



QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

**CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2006**

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TABLE OF CONTENTS

ASX Appendix 4D	
Results for Announcement to the Market	1
Other Information	2
Directors' Report	3
Consolidated Interim Financial Report	
Consolidated Income Statement	5
Consolidated Balance Sheet	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	9
Condensed Notes to the Consolidated Interim Financial Statements	
Statement of Significant Accounting Policies	10
Tax Reconciliation	11
Capital Expenditure Commitments	12
Dividends	12
Contingent Liabilities	12
Post Balance Date Events	13
Segment Reporting	13
Lead Auditor's Independence Declaration	15
Directors' Declaration	16
Independent Auditor's Review Report to the Members of Qantas Airways Limited	17

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	December 2006 \$m	December 2005 \$m	Change \$m	Change %
Sales and other income	7,726.9	6,857.2	869.7	up 12.7%
Profit for the half-year attributable to members	358.7	352.8	5.9	up 1.7%

DIVIDENDS

31 December 2006 special dividend	
Amount per security (cents)	15.0
Franked amount per security at 30% tax	15.0
Record date for determining entitlements to the dividend	19 February 2007
Date the dividend is payable	The earlier of 19 March 2007 and 10 business days after the APA Offer becomes unconditional
Total dividend declared (\$m)	297.6
<p>The Qantas Board has decided to suspend the Dividend Reinvestment Plan (DRP). The suspension has been effected pursuant to Rule 12(a) of the DRP, which entitles the Qantas Directors to terminate or suspend the DRP at any time on giving notice to DRP participants of the termination of suspension (and this paragraph is deemed to constitute such notification). This means that the Special Dividend cannot be applied to acquire further Qantas shares under the DRP.</p>	

EXPLANATION OF RESULTS

Please refer to the attached Press Release for an explanation of the results.

This information should be read in conjunction with the Qantas Airways Limited 2006 Annual Report.

The information provided in this report contains all the information required by ASX Listing Rule 4.2A.

OTHER INFORMATION

	December 2006 \$	December 2005 \$
Net Tangible Assets per ordinary share	2.90	2.98

Entities over which control was gained or lost during the half-year:

Qantas gained control of Jet Turbine Services Pty Limited on 15 December 2006 when it acquired the remaining 50% equity in the company. Accordingly, the results of Jet Turbine Services Pty Limited are included in the Qantas Group's consolidated results from this date.

Details of associates and jointly controlled entities

Equity accounted associates and jointly controlled entities	Percentage of ownership interest held at end of half-year or date of disposal		Contribution to net profit	
	December 2006 %	December 2005 %	December 2006 \$m	December 2005 \$m
Air Pacific Limited	46.3	46.3	0.1	2.4
Australian air Express Pty Limited	50.0	50.0	8.7	5.6
Hallmark Aviation Services LP	49.0	49.0	0.7	0.1
Harvey Holidays Pty Limited	50.0	50.0	0.5	0.6
HT & T Travel (Phillipines) Inc.	28.1	28.1	-	-
Holidays Tours and Travel (Thailand) Ltd.	36.8	36.8	-	-
Holidays Tours and Travel Vietnam Joint Venture Company	36.8	36.8	-	-
Jet Turbine Services Pty Limited ¹	100.0	50.0	(1.9)	(2.3)
Jupiter Air Oceania Limited	47.6	47.6	-	-
Orangestar Investment Holdings Pte Limited ²	45.0	44.5	(4.4)	(12.2)
Star Track Express Holdings Pty Limited	50.0	50.0	9.6	9.7
Tour East (TET) Ltd.	36.8	36.8	0.1	-
Thai Air Cargo Company Limited ³	-	49.0	-	0.7
Travel Software Solutions Pty Limited	50.0	50.0	0.1	2.2
Total			13.5	6.8

1 Qantas acquired the remaining 50% equity in Jet Turbine Services Pty Limited on 15 December 2006. Qantas ceased to equity account the results of Jet Turbine Services Pty Limited from this date.

2 On 29 December 2006, the Board of Orangestar Investment Holdings Pte Limited approved the issuing of an optional convertible note to shareholders. This convertible note had not been issued at 31 December 2006.

3 On 21 August 2006, Qantas sold its share of Thai Air Cargo Company Limited to the other joint venture partner. Losses from the venture had previously been equity accounted and no further losses were recognised on disposal of the investment.

DIRECTORS' REPORT

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2006 and the Independent Auditors' Review Report thereon.

DIRECTORS

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

Name	Period of Directorship
Margaret Jackson, AC <i>Chairman</i>	<i>Director since July 1992 - appointed Chairman August 2000</i>
Geoff Dixon <i>Chief Executive Officer</i>	<i>Director since August 2000 - appointed CEO in March 2001</i>
Peter Gregg <i>Chief Financial Officer</i>	<i>Director since September 2000</i>
Paul Anderson	<i>Director since September 2002</i>
Mike Codd, AC	<i>Director since January 1992</i>
Peter Cosgrove, AC, MC	<i>Director since July 2005</i>
Patricia Cross	<i>Director since January 2004</i>
Garry Hounsell	<i>Director since January 2005</i>
James Packer	<i>Director since March 2004</i>
John Schubert	<i>Director since October 2000</i>
James Strong, AO	<i>Director since 1 July 2006</i>

REVIEW OF OPERATIONS

The Qantas Group achieved a profit before related income tax expense (PBT) for the half-year of \$523.4 million, representing an increase of \$39.9 million or 8.3% on the comparative half-year.

Total sales and other income for the half-year increased by \$869.7 million or 12.7% to \$7.7 billion. Revenue Passenger Kilometres (RPKs) increased by 7.4% on increased capacity of 3.7%, leading to an increase in passenger load factor of 2.8 percentage points, while yields increased by 7.2%.

Total expenditure increased by \$829.8 million or 13.0% to \$7.2 billion.

Qantas flying brands (including QantasLink) contributed PBT of \$423.6m, an increase of \$9.2 million or 2.2% over the comparative half-year. RPKs increased by 3.5% on decreased capacity of 0.1%, leading to an increase in passenger load factor of 2.8 percentage points.

Jetstar contributed PBT of \$23.3 million, an increase of \$13.7 million over the comparative half-year. RPKs increased by 63.8% on increased capacity of 57.5%, leading to an increase in passenger load factor of 3.0 percentage points.

PBT for other subsidiary operations increased by \$17.0 million or 28.6% to \$76.5 million.

DIRECTORS' REPORT (continued)

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 15 and forms part of the Directors' Report for the half-year ended 31 December 2006.

ROUNDING

The Qantas Group is of the kind referred to in Australian Securities Investment Commission (ASIC) Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, amounts in the Financial Report and Directors' Report have been rounded to the nearest hundred thousand dollars, unless otherwise stated.

Signed pursuant to a Resolution of the Directors:



MARGARET JACKSON

Chairman



GEOFF DIXON

Chief Executive Officer

Sydney, 7 February 2007

CONSOLIDATED INCOME STATEMENT

for the half-year ended 31 December 2006

	December 2006 \$m	December 2005 \$m
Sales and other income		
Net passenger revenue	5,996.4	5,279.2
Net freight revenue	493.8	462.8
Tours and travel revenue	409.5	381.9
Contract work revenue	214.5	240.8
Other ^{1,2,3}	612.7	492.5
	7,726.9	6,857.2
Expenditure		
Manpower and staff related ⁴	1,687.3	1,664.9
Selling and marketing	241.7	228.9
Aircraft operating - variable	1,305.2	1,289.2
Fuel	1,735.3	1,347.5
Property	165.1	163.1
Computer and communication	259.1	239.9
Tours and travel	342.7	312.6
Capacity hire	160.1	192.8
Other ²	246.4	173.8
Ineffective hedging - closed derivative positions	33.5	30.6
Depreciation and amortisation ⁵	707.2	601.0
Non-cancellable operating lease rentals	209.9	158.1
Share of net profit of associates and jointly controlled entities	(13.5)	(6.8)
	7,080.0	6,395.6
Operating result	646.9	461.6
Ineffective hedging - open derivative positions	(99.4)	49.4
Profit before related income tax expense and net finance costs	547.5	511.0
Finance income	106.9	69.0
Finance costs	(131.0)	(96.5)
Net finance costs	(24.1)	(27.5)
Profit before related income tax expense	523.4	483.5
Income tax expense	(164.9)	(130.9)
Profit for the half-year	358.5	352.6
Attributable to:		
Members of Qantas	358.7	352.8
Minority interest	(0.2)	(0.2)
Profit for the half-year	358.5	352.6
Earnings per share (EPS) attributable to members of Qantas		
Basic earnings per share (cents)	18.2	18.4
Diluted earnings per share (cents)	18.2	18.4

1 Compensation for the late delivery of aircraft has resulted in the recognition of \$97.5 million, representing the present value of future receipts.

2 Prior year gain on sale of non-current assets of \$10.4 million has been reclassified from Other Expenses to Other Income.

3 Change in the estimate of points not expected to be redeemed resulted in the recognition of \$51.6 million in Frequent Flyer revenue.

4 Redundancy costs incurred during the half-year were \$100.1 million (2005: \$45.2 million).

5 Change in the estimated useful life of aircraft modifications resulted in additional depreciation of \$35.9 million.

The Consolidated Income Statement is to be read in conjunction with the Condensed Notes to the Consolidated Interim Financial Statements set out on pages 10 to 14.

CONSOLIDATED BALANCE SHEET

as at 31 December 2006

	December 2006 \$m	June 2006 \$m
Current assets		
Cash and cash equivalents	3,053.3	2,902.0
Receivables	1,089.6	1,124.3
Other financial assets	286.7	476.7
Inventories	188.3	334.8
Assets classified as held for sale	9.6	24.2
Other	57.8	86.4
Total current assets	4,685.3	4,948.4
Non-current assets		
Receivables	378.0	342.0
Other financial assets	702.4	766.8
Investments accounted for using the equity method	360.4	372.9
Other investments	78.2	53.7
Property, plant and equipment	12,398.3	12,375.0
Intangible assets	329.2	311.7
Deferred tax assets	0.3	2.9
Other	32.0	9.9
Total non-current assets	14,278.8	14,234.9
Total assets	18,964.1	19,183.3
Current liabilities		
Payables	1,893.3	1,988.0
Interest bearing liabilities	735.9	440.8
Other financial liabilities	295.7	139.2
Provisions	458.8	469.0
Current tax liabilities	63.6	72.4
Revenue received in advance	2,213.2	2,282.8
Deferred lease benefits/income	37.6	37.5
Total current liabilities	5,698.1	5,429.7
Non-current liabilities		
Interest bearing liabilities	4,781.1	5,334.8
Other financial liabilities	479.6	352.2
Provisions	472.3	477.0
Deferred tax liabilities	674.4	701.2
Revenue received in advance	700.9	708.5
Deferred lease benefits/income	79.2	98.8
Total non-current liabilities	7,187.5	7,672.5
Total liabilities	12,885.6	13,102.2
Net assets	6,078.5	6,081.1
Equity		
Issued capital	4,481.2	4,382.2
Treasury shares	(38.9)	(23.8)
Reserves	89.8	329.3
Retained profits	1,541.7	1,388.5
Equity attributable to members of Qantas	6,073.8	6,076.2
Minority interests in controlled entities	4.7	4.9
Total equity	6,078.5	6,081.1

The Consolidated Balance Sheet is to be read in conjunction with the Condensed Notes to the Consolidated Interim Financial Statements set out on pages 10 to 14.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half-year ended 31 December 2006

	Issued Capital \$m	Treasury Stock \$m	Employee Compensation Reserve \$m	Hedge Reserve \$m	Fair Value Reserve \$m	Asset Revaluation Reserve \$m	Foreign Currency Reserve \$m	Retained Earnings \$m	Minority Interest \$m	Total Equity \$m
Balance at 1 July 2005	4,181.5	(17.8)	13.7	-	-	4.4	(3.5)	1,347.4	4.2	5,529.9
Impact of initial adoption of AASB 132 and AASB 139	10.8	-	-	379.0	(28.8)	-	-	(36.0)	-	325.0
Restated balance	4,192.3	(17.8)	13.7	379.0	(28.8)	4.4	(3.5)	1,311.4	4.2	5,854.9
Profit for the half-year	-	-	-	-	-	-	-	352.8	(0.2)	352.6
Dividends to members	97.4	-	-	-	-	-	-	(190.0)	-	(92.6)
Own shares acquired	-	(9.9)	-	-	-	-	-	-	-	(9.9)
Shares vested to employees	-	1.7	(1.7)	-	-	-	-	-	-	-
Share-Based payments	-	-	5.7	-	-	-	-	-	-	5.7
Transfer of Hedge Reserve to Income Statement	-	-	-	(149.5)	-	-	-	-	-	(149.5)
Recognition of effective cash flow hedges on capitalised assets	-	-	-	18.3	-	-	-	-	-	18.3
Effective portion of changes in fair value of cash flow hedges	-	-	-	101.1	-	-	-	-	-	101.1
Share of movement in jointly controlled entity's hedge reserve	-	-	-	(1.1)	-	-	-	-	-	(1.1)
Change in fair value of assets available for sale	-	-	-	-	(7.2)	-	-	-	-	(7.2)
Recognition of deferred tax liability on revalued assets	-	-	-	-	-	(0.4)	-	-	-	(0.4)
Balance at 31 December 2005	4,289.7	(26.0)	17.7	347.8	(36.0)	4.0	(3.5)	1,474.2	4.0	6,071.9

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Condensed Notes to the Consolidated Interim Financial Statements set out on pages 10 to 14.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the half-year ended 31 December 2006

	Issued Capital \$m	Treasury Stock \$m	Employee Compensation Reserve \$m	Hedge Reserve \$m	Fair Value Reserve \$m	Asset Revaluation Reserve \$m	Foreign Currency Reserve \$m	Retained Earnings \$m	Minority Interest \$m	Total Equity \$m
Balance at 1 July 2006	4,382.2	(23.8)	23.7	332.2	(35.4)	4.0	4.8	1,388.5	4.9	6,081.1
Profit for the half-year	-	-	-	-	-	-	-	358.7	(0.2)	358.5
Dividends to members	99.0	-	-	-	-	-	-	(215.3)	-	(116.3)
Own shares acquired	-	(24.5)	-	-	-	-	-	-	-	(24.5)
Shares vested to employees	-	9.4	(7.2)	-	-	-	-	(2.2)	-	-
Share-Based payments	-	-	6.0	-	-	-	-	-	-	6.0
Transfer of Hedge Reserve to Income Statement	-	-	-	(40.2)	-	-	-	-	-	(40.2)
Recognition of effective cash flow hedges on capitalised assets	-	-	-	13.0	-	-	-	-	-	13.0
Effective portion of changes in fair value of cash flow hedges	-	-	-	(241.4)	-	-	-	-	-	(241.4)
Change in fair value of assets available for sale	-	-	-	-	26.6	-	-	-	-	26.6
Impairment charge against assets previously measured at fair value	-	-	-	-	10.1	-	-	-	-	10.1
Foreign exchange impact of Fair Value Reserve transferred to Foreign Currency Reserve	-	-	-	-	(1.3)	-	1.3	-	-	-
Translation of foreign currency subsidiaries	-	-	-	-	-	-	(6.4)	-	-	(6.4)
Pre-acquisition retained profits acquired on acquisition	-	-	-	-	-	-	-	12.0	-	12.0
Balance at 31 December 2006	4,481.2	(38.9)	22.5	63.6	0.0	4.0	(0.3)	1,541.7	4.7	6,078.5

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Condensed Notes to the Consolidated Interim Financial Statements set out on pages 10 to 14.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2006

	December 2006 \$m	December 2005 \$m
Cash flows from operating activities		
Cash receipts in the course of operations	7,893.4	6,958.4
Cash payments in the course of operations	(6,687.8)	(5,828.3)
Interest received	102.7	69.6
Interest paid	(184.0)	(132.5)
Dividends received	8.7	18.5
Income taxes paid	(82.6)	(100.2)
Net cash from operating activities	1,050.4	985.5
Cash flows from investing activities		
Payments for property, plant and equipment ¹	(660.8)	(820.0)
Proceeds from sale of property, plant and equipment	8.1	20.4
Proceeds from financing of non-current assets	-	383.3
Payments for investments, net of cash acquired	(11.6)	(25.2)
Proceeds from sale of investments	3.4	-
Advances of investment loans	-	(3.0)
Net cash used in investing activities	(660.9)	(444.5)
Cash flows from financing activities		
Repayment of borrowings	(180.0)	(191.7)
Proceeds from swaps	56.1	43.1
Receipts from aircraft security deposits	1.8	-
Dividends paid ²	(116.1)	(92.2)
Net cash used in financing activities	(238.2)	(240.8)
Net increase in cash and cash equivalents held	151.3	300.2
Cash and cash equivalents at the beginning of the half-year	2,902.0	1,903.8
Cash and cash equivalents at the end of the half-year	3,053.3	2,204.0

1 As a consequence of the assignment of purchase rights prior to aircraft delivery, contractual payments to manufacturers of \$nil (2005: \$279.2 million) were settled by aircraft lessors.

2 During the half-year 28,991,867 (2005: 31,024,893) shares were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash during the half-year totalled \$99.0 million (2005: \$97.4 million).

The Consolidated Statement of Cash Flows is to be read in conjunction with the Condensed Notes to the Consolidated Interim Financial Statements set out on pages 10 to 14.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2006

Note 1. Statement of Significant Accounting Policies

(a) Reporting entity

Qantas Airways Limited (Qantas) is a company domiciled in Australia. The Consolidated Interim Financial Report (Financial Report) of Qantas as at and for the six months ended 31 December 2006 comprises Qantas and its subsidiaries (Qantas Group) and the Qantas Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Qantas Group as at and for the year ended 30 June 2006 is available upon request from the registered office of Qantas at Qantas Centre, Level 9 Building A, 203 Coward Street, Mascot NSW 2020, Australia or at www.qantas.com.au.

(b) Statement of compliance

The Financial Report is presented in Australian dollars and is a general purpose Financial Report which 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 IAS 34 *Interim Financial Reporting*.

The Financial Report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Qantas Group as at and for the year ended 30 June 2006. This report must also be read in conjunction with any public announcements made by Qantas during the half-year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and ASX Listing Rules.

This Financial Report was approved by the Board of Directors on 7 February 2007.

The Qantas Group is of the kind referred to in Australian Securities Investment Commission (ASIC) Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, amounts in the Financial Report and Directors' Report have been rounded to the nearest hundred thousand dollars, unless otherwise stated.

(c) Significant accounting policies

The accounting policies applied by the Qantas Group in this Financial Report are the same as those applied by the Qantas Group in the consolidated Financial Report as at and for the year ended 30 June 2006.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
 for the half-year ended 31 December 2006

Note 1. Statement of Significant Accounting Policies (continued)

(c) Significant accounting policies (continued)

In the prior financial year the Qantas Group adopted *AASB 132: Financial Instruments: Disclosure and Presentation* and *AASB 139: Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of *AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the Consolidated Statement of Changes in Equity.

The Qantas Group adopted *AASB 2005-9 Amendments to Australian Accounting Standards (September 2005)* as of 1 July 2006. The amendment requires liabilities to be recognised for certain financial guarantee contracts. The initial application of AASB 2005-9 has had no material impact on the Qantas Group.

(d) Estimates

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

In preparing this Financial 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 that applied to the Financial Report as at and for the year ended 30 June 2006, with the following exceptions:

- 1 Changes in breakage assumptions for Frequent Flyer have resulted in a \$51.6 million reduction in the Frequent Flyer liability during the half-year.
- 2 A reduction in the estimated useful life of aircraft modifications resulted in additional depreciation of \$35.9 million during the half-year.

Note 2. Tax Reconciliation

The prima facie income tax on profit before related income tax expense differs from the income tax charged in the Income Statement and is calculated as follows:

	December 2006 \$m	December 2005 \$m
Profit before related income tax expense	523.4	483.5
Prima facie income tax expense @ 30%	157.0	145.1
Less: utilisation of carry forward tax losses	(1.5)	(21.4)
Add: other items	9.4	7.2
Income tax expense	164.9	130.9

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
 for the half-year ended 31 December 2006

Note 3. Capital Expenditure Commitments

Capital expenditure commitments contracted but not provided for in the Financial Statements, payable:

Not later than June 2007
 Not later than June 2008
 Later than June 2008 but not later than June 2012
 Later than June 2012

December 2006 \$m	June 2006 \$m
628.2	1,349.4
621.9	4,753.1
9,009.1	3,898.8
2,569.9	-
12,829.1	10,001.3

Note 4. Dividends

A fully franked final dividend of 11 cents (2005: 10 cents fully franked) per ordinary share was paid on 4 October 2006 in relation to the financial year ended 30 June 2006. The total amount of the dividend declared was \$215.1 million (2005: \$189.9 million).

A fully franked special dividend of 15 cents per share has been declared. This will have the effect of distributing accumulated franking credits to shareholders.

Note 5. Contingent Liabilities

The contingent liabilities disclosed in the 30 June 2006 Annual Report remain unresolved. While the construction dispute referred to in the Annual Report is ongoing, the proceedings in respect of one aspect of the claim against Qantas have been summarily dismissed on appeal by the plaintiff.

A new class action claim was made during the half-year by a number of travel agents against IATA, Qantas and other airlines as a result of travel agents not being paid commission on fuel surcharge. The claim amount has not yet been determined and Qantas is investigating the claim.

As disclosed in the 2006 Annual Report, Qantas is being investigated by a number of regulators in relation to alleged price fixing in the air cargo market. In late January 2007, Qantas was made aware of representative proceedings filed in the Federal Court of Australia against Qantas and other airlines in relation to alleged price fixing in the air cargo market. On 1 February 2007 Qantas was served with representative proceedings filed in the Federal Court of Australia against Qantas and other airlines in relation to alleged price fixing in the air cargo market. No estimate of quantum is provided in the pleadings. Qantas expects that it will take at least 12 months before it is possible to quantify any direct or indirect liability associated with this matter.

Qantas, along with other major airlines, has undertaken to provide financial support to a number of airports should they enter into financial difficulty. This situation is considered to be very remote.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2006

Note 5. Contingent Liabilities (continued)

On 14 December 2006 Airline Partners Australia Limited (APA) announced an intention to make a conditional takeover offer for all the ordinary shares in Qantas Airways Limited for \$5.60 per share. Qantas entered into an Implementation Deed dated 14 December 2006 in regard to the transaction and the independent Directors unanimously recommended the offer in the absence of a superior proposal and subject to receipt of an independent expert's report.

As a consequence of these agreements, Qantas has a number of contingent liabilities which may crystallise if the APA bid is successful, as noted below:

- 1 Qantas has a number of Performance Equity Plans (Plans), tranches of which have not yet satisfied their vesting and performance criteria. If the APA bid is successful, the existing rules governing the operation of these Plans permits the Board to waive these conditions and vest all shares and rights (as is market practice in such transactions). This will result in an expense of \$28.1 million being recognised to accelerate the vesting of these Plans. In addition, Qantas will be required to fair value the Plans before and after the vesting conditions are removed by the Board and further expense the differential. This additional amount can not be estimated at this time, as it is contingent upon future market valuations.
- 2 Qantas has entered into a number of contingent fee agreements with its advisors and valuers as a result of the bid made by APA to acquire Qantas. Should the bid be successful, Qantas will be required to pay contingent fees of approximately \$98 million.

Note 6. Post Balance Date Events

There has not arisen in the interval between 31 December 2006 and the date of this report, any event that would have had a material effect on the interim financial statements at 31 December 2006.

Note 7. Segment Reporting

Business Segments

The segmentation of the Qantas Group into business segments supported by a corporate centre is progressively being implemented to deliver a broad range of benefits to the business.

Financial reporting system changes to transition Qantas to a segmented model are currently under development. Disclosure of segment information is provided as follows:

1. Qantas and Jetstar as the Qantas Group's flying segments, which are supported by Qantas Engineering, Airports and Qantas Freight;
2. Qantas Holidays, which forms part of the Associated Businesses segment; and
3. Qantas Catering, which forms part of the Associated Businesses segment.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the half-year ended 31 December 2006

Note 7. Segment Reporting (continued)

Analysis by Business Segments	Qantas and other entities \$m		Jetstar \$m		Qantas Holidays \$m		Qantas Flight Catering \$m		Eliminations \$m		Consolidated \$m	
	Dec-06	Dec-05	Dec-06	Dec-05	Dec-06	Dec-05	Dec-06	Dec-05	Dec-06	Dec-05	Dec-06	Dec-05
	Sales and other income											
External segment revenue	6,759.7	6,086.3	479.2	301.9	409.5	381.9	78.5	87.1	-	-	7,726.9	6,857.2
Inter-segment revenue	95.1	41.1	33.2	22.5	92.6	104.9	183.4	190.6	(404.3)	(359.1)	-	-
Total segment sales and other income	6,854.8	6,127.4	512.4	324.4	502.1	486.8	261.9	277.7	(404.3)	(359.1)	7,726.9	6,857.2
Share of net profit of associates and jointly controlled entities	13.4	6.8	-	-	0.1	-	-	-	-	-	13.5	6.8
Profit before related income tax expense and net finance costs	490.8	466.9	23.3	9.6	18.1	18.4	15.3	16.1	-	-	547.5	511.0
Net finance (costs)/revenue	(31.8)	(35.1)	-	-	7.7	7.6	-	-	-	-	(24.1)	(27.5)
Profit before related income tax expense	459.0	431.8	23.3	9.6	25.8	26.0	15.3	16.1	-	-	523.4	483.5
Income tax expense											(164.9)	(130.9)
Profit for the half-year											358.5	352.6



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 financial period ended 31 December 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Martin Sheppard'.

Martin Sheppard
Partner

Sydney

7 February 2007

DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

- (a) the financial statements and notes set out on pages 5 to 14, 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 2006 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:



MARGARET JACKSON
Chairman



GEOFF DIXON
Chief Executive Officer

Sydney, 7 February 2007



Independent auditor's review report to the members of Qantas Airways Limited

We have reviewed the accompanying consolidated interim financial report ("financial report") of Qantas Airways Limited, which comprises the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, statement of changes in equity and statement of cash flows for the half year ended on that date, a statement of accounting policies, other explanatory notes 1 to 7, and the directors' declaration of the Qantas Airways Limited consolidated entity ("the Consolidated Entity"). The Consolidated Entity comprises Qantas Airways Limited ("the Company") and the entities it controlled at the half-year's end or from time to time during the half-year period.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2006 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Qantas Airways Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 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.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the 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 Consolidated Entity's financial position as at 31 December 2006 and of its performance for the half-year period ended on that date; and
- (b) complying with Australian Accounting AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Martin Sheppard'.

Martin Sheppard
Partner

Sydney

7 February 2007

QANTAS AIRWAYS LIMITED
ABN 16 009 661 901

OPERATIONAL STATISTICS

for the half-year ended 31 December 2006

(Unaudited)		Half-Year Ended December 2006	Half-Year Ended December 2005	Percentage Increase/ (Decrease)
QANTAS INTERNATIONAL - SCHEDULED SERVICES¹				
<u>TRAFFIC AND CAPACITY</u>				
Passengers carried	000	4,464	4,776	(6.5)
Revenue passenger kilometres (RPK)	m	30,996	30,219	2.6
Available seat kilometres (ASK)	m	38,361	39,319	(2.4)
Revenue seat factor	%	80.8	76.9	3.9 pts
Revenue freight tonne kilometres (RFTK)	m	1,415	1,382	2.4
QANTAS DOMESTIC - SCHEDULED SERVICES				
<u>TRAFFIC AND CAPACITY</u>				
Passengers carried	000	8,344	8,133	2.6
Revenue passenger kilometres (RPK)	m	12,142	11,664	4.1
Available seat kilometres (ASK)	m	15,101	14,474	4.3
Revenue seat factor	%	80.4	80.6	(0.2) pts
QANTASLINK - SCHEDULED SERVICES				
<u>TRAFFIC AND CAPACITY</u>				
Passengers carried	000	1,949	1,629	19.6
Revenue passenger kilometres (RPK)	m	1,281	1,016	26.1
Available seat kilometres (ASK)	m	1,761	1,458	20.8
Revenue seat factor	%	72.8	69.7	3.1 pts
JETSTAR - SCHEDULED SERVICES				
<u>TRAFFIC AND CAPACITY</u>				
Passengers carried	000	3,781	2,722	38.9
Revenue passenger kilometres (RPK)	m	4,741	2,895	63.8
Available seat kilometres (ASK)	m	6,023	3,823	57.5
Revenue seat factor	%	78.7	75.7	3.0 pts
QANTAS GROUP OPERATIONS				
<u>TRAFFIC AND CAPACITY</u>				
Passengers carried	000	18,538	17,260	7.4
Revenue passenger kilometres (RPK)	m	49,160	45,794	7.4
Available seat kilometres (ASK)	m	61,245	59,074	3.7
Revenue seat factor	%	80.3	77.5	2.8 pts
Aircraft in service at year end ²	#	211	205	6 units
<u>FINANCIAL</u>				
Yield (passenger revenue per RPK)	¢	11.65	10.87	7.2
<u>PRODUCTIVITY</u>				
Average full-time equivalent employees	#	33,725	35,158	(4.1)
RPK per employee	000	2,892	2,584	11.9
ASK per employee	000	3,602	3,333	8.1

1 Includes prior year statistics for Australian Airlines which, effective 1 July 2006, provides wet lease services to Qantas mainline.

2 Excludes six temporarily grounded B717-200 aircraft.

QANTAS AIRWAYS LIMITED
ABN 16 009 661 901

CONSOLIDATED PROFIT BEFORE RELATED INCOME TAX EXPENSE
for the half-year ended 31 December 2006

(Unaudited)	Half-Year Ended December 2006 \$m	% of Group Total	Half-Year Ended December 2005 \$m	% of Group Total
Qantas	423.6	80.9	414.4	85.7
Jetstar ¹	23.3	4.5	9.6	2.0
Total Flying Operations	446.9	85.4	424.0	87.7
Other Subsidiaries:²				
Qantas Holidays Group	25.8	4.9	26.0	5.4
Qantas Flight Catering Group	15.3	2.9	16.1	3.3
Qantas Defence Services	10.6	2.0	4.1	0.8
Equity Accounting	13.5	2.6	6.8	1.4
Other Subsidiaries	11.3	2.2	6.5	1.4
Total Other Subsidiaries	76.5	14.6	59.5	12.3
Group Profit Before Related Income Tax Expense	523.4	100.0	483.5	100.0

Notes

- 1 The current year Result for Jetstar includes \$26.0 million of start-up costs incurred in establishing Jetstar International.
- 2 Subsidiary operations profit before related income tax expense includes profit earned on services provided to Qantas Airways Limited.

QANTAS AIRWAYS LIMITED

ABN 16 009 661 901

**CONSOLIDATED DEBT, GEARING AND CAPITALISATION OF
NON-CANCELLABLE OPERATING LEASES**

as at 31 December 2006

(Unaudited)	As at December 2006 \$m	As at June 2006 \$m
Balance Sheet Equity	6,078.5	6,081.1
Hedge Reserve	63.6	332.2
Equity excluding Hedge Reserve	6,014.9	5,748.9
On Balance Sheet Debt ¹		
Current Debt	735.9	440.8
Non-current Debt ²	4,781.1	5,334.8
Cash and Cash Equivalents ³	(3,180.1)	(3,031.6)
Fair value of hedges relating to debt ⁴	(376.1)	(453.3)
Net On Balance Sheet Debt	1,960.8	2,290.7
Off Balance Sheet Debt		
Non-Cancellable Operating Leases ⁵	2,548.7	2,670.8
Net Debt including Off Balance Sheet Debt	4,509.5	4,961.5
Balance Sheet including Off Balance Sheet Debt		
Total Assets ⁶	21,632.8	21,932.0
Total Liabilities	15,443.5	15,780.2
Total Equity including Hedge Reserve	6,189.3	6,151.8
Less: Hedge Reserve	63.6	332.2
Total Equity excluding Hedge Reserve	6,125.7	5,819.6
Net Debt to Net Debt and Equity	24 : 76	27 : 73
Net Debt to Net Debt and Equity (including Off Balance Sheet Debt and Hedge Reserve)	42 : 58	45 : 55
Net Debt to Net Debt and Equity (including Off Balance Sheet Debt and excluding Hedge Reserve)	42 : 58	46 : 54
Working Capital Ratio	45 : 55	48 : 52

Notes

1. On balance sheet debt includes bank and other loans and lease liabilities.
2. Non-current debt excludes debt available to be set-off against non-current assets.
3. Cash and cash equivalents includes bills of exchange and promissory notes, negotiable securities and security and term deposits. The non-current aircraft security deposits have been pledged as security to providers of aircraft finance.
4. Fair value of hedges relating to debt represents the fair value of derivatives hedging debt in accordance with AASB 139: *Financial Instruments: Recognition and Measurement*.
5. Non-cancellable operating leases has been calculated assuming the assets are owned and debt funded and is not consistent with the disclosure requirements of *AASB 117: Leases*.
6. Total assets including assets related to off balance sheet debt has been calculated as the sum of total assets on the balance sheet and operating lease assets capitalised.

QANTAS AIRWAYS LIMITED

ABN 16 009 661 901

**CONSOLIDATED NET INTEREST AS A PERCENTAGE OF
AVERAGE NET DEBT**

as at 31 December 2006

(Unaudited)	Half-Year Ended December 2006 \$m	Half-Year Ended December 2005 \$m
Borrowing Costs		
Net Borrowing Costs	24.1	27.5
Unwind of discount on non-current provisions	(17.4)	(11.8)
Unwind of discount on non-current receivables	5.7	-
Capitalised Interest	36.5	35.5
Interest on Non-cancellable Operating Leases	121.5	84.8
Adjusted Net Borrowing Costs	170.4	136.0
Interest Cover	22.7	18.6
Average Net Debt *		
Average Net Debt Including Off Balance Sheet Debt	4,735.5	4,896.7
Adjusted Net Borrowing Costs as a Percentage of:		
Average Net Debt Including Off Balance Sheet Debt	3.6	2.8
* Average Net Debt balances are calculated on a weighted average basis.		

QANTAS AIRWAYS LIMITED

ABN 16 009 661 901

DERIVATIVE INEFFECTIVENESS (Unaudited)

Qantas is subject to foreign currency, interest rate, fuel price and credit risks. Derivative financial instruments are used to hedge these risks. It is Qantas policy not to enter into, issue or hold derivative financial instruments for speculative trading purposes.

Accounting standard *AASB 139: Financial Instruments: Recognition and Measurement* (AASB 139) contains a strict definition of hedge effectiveness for accounting purposes and requires that all derivatives be held at current market values. Each derivative transaction used to hedge identified risks must be documented and proven to be effective in offsetting changes in the value of the underlying risk within a range of 80%-125%. This measure of effectiveness may result in economically appropriate hedging transactions being deemed ineffective for accounting purposes.

Accounting ineffectiveness for derivative transactions has been split into two lines within the Consolidated Income Statement, as shown in the table below. The table shows the foreign exchange, interest rate and fuel hedging transactions that fail the accounting effectiveness measure in the half-year ended 31 December 2006.

	December 2006 \$m	December 2005 \$m
Ineffective hedging - closed derivative positions	33.5	30.6
Ineffective hedging - open derivative positions	99.4	(49.4)
Total Ineffectiveness	132.9	(18.8)

Two hedging strategies in particular drive ineffectiveness in Qantas accounting results. Crude oil prices and jet fuel prices do not always correlate within the 80% to 125% range required by AASB 139 and can result in changes in fair value of the derivative being deemed ineffective for accounting purposes from time to time. Also, ineffectiveness results from the treatment of options used as hedging instruments under AASB 139.

AASB 139 will only permit the intrinsic component of an option value to be deemed an effective hedge. As a result, all other aspects of the option value must be marked to market through the Consolidated Income Statement as ineffective. Changes in the non-intrinsic value do not necessarily reflect the original premium paid or potential losses if the option is held to maturity.

A total loss of \$132.9m has been recognised as Derivative Ineffectiveness during the half-year. This includes a loss of \$33.5m recognised as "Ineffectiveness hedging - closed derivative positions". This has been included in Operating Results in the Consolidated Income statement as it relates to derivative hedging instruments deemed ineffective for accounting purposes that matured during the half-year.

The remaining loss of \$99.4m has been recognised as "Ineffectiveness hedging - open derivative positions". This has been excluded from Operating Results as it relates to derivative hedging instruments deemed ineffective for accounting purposes that are to hedge underlying risks in future reporting periods.