1)%
Available seat kilometres (ASK)	M	9,577	9,906	(3.3)%
Revenue seat factor	%	74.7	76.9	(2.2)pts
JETSTAR ASIA				
Passengers carried	000	2,029	1,772	14.5%
Revenue passenger kilometres (RPK)	M	3,129	2,959	5.7%
Available seat kilometres (ASK)	M	3,970	3,789	4.8%
Revenue seat factor	%	78.8	78.1	0.7pts
QANTAS GROUP OPERATIONS				
Passengers carried	000	25,094	24,701	1.6%
Revenue passenger kilometres (RPK)	M	56,393	57,095	(1.2)%
Available seat kilometres (ASK)	M	71,844	71,374	0.7%
Revenue seat factor	%	78.5	80.0	(1.5)pts
Aircraft in service at end of period	#	318	313	5 aircraft
QANTAS LOYALTY				
Awards redeemed	M	3.0	2.7	11.2%
Total members	M	9.7	9.0	8.0%
FINANCIAL				
Yield (passenger revenue per RPK)[1]	c	10.10	10.43	(3.2)%
EMPLOYEES				
Full-time equivalent employees at end of period[2]	#	33,242	33,608	(1.1)%
RPK per FTE (annualised)	000	3,393	3,398	(0.1)%
ASK per FTE (annualised)	000	4,323	4,247	1.8%

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

[2] Excluding employees of Australian air Express Pty Limited, acquired in November 2012.

GEARING RATIO[1]

As at 31 December 2013

(unaudited)	December 2013 $M	June 2013 $M Restated[4]
Equity	5,663	5,840
Exclude hedge reserve	(114)	(123)
Adjusted Equity	**5,549**	**5,717**
On balance sheet debt		
Current interest-bearing liabilities	844	835
Non-current interest-bearing liabilities	5,431	5,245
Cash and cash equivalents	(2,395)	(2,829)
Aircraft security deposits	(16)	(21)
Fair value of hedges relating to debt[2]	(35)	(4)
Net on balance sheet debt	**3,829**	**3,226**
Operating lease liability[3]	1,505	1,621
Net debt including operating lease liability	**5,334**	**4,847**
On balance sheet debt ratio		
Net debt on balance sheet to net debt on balance sheet and equity (excluding hedge reserve)	41:59	36:64
Gearing ratio		
Net debt including operating lease liability to net debt including operating lease liability and equity (excluding hedge reserve)	49:51	46:54

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

[2] Fair value of hedges relating to debt are included in Other Financial Assets and Liabilities on the Consolidated Balance Sheet in accordance with AASB 139: Financial Instruments: Recognition and Measurement.

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

[4] Refer to Note 12 for the Application of New or Revised Standards relating to defined benefit superannuation plans.