QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

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

	June 2012 $M	June 2011 $M	Change $M	Change %
Revenue and other income	15,724	14,894	830	5.6
Statutory (loss)/profit after tax	(244)	249	(493)	(198.0)
Statutory (loss)/profit after tax attributable to members of Qantas	(245)	250	(495)	(198.0)
Underlying profit before tax	95	552	(457)	(82.8)

DIVIDENDS

No interim dividend was paid in relation to the year ended 30 June 2012.

No final dividend will be paid in relation to the year ended 30 June 2012.

EXPLANATION OF RESULTS

The Qantas Group reported an Underlying PBT[1] of $95 million, a Statutory Loss Before Tax of $349 million and a Statutory Loss after Tax of $244 million for the year ended 30 June 2012.

Highlights of the full-year result include:

- A challenging year of major transformational change. The Group's portfolio of businesses performed well except for Qantas' international network:
  - Record result[2] for Jetstar and Qantas Frequent Flyer
  - Underlying EBIT[3] of Qantas and Jetstar domestic networks both outperformed prior year notwithstanding the impact of record fuel costs, industrial action and significant transformational change
  - Statutory Loss driven by significant transformation costs
- Improving Cash Flow and Liquidity
  - Free cash flow[4] positive ($206 million) in second half
  - Operating cash flow improved on prior year
  - Fleet delivery profile strategically realigned
  - Fleet renewal substantially complete resulting in the lowest average fleet age (8.3 years)[5] since privatisation
  - Substantial surplus liquidity, $3.4 billion cash with $300 million undrawn standby facility
- Successful execution of the Group's strategic objectives
  - Leading domestic market position
  - Jetstar growth in Asia, with successful launch of Jetstar Japan
  - Qantas International Transformation on track

1 Underlying Profit/Loss Before Tax (PBT) is a non-statutory measure used by Management and the Group's chief operating decision-making bodies as the primary measure to assess the financial performance of the Group. All line items in the Review of Operations are reported on an Underlying basis. A detailed reconciliation of Statutory and Underlying PBT is provided on page 10.

2 Jetstar result based on Underlying EBIT. Qantas Frequent Flyer result based on Normalised EBIT which is Underlying EBIT normalised for prior period changes in accounting estimates. Refer to page 8 for a reconciliation of Normalised EBIT to Underlying EBIT.

3 Underlying Earning Before Net Finance Costs and Tax (EBIT) is the primary reporting measure for all segments except Corporate.

4 Free cash flow – Operating cash flows less investing cash flows. Free cash flow is a measure of the amount of operating cash flows available (i.e. after investing activities) to fund reductions in net debt or payments to shareholders.

5 Average Fleet age of the Group's scheduled passenger fleet based on manufacturing dates.

Explanation of Results (continued)

Underlying Performance

Segment Performance Summary		June 2012	June 2011	Change	% Change
Qantas	$M	(21)	228	(249)	>(100)
Jetstar	$M	203	169	34	20
Qantas Frequent Flyer	$M	231	342	(111)	(32)
Qantas Freight	$M	45	62	(17)	(27)
Other Businesses	$M	-	3	(3)	(100)
Corporate/Unallocated	$M	(191)	(189)	(2)	(1)
Eliminations	$M	(2)	29	(31)	>(100)
Underlying EBIT	$M	**265**	**644**	**(379)**	**(59)**
Net Finance Costs [6]	$M	(170)	(92)	(78)	(85)
Underlying PBT	$M	**95**	**552**	**(457)**	**(83)**

The Group's Underlying PBT of $95 million was achieved in a year of significant challenges and major transformational change.

The industrial action and subsequent grounding in the first half of 2011/2012 had an unfavourable impact on the Group of $194 million. In addition, in 2011/2012 the Group recorded its highest ever fuel bill of $4,329 million, 18 per cent ($645 million) higher than 2010/2011.

Strong performances were achieved by all parts of the Group except Qantas' international network. Jetstar and Qantas Frequent Flyer demonstrated their value to the Group's portfolio by again achieving record results[7]. Overall domestic network Underlying EBIT improved on prior year, with Qantas and Jetstar remaining the most profitable domestic airlines in Australia.

Qantas was the most on-time domestic airline[8]. Qantas' domestic network[9] and QantasLink[10] were awarded Airline of the Year in their respective categories and Qantas domestic customer satisfaction is at its highest level in over three years. Qantas remains the airline of choice for corporate travellers with strong double digit corporate travel revenue growth. During the year 171 large-market corporate accounts were renewed and 48 new corporate accounts[11] added, including nine won back as preferred airline.

Jetstar achieved a record Underlying EBIT of $203 million. Jetstar delivered capacity growth of 14 per cent in 2011/2012 and improved Underlying EBIT by 20 per cent. On 3 July 2012, Jetstar Japan was successfully launched five months ahead of schedule.

Qantas Frequent Flyer also delivered a record performance[7] with Underlying EBIT of $231 million up 14 per cent on prior year Normalised EBIT[7]. This result was achieved through 9 per cent member growth, increased partner engagement and enhanced product offerings. As Australia's leading loyalty program, membership continues to grow averaging more than 2,000 new members per day.

The performance of Qantas' international network weighed heavily on the Group's result. The impact of industrial action, negative global economic factors, an increase in fuel costs and a high Australian dollar have resulted in a decline in Underlying EBIT compared to prior year. Savings generated by the Qantas International Transformation program are expected to drive improvements in future results.

Increase in Net Finance Costs represents increased Net Debt and movements in interest rates.

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6 Underlying Net Finance Costs differ from Statutory Net Finance Costs due to adjustments for impact of AASB 139 which relate to other reporting periods.
7 Jetstar result based on Underlying EBIT. Qantas Frequent Flyer result based on Normalised EBIT which is Underlying EBIT normalised for prior period changes in accounting estimates. Refer to page 8 for a reconciliation of Normalised EBIT to Underlying EBIT.
8 Source: June 2012 BITRE data, Qantas most on time major domestic airline for jet operations greater than 10,000 sectors.
9 2012 Australian Federation of Travel Agents National Industry Awards.
10 2012 Air Transport World (ATW) awards.
11 Corporate accounts refers to large-market accounts.

Explanation of Results (continued)

Group Underlying Income Statement Summary		**June 2012**	**June 2011**	**Change**	**% Change**
Net passenger revenue	$M	12,494	12,042	452	4
Net freight revenue	$M	784	842	(58)	(7)
Other	$M	2,446	2,010	436	22
Revenue	$M	**15,724**	**14,894**	**830**	**6**
Operating expenses (excluding Fuel) [12]	$M	9,197	8,751	446	5
Fuel [12]	$M	4,329	3,684	645	18
Depreciation and amortisation	$M	1,384	1,249	135	11
Non-cancellable aircraft operating lease rentals	$M	549	566	(17)	(3)
Expenses	$M	**15,459**	**14,250**	**1,209**	**8**
Underlying EBIT	$M	**265**	**644**	**(379)**	**(59)**
Net finance costs [12]	$M	(170)	(92)	(78)	(85)
Underlying PBT	$M	**95**	**552**	**(457)**	**(83)**

Operating statistics		**June 2012**	**June 2011**	**Fav/ (Unfav) Change**	**Fav/ (Unfav) % Change**
Available Seat Kilometres (ASKs) [13]	M	139,423	133,281	6,142	5
Revenue Passenger Kilometres (RPKs) [14]	M	111,692	106,759	4,933	5
Passenger Numbers	'000	46,707	44,456	2,251	5
Seat Factor	%	80.1	80.1	0.0 pts	-
Yield (Excluding FX) [15]	c/RPK	10.99	10.71	0.28	3
Net Underlying Unit Cost [15,16]	c/ASK	5.58	5.60	0.02	0.4
Comparable Unit Cost [17]	c/ASK	5.37	5.53	0.16	3

Overall, the Group continued to deliver improvements in yield and unit cost compared to prior year.

Average Group yield excluding foreign exchange (FX) improved 3 per cent. This was driven by yield improvement of 4 per cent on the Group domestic network and 2 per cent on the Group international network.

Comparable Unit Cost reduced 3 per cent compared to prior year.

12 Underlying operating expenses (excluding fuel), 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 9 for a reconciliation of Statutory and Underlying PBT.

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

14 RPK - total number of passengers carried, multiplied by the number of kilometres flown.

15 Yield and unit cost calculations are adjusted to treat fee revenue from Jetstar product bundles (launched in May 2011) as passenger revenue to ensure comparability between periods.

16 Net Underlying Unit Cost – Underlying PBT less Passenger Revenue, fuel and Frequent Flyer change in accounting estimate per ASK.

17 Comparable Unit Cost – Net Underlying Unit Cost adjusted for the impact of Industrial Action (2011/2012) and natural disasters (2010/2011) and movements in average sector length.

Explanation of Results (continued)

Improving Cash Flow and Liquidity

Cash Flow Summary		First Half 2011/ 2012	Second Half 2011/ 2012	Year ended June 2012	Year ended June 2011	Change	% Change
Cash at beginning of period	$M	3,496	3,342	3,496	3,704	(208)	(6)
Operating cash flows	$M	823	987	1,810	1,782	28	2
Investing cash flows	$M	(1,501)	(781)	(2,282)	(2,478)	196	8
Free cash flow[18]	$M	**(678)**	**206**	**(472)**	**(696)**	**224**	**32**
Financing cash flows	$M	525	(155)	370	508	(138)	(27)
Effect of foreign exchange on cash	$M	(1)	5	4	(20)	24	>100
Cash at period end	$M	**3,342**	**3,398**	**3,398**	**3,496**	**(98)**	**(3)**

Operating cash flows grew to $1,810 million for the year ended 30 June 2012, an increase of 2 per cent on the prior year result of $1,782 million.

The Group achieved free cash flow of $206 million for the second half of 2011/2012.

Investing cash flows decreased to $2,282 million for the year ended 30 June 2012, a reduction of 8 per cent on the prior year of $2,478 million. This result reflects the disciplined management of capital expenditure through the year in light of a weaker general economic outlook. Given the Group's fleet renewal program is substantially complete, focus has turned to deleveraging and strengthening the Group's credit metrics.

Debt and Gearing Analysis		June 2012	June 2011	Change	% Change
Net Debt[19]	$M	3,558	2,971	587	20
Net Debt Including Off Balance Sheet Debt[20]	$M	7,544	6,970	574	8
Equity (Excluding Hedge Reserves)	$M	5,848	6,071	(223)	(4)
Gearing Ratio[21]		56:44	53:47	3 pts	6

Qantas Group cash was $3,398 million at 30 June 2012. Net Debt including Off Balance Sheet Debt[20] was $7,544 million as at 30 June 2012, a decrease of $243 million from 31 December 2011 and an increase of $574 million from 30 June 2011. As at 30 June 2012, the Group's gearing ratio was 56 per cent.

For 2012/2013, the Group is forecasting capital expenditure of $1.9 billion.

[18] Free cash flow – Operating cash flows less investing cash flows. 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] Net Debt includes interest-bearing liabilities and the fair value of hedges related to debt less cash and aircraft security deposits.
[20] Net Debt Including Off Balance Sheet Debt includes Net Debt and non-cancellable operating leases. This measure reflects the total debt funding used by the Group to support its operations. Non-cancellable operating leases are a representation assuming assets are owned and debt funded and is not consistent with the disclosure requirements of AASB117: Leases.
[21] Gearing Ratio is Net Debt including Off Balance Sheet Debt to Net Debt including Off Balance Sheet Debt and Equity (excluding hedge reserves). The gearing ratio is used by Management to represent the Qantas Group's entire capital position by measuring the proportion of the Group's total net funding provided using debt both on and off balance sheet debt.

Explanation of Results (continued)

Successful execution of the Group's strategic objectives

- Domestic strength
- Jetstar growth in Asia
- Significant International Transformation
  - Strengthening alliances and exiting loss-making routes
  - Qantas international fleet reconfiguration (A380/B747)
  - Fundamental reform of legacy cost base

Domestic strength - achieved through successful execution of multi brand strategy

The multi brand strategy allowed the Group to position Qantas' domestic network as 'best for business and premium travel' supported by Jetstar offering consistently low fares. The successful execution of the strategy is evidenced by Qantas and Jetstar continuing to be the two most profitable Australian domestic networks, maintaining the Group's profit maximising 65 per cent market share.

This domestic strength was further reinforced by additional Frequent Flyer program product offerings through the acquisition of Wishlist, development of epiQure by Qantas Frequent Flyer and launch of CBA Diamond Direct, Woolworths Qantas card and the NAB Qantas Business card.

Jetstar Growth in Asia

Significant milestones were achieved in the execution of Jetstar's pan-Asian strategy. Jetstar Asia grew capacity by 38 per cent in 2012. Jetstar Japan launched five months ahead of schedule on 3 July 2012. In addition, a joint venture with China Eastern Airlines (Jetstar Hong Kong) was announced and is planned to launch in mid 2013. Jetstar Pacific has been restructured for growth with new local partner, Vietnam Airlines.

Qantas International Transformation

The Qantas International Transformation is on track. Significant progress has been made on announced initiatives including:

- The exit of the following international routes:
  - Bangkok and Hong Kong to London
  - Singapore to Mumbai
  - Auckland to Los Angeles

  These changes result in the early retirement of six Boeing B747-400 aircraft

- Deepening and broadening alliances
  - Antitrust immunity received for a Joint Business Agreement with American Airlines
  - Network enhancements linking directly with the American Airlines hub in North America (Dallas-Fort Worth) and the LAN hub in South America (Santiago)
  - Enhanced network with British Airways

- Seven B747s (out of a planned nine) upgraded to the award-winning A380 product standard. Twelve A380s in the process of being reconfigured by adjusting the cabin layout and seating mix to better suit customer demand for different classes of travel.

- In addition, there were a number of announcements through the year including:
  - Streamlining heavy maintenance and engineering via:
    - Closure of the Melbourne Heavy Maintenance facility
    - Closure of Sydney Component Maintenance
    - Consolidation of a number of support activities into the remaining maintenance facilities
    - Streamlining of engineering practices through implementation of Maintenance on Demand
  - Decision to close the Adelaide catering facility in 2013, and
  - Agreement to sell the Cairns and Riverside catering facilities

These initiatives are expected to contribute around $300 million in annual benefits once fully implemented.

Explanation of Results (continued)

Fleet

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

At 30 June 2012, the Qantas Group fleet comprised 308 aircraft. During the year, the Group acquired 37 owned aircraft (34 purchased, three purchased ex-lease) and five leased aircraft:

- Qantas – two A380s, 13 B737-800s, three Bombardier Q-400s, 10 F100s, three ex-leased B767-300s and two B717-200s
- Jetstar (including Jetstar Asia) – seven A320-200s, two A330-200s

The Group retired 14 aircraft during the year (five B747-400s, two B767-300s and seven B737-400s).

Qantas

- Underlying EBIT $(21) million
- $404 million QFuture benefits
- Impact of industrial dispute and increase in fuel price
- Revenue and capacity growth
- Continued domestic strength
  - Improved domestic performance on last year
  - Superior on-time performance[22]
  - Domestic fleet renewal
  - High levels of customer satisfaction
  - Strategic growth of QantasLink
  - Expansion of fly-in fly-out business
- Qantas International Transformation on track

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	11,833	11,315	518	5
Seat Factor	%	80.5	81.0	(0.5) pts	(0.6)
Underlying EBIT	$M	(21)	228	(249)	>(100)

Qantas' Underlying EBIT was $(21) million for the year ended 30 June 2012, a decrease of $249 million on the prior year. The result was impacted by the $194 million financial impact of the industrial dispute and a 19 per cent increase in average USD fuel prices.

Qantas achieved $404 million of QFuture benefits in the year, culminating in a total $1.4 billion over three years.

Domestically, Qantas achieved a higher Underlying EBIT relative to 2010/2011. The result was achieved by building on the existing fundamental domestic network advantage and delivering the best average on-time performance of any major Australian domestic airline for the last three years.

Qantas aims to provide the world's best domestic travel experience. This is supported by continued investment in its award-winning product and service offering. Faster, smarter check-in technology has now been rolled out at all major capital city ports, a wide range of regional ports and for many trans-Tasman services.

[22] Source: June 2012 BITRE data, Qantas most on-time major domestic airline for jet operations greater than 10,000 sectors.

Explanation of Results (continued)

The domestic fleet renewal program continues with the introduction of B737-800 NG (next generation) aircraft, new in-seat entertainment and the trial of Q-streaming on some domestic routes.

Domestic customer satisfaction is at its highest level in over three years. These results have been recognised by continued customer support. 48 new large-market corporate accounts have been signed, including nine won back as preferred airline, and 171 renewed during the year. Despite aggressive competition only four large-market corporate accounts have been lost.

QantasLink made a significant contribution to Qantas' domestic performance. Capacity growth of 7 per cent was supported by investment in new aircraft and enhanced scheduled network services. QantasLink was awarded 'Regional Airline of the Year' 2012 by Air Transport World magazine.

In addition there was investment in Network Aviation's fly-in fly-out business with the addition of 10 F100 aircraft to support Australia's resource sector.

Internationally, Qantas remains an iconic business operating the flagship aircraft of the Qantas fleet. The fleet renewal program was substantially completed during the year and Qantas continues to operate a modern international fleet with consistent award-winning product offerings.

Qantas' International Transformation program has been initiated to improve business economics and transform the cost base in order to develop a strong and viable business. This will be achieved by enhancing customer offerings to provide the best service for global travellers, building on existing partnerships and new alliances, and ongoing business improvement initiatives to reduce the cost base.

Jetstar

- Record Underlying EBIT $203 million, up 20%
- Record Ancillary Revenue up 27%[23]
- Unit cost[24] down 2% to record lows
- Strong performance across domestic network
- Growth in Asia including launch of Jetstar Japan

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	3,076	2,613	463	18
Seat Factor	%	79.2	77.8	1.4 pts	1.8
Underlying EBIT	$M	203	169	34	20

Jetstar achieved a record Underlying EBIT result of $203 million for the year ended 30 June 2012, an increase of $34 million (20 per cent) on the prior year result of $169 million. This result was driven by an 18 per cent increase in total revenue and sustained improvements in unit cost offsetting increases in fuel prices.

Jetstar's strong domestic results highlight the benefits of the Qantas Group's two complementary flying brands and Jetstar's strong competitive position in the Australian market.

Despite challenging market conditions, Jetstar has been able to maintain growth in capacity and passengers in all markets. Jetstar grew overall capacity by 14 per cent compared to 2010/2011. This includes growth in domestic capacity of 7 per cent, international capacity of 12 per cent and Jetstar Asia capacity of 38 per cent. Overall, load factors improved to 79.2 per cent, an increase of 1.4 points compared to 2010/2011. At the same time, Jetstar has been able to improve yields, most notably across domestic leisure markets in the second half.

23 Ancillary revenue per passenger.
24 Unit cost – Jetstar unit cost is measured based on controllable unit cost. Controllable unit cost is calculated as total expenses excluding fuel per ASK.

Explanation of Results (continued)

Unit cost has improved to record lows with a 2 per cent reduction compared to prior year.

Jetstar achieved record ancillary revenue of $31 per passenger driven by the addition of new product streams and increased sales of fare bundles and pre-paid baggage.

During the year Jetstar completed the retrofit of 32 A320 aircraft with a new lightweight seat that provided an additional three seats per aircraft and improved fuel efficiency.

Jetstar is committed to growth in Asia and continues to strengthen its position as a pan-Asian carrier. Within Asia, there are now Jetstar branded franchises based in Singapore, Vietnam and Japan, with Hong Kong to be added in 2012/2013 subject to regulatory approval.

Jetstar Japan was successfully launched in July 2012, five months ahead of schedule, with strong local partners JAL, Mitsubishi Corporation and Century Tokyo Leasing Corporation. The airline has a fleet of four A320s flying to five destinations within Japan: Tokyo, Osaka, Sapporo, Fukuoka and Okinawa. Jetstar Japan is expected to grow to 13 aircraft by June 2013 with funding committed for a total of 24 aircraft. International services will commence in the second half of 2012/2013 subject to regulatory approval.

In addition, the Group has formed a strategic alliance with China Eastern Airlines for the establishment of a 50:50 joint venture in Jetstar Hong Kong. Jetstar Hong Kong will be the first ever foreign joint venture with a Chinese airline. Jetstar Hong Kong plans to commence services in late 2012/2013 (subject to regulatory approval).

Jetstar's international network will leverage the growth of these Jetstar branded airlines to provide traffic flow between Australia and Asia and reinforce the Group's strong competitive position in the leisure travel markets across Asia-Pacific.

Qantas Frequent Flyer

- Record Normalised EBIT of $231 million, up 14%
- Normalised EBIT CAGR[25] of 16% over the last four years
- 8.6 million members, up 9%
- Billings $1,187 million, up 14%
- 5.1 million awards redeemed, up 16%
- New Partnerships and Products

		June 2012	June 2011	Change	% Change
Members	M	8.6	7.9	0.7	9
Billings	$M	1,187	1,042	145	14
Underlying EBIT	$M	231	342	(111)	(32)
Normalisation Adjustment	$M	-	(140)	140	(100)
Normalised EBIT[26]	$M	231	202	29	14

Qantas Frequent Flyer's Normalised EBIT was $231 million for the year ended 30 June 2012. The result was a 14 per cent improvement compared to prior year Normalised EBIT. Membership has grown 9 per cent to 8.6 million, averaging more than 2,000 new members each day.

Qantas Frequent Flyer has developed into the premier loyalty business in Australia. The acquisition of Wishlist Holdings Ltd with over 100 loyalty programs has broadened the business into the employee reward and recognition market.

[25] CAGR – Compound Annual Growth Rate.
[26] Normalised EBIT is a non-statutory measure which creates a comparable basis for the presentation of results. It adjusts Qantas Frequent Flyer Underlying EBIT for the effect of change in accounting estimates of the fair value of points and breakage expectations effective 1 January 2009. The effect of this difference was that revenue for the year ending 30 June 2011 was $140 million higher than it would have been had the deferred value per point been the same as that applied in the current period.

Explanation of Results (continued)

Program enhancements and alliances combined with continued growth in membership have allowed the business to generate billings growth of 14 per cent. Customer satisfaction measured through the Qantas Frequent Flyer Net Promoter Score is higher than levels recorded before the industrial dispute.

The Qantas Frequent Flyer program was further enhanced during the year through:
- Improved tier and cabin benefits
- The launch of "Platinum One" a level of recognition for the most valuable frequent flyers
- Improved access to classic award seats and upgrades
- Expanded Jetstar earn and redeem options
- A new look Qantas Frequent Flyer Store with over three thousand products, experiences and vouchers
- A simplified reward option where members can register to receive quarterly retail vouchers delivered to their home

Significant partner expansion was also achieved through the launch of Optus and new credit card partners Bankwest, Jetstar Mastercard and Qantas Staff Credit Union. Qantas Frequent Flyer has over 500 partners through which members can now earn points.

Qantas Freight

- Underlying EBIT $45 million, down $17 million
- Continued growth in Asia
- Weakness in worldwide airfreight markets

		June 2012	June 2011	Change	% Change
Total Revenue and Other Income	$M	1,013	1,054	(41)	(4)
Underlying EBIT	$M	45	62	(17)	(27)
Load Factor	%	53.5	58.6	(5.1) pts	(9)

Qantas Freight's Underlying EBIT was $45 million for the year ended 30 June 2012, a decrease of $17 million on the prior year.

The downturn in global airfreight markets resulted in a 9 per cent reduction in load. Significant increases in fuel price and an unfavourable foreign exchange impact was partially offset by a 2 per cent improvement in yield.

Capacity in the Asian market is growing through Jetstar's international network and the Jetstar branded franchises in Asia. Freighter operations from Australia to Chongqing commenced in April 2012.

Reconciliation of Underlying PBT to Statutory PBT

Statutory PBT has declined to a loss of $349 million for the year ended 30 June 2012 from a profit of $323 million in the prior year.

Underlying PBT

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

Explanation of Results (continued)

Reconciliation of Underlying to Statutory PBT	June 2012 $M	June 2011 $M	Change $M	Change %
Underlying PBT	**95**	**552**	**(457)**	**(83)**
Items not included in Underlying PBT				
- AASB 139 mark-to-market movements relating to other reporting periods	**(46)**	**(122)**	**76**	**62**
Qantas International Transformation costs				
- Impairment of property, plant & equipment	(147)	-	(147)	>(100)
- Redundancies and restructuring	(198)	-	(198)	>(100)
- Impairment of goodwill	(18)	-	(18)	>(100)
- Write down of inventory	(13)	-	(13)	>(100)
	(376)	**-**	**(376)**	**>(100)**
Other Items				
- Redundancies and restructuring	(5)	(28)	23	82
- Net impairment of property, plant & equipment	-	(34)	34	100
- Net impairment and net losses on disposal of investments	(19)	(20)	1	5
- Legal provisions	2	(25)	27	>100
	(22)	**(107)**	**85**	**79**
Statutory PBT	**(349)**	**323**	**(672)**	**>(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.

The International Accounting Standards Board are currently redrafting IAS 39 (international equivalent of AASB 139) to address anomalies in the accounting treatment of hedge transactions. Qantas has lobbied for this redraft and is actively pursuing an outcome that aligns with the principles and methodology applied by Qantas in calculating Underlying PBT.

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.

The key initiatives resulting in the Qantas International Transformation costs not included in Underlying PBT are discussed in detail on page 5.

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 Review of Operations is unaudited. Notwithstanding this, the Review of Operations contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2012, which is in the process of being audited and is expected to be made available in September 2012.

OTHER INFORMATION

	June 2012 $	**June 2011 $**
Net Tangible Assets per ordinary share	2.33	2.45

The information provided in this report contains all the information required by ASX Listing Rule 4.3A.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2012	Note	June 2012 $M	June 2011 $M
Revenue and other income			
Net passenger revenue		12,494	12,042
Net freight revenue		784	842
Other	3	2,446	2,010
		15,724	**14,894**
Expenditure			
Manpower and staff related		3,774	3,695
Fuel		4,220	3,627
Aircraft operating variable		2,980	2,768
Depreciation and amortisation		1,384	1,249
Non-cancellable aircraft operating lease rentals		549	566
Ineffective and non-designated derivatives		165	120
Share of net profit of associates and jointly controlled entities		(3)	(22)
Other	3	2,828	2,455
		15,897	**14,458**
Statutory (loss)/profit before income tax expense and net finance costs		**(173)**	**436**
Finance income		181	192
Finance costs		(357)	(305)
Net finance costs		**(176)**	**(113)**
Statutory (loss)/profit before income tax expense		**(349)**	**323**
Income tax benefit/(expense)		105	(74)
Statutory (loss)/profit for the year		**(244)**	**249**
Attributable to:			
Members of Qantas		(245)	250
Non-controlling interests		1	(1)
Statutory (loss)/profit for the year		**(244)**	**249**
Statutory (loss)/earnings per share attributable to members of Qantas:			
Basic/diluted (loss)/earnings per share (cents)		(10.8)	11.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	June 2012 $M	June 2011 $M
Statutory (loss)/profit for the year	**(244)**	**249**
Effective portion of changes in fair value of cash flow hedges, net of tax	(42)	(67)
Transfer of hedge reserve to the Consolidated Income Statement, net of tax[1]	(89)	(82)
Recognition of effective cash flow hedges on capitalised assets, net of tax	92	142
Foreign currency translation of controlled entities	3	(15)
Foreign currency translation of associates	4	(13)
Hedge reserve movement of associates, net of tax	-	2
Other comprehensive loss for the year	**(32)**	**(33)**
Total comprehensive (loss)/income for the year	**(276)**	**216**
Total comprehensive (loss)/income attributable to:		
Members of Qantas	(277)	217
Non-controlling interests	1	(1)
Total comprehensive (loss)/income for the year	**(276)**	**216**

[1] These amounts were allocated to revenue of $(13) million (2011: $50 million), fuel expenditure of $(116) million (2011: $(171) million), finance costs of $3 million (2011: $3 million) and income tax expense of $37 million (2011: income tax expense of $36 million) in the Consolidated Income Statement.

CONSOLIDATED BALANCE SHEET

As at 30 June 2012

	June 2012 $M	June 2011 $M
Current assets		
Cash and cash equivalents	3,398	3,496
Receivables	1,111	1,027
Other financial assets	88	318
Inventories	376	372
Assets classified as held for sale	73	20
Other	414	408
Total current assets	**5,460**	**5,641**
Non-current assets		
Receivables	472	423
Other financial assets	17	70
Investments accounted for using the equity method	457	476
Property, plant and equipment	14,139	13,652
Intangible assets	610	593
Other	23	3
Total non-current assets	**15,718**	**15,217**
Total assets	**21,178**	**20,858**
Current liabilities		
Payables	1,876	1,738
Revenue received in advance	3,172	3,067
Interest-bearing liabilities	1,119	577
Other financial liabilities	369	397
Provisions	570	456
Liabilities classified as held for sale	12	-
Total current liabilities	**7,118**	**6,235**
Non-current liabilities		
Revenue received in advance	1,136	1,111
Interest-bearing liabilities	5,430	5,454
Other financial liabilities	224	493
Provisions	737	647
Deferred tax liabilities	644	767
Total non-current liabilities	**8,171**	**8,472**
Total liabilities	**15,289**	**14,707**
Net assets	**5,889**	**6,151**
Equity		
Issued capital	4,729	4,729
Treasury shares	(42)	(72)
Reserves	36	85
Retained earnings	1,162	1,405
Equity attributable to the members of Qantas	**5,885**	**6,147**
Non-controlling interests	4	4
Total equity	**5,889**	**6,151**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2012

June 2012 $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 2011	4,729	(72)	65	80	(60)	1,405	4	6,151
Total comprehensive loss for the year								
Statutory (loss)/profit for the year	-	-	-	-	-	(245)	1	(244)
Other comprehensive income								
- Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(42)	-	-	-	(42)
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(89)	-	-	-	(89)
- Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	92	-	-	-	92
- Foreign currency translation of controlled entities	-	-	-	-	3	-	-	3
- Foreign currency translation of associates	-	-	-	-	4	-	-	4
Total other comprehensive (loss)/ income	**-**	**-**	**-**	**(39)**	**7**	**-**	**-**	**(32)**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(39)**	**7**	**(245)**	**1**	**(276)**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
- Own shares acquired	-	(16)	-	-	-	-	-	(16)
- Share-based payments	-	-	31	-	-	-	-	31
- Shares vested and transferred to employees	-	46	(46)	-	-	-	-	-
- Shares unvested and lapsed	-	-	(2)	-	-	2	-	-
- Dividends declared	-	-	-	-	-	-	(1)	(1)
Total contributions by and distributions to owners	**-**	**30**	**(17)**	**-**	**-**	**2**	**(1)**	**14**
Total transactions with owners	**-**	**30**	**(17)**	**-**	**-**	**2**	**(1)**	**14**
Balance as at 30 June 2012	**4,729**	**(42)**	**48**	**41**	**(53)**	**1,162**	**4**	**5,889**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2012

June 2011 $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 2010	4,729	(54)	53	85	(29)	1,155	42	5,981
Total comprehensive income for the year								
Statutory profit/(loss) for the year	-	-	-	-	-	250	(1)	249
Other comprehensive income								
- Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(67)	-	-	-	(67)
- Transfer of hedge reserve to the Consolidated Income Statement, net of tax	-	-	-	(82)	-	-	-	(82)
- Recognition of effective cash flow hedges on capitalised assets, net of tax	-	-	-	142	-	-	-	142
- Foreign currency translation of controlled entities	-	-	-	-	(15)	-	-	(15)
- Foreign currency translation of associates	-	-	-	-	(13)	-	-	(13)
- Hedge reserve movement of associates, net of tax	-	-	-	2	-	-	-	2
Total other comprehensive income	**-**	**-**	**-**	**(5)**	(28)	**-**	**-**	**(33)**
Total comprehensive income for the year	**-**	**-**	**-**	**(5)**	(28)	**250**	**(1)**	**216**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
- Own shares acquired	-	(65)	-	-	-	-	-	(65)
- Share-based payments	-	-	59	-	-	-	-	59
- Shares vested and transferred to employees	-	47	(47)	-	-	-	-	-
- Dividends declared	-	-	-	-	-	-	(1)	(1)
Total contributions by and distributions to owners	**-**	**(18)**	**12**	**-**	**-**	**-**	**(1)**	**(7)**
Change in ownership interests in subsidiaries								
- Deconsolidation of controlled entity	-	-	-	-	-	-	(36)	(36)
- Disposal of controlled entity	-	-	-	-	(3)	-	-	(3)
Total change in ownership interests in subsidiaries	**-**	**-**	**-**	**-**	**(3)**	**-**	**(36)**	**(39)**
Total transactions with owners	**-**	**(18)**	**12**	**-**	**(3)**	**-**	**(37)**	**(46)**
Balance as at 30 June 2011	**4,729**	**(72)**	**65**	**80**	**(60)**	**1,405**	**4**	**6,151**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2012	June 2012 $M	June 2011 $M
Cash flows from operating activities		
Cash receipts in the course of operations	16,699	15,545
Cash payments in the course of operations	(14,795)	(13,727)
Interest received	170	180
Interest paid	(285)	(239)
Dividends received from associates and jointly controlled entities	22	21
Income taxes (paid)/refunded	(1)	2
Net cash from operating activities	**1,810**	**1,782**
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets	(2,129)	(2,407)
Net payments for aircraft assigned to associates[1]	(92)	-
Interest paid and capitalised on qualifying assets	(83)	(90)
Proceeds from disposal of property, plant and equipment	54	86
Proceeds from sale and operating leaseback of non-current assets	12	30
Deconsolidation of controlled entity	-	(100)
Proceeds from disposal of controlled entity, net of cash disposed	-	19
Proceeds from disposal of jointly controlled entity	-	5
Payments for controlled entity acquired, net of cash acquired	(11)	(21)
Payments for investment in associate and jointly controlled entities	(33)	-
Net cash used in investing activities	**(2,282)**	**(2,478)**
Cash flows from financing activities		
Proceeds from borrowings	688	1,359
Repayments of borrowings	(566)	(784)
Proceeds from sale and leaseback of finance lease	283	-
Payments for treasury shares	(16)	(65)
Net payments for aircraft security deposits and swaps	(18)	(1)
Dividends paid to non-controlling interests	(1)	(1)
Net cash from financing activities	**370**	**508**
Net decrease in cash and cash equivalents held	**(102)**	**(188)**
Cash and cash equivalents at the beginning of the year	3,496	3,704
Effects of exchange rate changes on cash and cash equivalents	4	(20)
Cash and cash equivalents at the end of the year	**3,398**	**3,496**

[1] Net payments for aircraft assigned to Jetstar Japan Co., Ltd.

NOTES TO THE PRELIMINARY FINAL REPORT

For the year ended 30 June 2012

Note 1. Statement of Significant Accounting Policies

(a) Statement of Compliance

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. The Preliminary Final Report has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The Annual Financial Report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The Preliminary Final Report is presented in Australian dollars and has been prepared on the basis of historical cost except where assets and liabilities are stated at their fair values in accordance with relevant accounting policies.

The Annual Financial Report is in the process of being audited and is expected to be made available in September 2012. This Report should also be read in conjunction with any public announcements made by Qantas during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

(b) Significant Accounting Policies

The accounting policies applied by the Qantas Group in this Report are the same as those applied by the Qantas Group in the consolidated Annual Financial Report for the year ended 30 June 2011.

(c) Comparatives

Where applicable, various comparative balances have been reclassified to align with current year presentation. These amendments have no material impact on the Financial Report.

(d) Estimates

The preparation of this Report 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 Report, the significant judgements made by Management in applying the Qantas Group's accounting policies and the key sources of uncertainty in estimation were the same as those applied to the Annual Financial Report for the year ended 30 June 2011, except for:

Change in accounting estimates – Discount Rates

Qantas has changed its estimate of the discount rates used to calculate the present value of provisions and employee benefits in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and AASB 119: Employee Benefits respectively.

AASB 137 requires that where the effect of the time value of money is material, provisions should be discounted to their present value at the end of the reporting period using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. AASB 119 requires employee benefit provisions to be discounted to their present value using a discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds shall be used.

The discount rates were re-estimated due to changes in market yields and the Group's assessment of the time value of money and risk in accordance with AASB 137 and AASB 119. In addition, when discounting using Government bond yields in accordance with AASB 119, Qantas now uses the State Government Bond yields rather than Federal Government Bond yields.

The changes in discount rates resulted in a decrease in the Workers' Compensation provision of $15 million (2011: decrease of $1 million) and an increase in the long service leave provision of $45 million (2011: decrease of $4 million). No other provisions were materially impacted by a change in the estimate of discount rates. The net effect of these changes was a $30 million increase in provisions as at 30 June 2012 (2011: decrease in provisions of $5 million).

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 1. Statement of Significant Accounting Policies (continued)

(d) Estimates (continued)

Change in accounting estimates – Qantas Frequent Flyer

Qantas Frequent Flyer changed the accounting estimates of the fair value of points and breakage expectation effective 1 January 2009. The effect of this change was applied prospectively from 1 January 2009 for new points issued. Unredeemed points as at 1 January 2009 remained deferred at the previous estimate and were redeemed at this value until the points were extinguished.

The unredeemed points as at 1 January 2009 were extinguished during the year ended 30 June 2012 (April 2011 for the Qantas Frequent Flyer segment) on a first-in-first-out basis. As a result, the redemption revenue was recognised at a lower average value per point compared to the year ended 30 June 2011.

The effect of this difference was that revenue was $5 million (30 June 2011: $172 million) higher than it would have been had the 1 January 2009 unredeemed points been redeemed at the weighted average value per point prevailing at the time of redemption.

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

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

Refer to Note 2(e) for a detailed description of Underlying PBT and a reconciliation of Underlying PBT to Statutory (loss)/profit before tax.

(b) Description of Operating Segments

The Qantas Group comprises the following main operating segments:

1. Qantas – representing the Qantas passenger flying businesses and related businesses;
2. Jetstar – representing the Jetstar passenger flying businesses and related businesses;
3. Qantas Frequent Flyer – representing the Qantas Frequent Flyer customer loyalty program; and
4. Qantas Freight – representing the air cargo and express freight businesses.

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

Fuel and foreign exchange hedge gains/losses are allocated to segments based on the timing of underlying transactions.

Intersegment revenue has been determined on an arm's length basis or a cost plus margin basis depending on the nature of the revenue.

On 23 May 2012, the Qantas Group announced that from 1 July 2012 the Qantas segment will be structured as two separate operating segments – Qantas Domestic and Qantas International. As this decision is effective from 1 July 2012, the segment structure below reflects the operating segments for the current reporting period with Qantas being reported as single operating segment.

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 2. Underlying PBT and Operating Segments (continued)

(c) Analysis by Operating Segment

June 2012 $M	Qantas	Jetstar	Qantas Frequent Flyer	Qantas Freight	Corporate/ Unallocated[2]	Eliminations	Consolidated Underlying
Revenue and other income							
External segment revenue	10,682	2,915	1,058	1,004	61	4	15,724
Intersegment revenue	1,151	161	99	9	(55)	(1,365)	-
Total segment revenue and other income	**11,833**	**3,076**	**1,157**	**1,013**	**6**	**(1,361)**	**15,724**
Share of net profit/(loss) of associates and jointly controlled entities	6	(19)	-	16	-	-	3
EBITDAR[1]	**1,503**	**574**	**234**	**67**	**(178)**	**(2)**	**2,198**
Non-cancellable operating lease rentals	(262)	(283)	-	(4)	-	-	(549)
Depreciation and amortisation	(1,262)	(88)	(3)	(18)	(13)	-	(1,384)
Underlying EBIT	**(21)**	**203**	**231**	**45**	**(191)**	**(2)**	**265**
Underlying net finance costs					**(170)**		**(170)**
Underlying PBT[2]					**(361)**		**95**

[1] EBITDAR (Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable operating lease rentals and net finance costs) includes the impact of the change in accounting estimates for discount rates of $30 million (Qantas $30 million), and Frequent Flyer accounting (Eliminations $5 million) as described in Note 1(d).

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

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 2. Underlying PBT and Operating Segments (continued)

(c) Analysis by Operating Segment

June 2011 $M	Qantas	Jetstar	Qantas Frequent Flyer	Qantas Freight	Other businesses[1]	Corporate/ Unallocated[3]	Eliminations	Consolidated Underlying
Revenue and other income								
External segment revenue	10,265	2,446	1,060	1,048	28	13	34	14,894
Intersegment revenue	1,050	167	88	6	6	5	(1,322)	-
Total segment revenue and other income	**11,315**	**2,613**	**1,148**	**1,054**	**34**	**18**	**(1,288)**	**14,894**
Share of net profit/(loss) of associates and jointly controlled entities	10	(6)	-	18	-	-	-	22
EBITDAR[2]	**1,650**	**508**	**345**	**80**	**5**	**(159)**	**30**	**2,459**
Non-cancellable operating lease rentals	(298)	(268)	-	(2)	-	2	-	(566)
Depreciation and amortisation	(1,124)	(71)	(3)	(16)	(2)	(32)	(1)	(1,249)
Underlying EBIT	**228**	**169**	**342**	**62**	**3**	**(189)**	**29**	**644**
Underlying net finance costs						(92)		(92)
Underlying PBT[3]						**(281)**		**552**

[1] As a result of the merger of Jetset Travelworld Group with Stella Travel Services, Jetset Travelworld Group is no longer an operating segment as of 1 October 2010. Consequently, the results of the Jetset Travelworld Group segment for the year ended 30 June 2011 represent the results for the period from 1 July 2010 to 30 September 2010. From 1 October 2010, the equity accounted result of the Qantas Group's investment in Jetset Travelworld Group is included in the Qantas Segment.

[2] EBITDAR (Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable operating lease rentals and net finance costs) includes the impact of the change in accounting estimates for discount rates of $5 million (Qantas $5 million) and Frequent Flyer of $172 million (Qantas Frequent Flyer $140 million and Eliminations $32 million) as described in Note 1(d).

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

(d) Underlying PBT per Share

	June 2012 cents	June 2011 cents
Basic/diluted Underlying PBT per share	4.2	24.4

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 2. Underlying PBT and Operating Segments (continued)

(e) Description of Underlying PBT and Reconciliation to Statutory (Loss)/Profit Before Tax

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

Underlying PBT is derived by adjusting Statutory (Loss)/Profit for 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 year 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 year are included in Underlying PBT
- Ineffectiveness and non-designated derivatives relating to other reporting periods affecting net finance costs are excluded from Underlying PBT.

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.

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 2. Underlying PBT and Operating Segments (continued)

(e) Description of Underlying PBT and Reconciliation to Statutory (Loss)/Profit Before Tax (continued)

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

	June 2012 $M	June 2011 $M
Underlying PBT	**95**	**552**
Adjusted for ineffectiveness and non-designated derivatives relating to other reporting periods		
- Include current year derivative mark-to-market movements relating to underlying exposures in future years	(86)	(47)
- Include current year derivative mark-to-market movements relating to capital expenditure	(9)	(75)
- Exclude prior years' derivative mark-to-market movements relating to underlying exposures in the current year	51	19
- Exclude adjustment to depreciation expense relating to excluded capital expenditure mark-to-market movements	4	2
- Include ineffective and non-designated derivatives relating to other reporting periods affecting net finance costs	(6)	(21)
	(46)	(122)
Other items not included in Underlying PBT		
Qantas International Transformation		
- Net impairment of property, plant and equipment[1]	(147)	-
- Redundancies and restructuring[2]	(198)	-
- Impairment of Goodwill[3]	(18)	-
- Write down of inventory	(13)	-
	(376)	-
Other		
- Redundancies and restructuring[2]	(5)	(28)
- Net impairment of property, plant and equipment[1]	-	(34)
- Net loss on disposal of investments and other transaction costs[4]	-	(20)
- Impairment of investments	(19)	-
- Legal provisions[5]	2	(25)
	(22)	(107)
	(398)	**(107)**
Statutory (Loss)/Profit Before Tax	**(349)**	**323**

[1] As disclosed in Note 3, Net impairment of property, plant and equipment for the year ended 30 June 2012 was $157 million (2011: $44 million), of which, $147 million (2011: $34 million) is presented as other items not included in Underlying PBT.

[2] As disclosed in Note 3, redundancies and restructuring for the year ended 30 June 2012 was $206 million (2011: $44 million), of which $203 million (2011: $28 million) is presented as other items not included in Underlying PBT.

[3] As disclosed in Note 3, Net impairment of goodwill and intangible assets for the year ended 30 June 2012 was $20 million (2011: $nil), of which $18 million (2011: $nil) is presented as other items not included in Underlying PBT.

[4] During the year ended 30 June 2011 the Qantas Group disposed of its investments in Harvey Holidays Pty Ltd and DPEX Group, resulting in a gain of $9 million. Additionally, the Group deconsolidated Jetset Travelworld Group as a result of the merger of Jetset Travelworld Group with Stella Travel Services, resulting in a loss of $29 million.

[5] Legal provisions represent provisions for freight regulatory fines and third party class actions.

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 2. Underlying PBT and Operating Segments (continued)

(f) Analysis by Geographical Areas

Passenger and freight revenue is attributed to a geographic region based on the point of sale. Other revenue/income is not allocated to a geographic region as it is impractical to do so.

	June 2012 $M	June 2011 $M
Revenue and other income by geographic areas		
Net passenger and freight revenue		
Australia	9,540	9,049
Overseas	3,738	3,835
	13,278	12,884
Other revenue/income (refer to Note 3)	2,446	2,010
	15,724	**14,894**

Non-current assets by geographic areas

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

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 3. Other Revenue and Expenditure

	June 2012 $M	June 2011 $M
Included in other revenue		
Contract work revenue	380	347
Passenger service fees	397	341
Ancillary passenger revenue[1]	346	90
Frequent Flyer store and other redemption revenue[2]	245	204
Frequent Flyer marketing revenue[3]	226	193
Frequent Flyer membership fees and other revenue	9	10
Lease revenue	215	186
Rolls Royce settlement revenue	-	95
Liquidated damages	28	-
Tours and travel revenue	48	84
Qantas Club membership fees	85	84
Freight terminal fee revenue	77	73
Retail, advertising and other property revenue	54	54
Charter revenue	89	36
Other	247	213
	2,446	**2,010**
Included in other expenditure		
Selling and marketing	635	626
Computer and communication	437	409
Property	429	398
Capacity hire	266	258
Redundancies and restructuring	206	44
Airport security charges	131	135
Contract work material	79	74
Net impairment of property, plant and equipment	157	44
Net impairment of goodwill and intangible assets	20	-
Impairment of investments	19	-
Other	449	467
	2,828	**2,455**

[1] In May 2011, Jetstar introduced a product unbundling model. From that date, revenue from options over the base ticket cost (e.g. baggage allowance, exit seating, in-flight entertainment and meals), which may have previously been sold as a bundled ticket and disclosed as passenger revenue are now disclosed as ancillary passenger revenue.

[2] Total Frequent Flyer redemption revenue less redemptions on Qantas Group flights which are reported as net passenger revenue in the Consolidated Income Statement.

[3] Net of intra-group marketing revenue within the Qantas Group.

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 4. Investments Accounted for Using the Equity Method

	June 2012 $M	June 2011 $M
Investment in associates		
- Jetset Travelworld Limited	114	114
- Other	49	51
Investment in jointly controlled entities		
- AUX Investment Pty Limited	294	292
- Other	-	19
	457	**476**

	Ownership interest June 2012 %	Ownership interest June 2011 %
Air Pacific Limited[1]	-	46
AUX Investment Pty Limited	50	50
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
Jetset Travelworld Limited	29	29
Jetstar Japan Co., Ltd.[2]	33	-
Jetstar Pacific Airlines Aviation Joint Stock Company	30	27
LTQ Engineering Pty Limited	50	50
PT Holidays Tours & Travel	37	37
Tour East (T.E.T) Ltd	37	37

[1] Legislative changes in Fiji culminated on 29 May 2012 with the Qantas Group removing its director representatives from the Board of Air Pacific Limited (Air Pacific). As a result, Air Pacific ceased to be an associate as the Qantas Group no longer has significant influence. The Qantas Group continues to hold a 46 per cent ownership interest in Air Pacific.

[2] Jetstar Japan Co., Ltd., is a venture between Qantas, Japan Airlines Co., Ltd, Century Tokyo Leasing Corporation and Mitsubishi Corporation, which was incorporated on 5 September 2011.

Note 5. Dividends

No interim dividend was paid in relation to the year ended 30 June 2012.

No final dividend will be paid in relation to the year ended 30 June 2012.

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 6. Commitments

(a) Capital Expenditure Commitments contracted but not provided for in the Consolidated Financial Statements, payable, in relation to:

	June 2012 $M	June 2011[1] $M
Assets to be operated by the Qantas Group:		
Within 12 months	1,201	1,982
Later than 12 months but not later than five years	7,930	7,568
Later than five years	4,928	1,254
	14,059	**10,804**

[1] Restated to exclude planned maintenance costs (including in-house costs) which are treated as capital expenditure for accounting purposes, and hedging commitments which are already recognised on the Consolidated Balance Sheet.

Qantas provides aircraft sourcing for some of its associates and jointly controlled entities. Capital expenditure commitments have reduced since 31 December 2011 driven in part by the transfer of 24 Airbus A320 aircraft to Jetstar Japan.

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

(b) Operating Lease Commitments as Lessee

	June 2012 $M	June 2011 $M
Non-cancellable operating lease commitments not provided for in the Consolidated Financial Statements		
Aircraft and engines – payable:		
Within 12 months	616	632
Later than 12 months but not later than five years	1,569	1,718
Later than five years	342	450
	2,527	2,800
Non-aircraft – payable:		
Within 12 months	185	171
Later than 12 months but not later than five years	528	527
Later than five years	365	404
Provision for potential under-recovery of rentals on unused premises available for sub-lease	(8)	(7)
	1,070	1,095
	3,597	**3,895**

NOTES TO THE PRELIMINARY FINAL REPORT
For the year ended 30 June 2012

Note 7. Entities over which control was gained or lost during the year

On 5 August 2011, the Qantas Group acquired 100 per cent of the Wishlist Holdings Group, comprising the following entities:
- Wishlist Holdings Limited
- Loyalty Magic Pty. Ltd.

The Qantas Group incorporated the following entities during the year:
- J Stay Pty. Limited[1] (19 August 2011)
- Jetstar International Group Australia Pty Limited (19 August 2011)
- Jetstar International Group Japan Co., Ltd (6 September 2011)

The following entities were voluntarily deregistered:
- QDS Richmond Ltd (28 August 2011)
- QF Dash 8 Leasing Pty Limited (28 August 2011)

1. This company changed its name to HOOROO Pty Limited on 11 July 2012.

Note 8. Post Balance Date Events

On 23 August 2012, the Group announced it would restructure its Boeing 787 delivery schedule as part of the five-year Qantas International turnaround plan. Firm commitments for 35 B787-9s will be cancelled. Fifty B787-9 options and purchase rights will be retained, available for delivery from 2016. There is no change to the Group's plans for the B787-8 aircraft.

Total cash inflow from the restructure is US$433 million with US$355 million in 2012/2013. These cash flows will result in the Group recognising profit before tax of approximately US$140 million in 2012/2013.

Other than the matter noted above, there has not arisen in the interval between 30 June 2012 and the date of this Report any other event that would have had a material effect on the Financial Statements as at 30 June 2012.

OPERATIONAL STATISTICS
For the year ended 30 June 2012

(unaudited)		June 2012	June 2011	Change
TRAFFIC AND CAPACITY				
QANTAS DOMESTIC (INCLUDING QANTASLINK) - SCHEDULED SERVICES				
Passengers carried	000	21,983	21,930	0.2%
Revenue passenger kilometres (RPK)	M	28,174	27,943	0.8%
Available seat kilometres (ASK)	M	36,259	35,642	1.7%
Revenue seat factor	%	77.7	78.4	(0.7)pts
QANTAS DOMESTIC (EXCLUDING QANTASLINK) - SCHEDULED SERVICES				
Passengers carried	000	16,796	17,073	(1.6)%
Revenue passenger kilometres (RPK)	M	24,770	24,719	0.2%
Available seat kilometres (ASK)	M	31,203	30,928	0.9%
Revenue seat factor	%	79.4	79.9	(0.5)pts
QANTASLINK - SCHEDULED SERVICES				
Passengers carried	000	5,187	4,857	6.8%
Revenue passenger kilometres (RPK)	M	3,404	3,224	5.6%
Available seat kilometres (ASK)	M	5,056	4,714	7.3%
Revenue seat factor	%	67.3	68.4	(1.1)pts
JETSTAR DOMESTIC - SCHEDULED SERVICES				
Passengers carried	000	10,697	9,753	9.7%
Revenue passenger kilometres (RPK)	M	12,798	11,369	12.6%
Available seat kilometres (ASK)	M	15,242	14,256	6.9%
Revenue seat factor	%	84.0	79.8	4.2pts
QANTAS INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	6,034	5,977	1.0%
Revenue passenger kilometres (RPK)	M	51,165	51,004	0.3%
Available seat kilometres (ASK)	M	62,334	61,881	0.7%
Revenue seat factor	%	82.1	82.4	(0.3)pts
JETSTAR INTERNATIONAL - SCHEDULED SERVICES				
Passengers carried	000	4,677	4,096	14.2%
Revenue passenger kilometres (RPK)	M	13,106	11,935	9.8%
Available seat kilometres (ASK)	M	17,474	15,628	11.8%
Revenue seat factor	%	75.0	76.4	(1.4)pts
JETSTAR ASIA				
Passengers carried	000	3,317	2,700	22.9%
Revenue passenger kilometres (RPK)	M	6,449	4,508	43.1%
Available seat kilometres (ASK)	M	8,114	5,874	38.1%
Revenue seat factor	%	79.5	76.7	2.8pts
QANTAS GROUP OPERATIONS				
Passengers carried	000	46,708	44,456	5.1%
Revenue passenger kilometres (RPK)	M	111,692	106,759	4.6%
Available seat kilometres (ASK)	M	139,423	133,281	4.6%
Revenue seat factor	%	80.1	80.1	nil pts
Aircraft at end of year	#	308	283	25 aircraft
QANTAS FREQUENT FLYER				
Billing	$M	1,187	1,042	13.9%
Awards redeemed	M	5.1	4.4	15.9%
Total members	M	8.6	7.9	8.9%
FINANCIAL				
Yield (passenger revenue per RPK) [1]	c	10.99	10.71	2.6%
EMPLOYEES				
Full-time equivalent employees at end of year	#	33,584	33,169	1.3%
RPK per average employee	000	3,312	3,228	2.6%
ASK per average employee	000	4,134	4,030	2.6%

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

GEARING RATIO[1]

As at 30 June 2012

(unaudited)	June 2012 $M	June 2011 $M
Balance sheet equity	5,889	6,151
Less: hedge reserve	41	80
Equity excluding hedge reserve	**5,848**	**6,071**
On balance sheet debt		
Current interest-bearing liabilities	1,119	577
Non-current interest-bearing liabilities	5,430	5,454
Cash and cash equivalents	(3,398)	(3,496)
Aircraft security deposits	(24)	(10)
Fair value of hedges relating to debt[2]	431	446
Net on balance sheet debt	**3,558**	**2,971**
Off balance sheet debt		
Non-cancellable operating leases[3]	3,986	3,999
Net Debt including off balance sheet debt[4]	**7,544**	**6,970**
Gearing Ratio - Net Debt to Net Debt and Equity (including off balance sheet debt excluding hedge reserve)	**56 : 44**	**53 : 47**

[1] Gearing Ratio is Net Debt including Off Balance Sheet Debt to Net Debt including Off Balance Sheet Debt and Equity (excluding hedge reserves). The gearing ratio is used by Management to represent the Qantas Group's entire capital position by measuring the proportion of the Group's total net funding provided using debt both on and off balance sheet debt.

[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] Non-cancellable operating leases are a representation assuming assets are owned and debt funded and are not consistent with the disclosure requirements of AASB 117: Leases.

[4] The inclusion of non-cancellable operating leases within the gearing calculation reflects the total debt funding used by the Group to support its operations.

ADJUSTED NET BORROWING COSTS

For the year ended 30 June 2012

(unaudited)	June 2012 $M	June 2011 $M
Borrowing costs		
Finance income	(181)	(192)
Finance costs	357	305
Unwind of discount on provisions and other liabilities	(31)	(26)
Unwind of discount on receivables	15	16
Capitalised interest	83	90
Ineffective and non-designated derivatives relating to other reporting periods	(6)	(21)
Implied interest on non-cancellable operating leases	305	326
Adjusted net borrowing costs	**542**	**498**
Average net debt including off balance sheet debt	**7,466**	**6,705**
Adjusted net borrowing costs as a percentage of average net debt including off balance sheet debt	**7.3%**	**7.4%**