



**QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2005**

**ABN 16 009 661 901**

**ASX CODE: QAN**

**TABLE OF CONTENTS**

<b>ASX Appendix 4D</b>	
Results for Announcement to the Market	1
Other Information	2
<b>Directors' Report</b>	3
<b>Condensed Consolidated Interim Financial Report</b>	
Consolidated Income Statement	5
Consolidated Balance Sheet	6
Consolidated Statement of Recognised Income and Expense	7
Consolidated Statement of Cash Flows	8
Notes to the Financial Statements	
Statement of Significant Accounting Policies	9
Dividends	29
Contingent Liabilities	29
Post Balance Date Events	29
Reconciliation of Movement in Capital and Reserves	30
Segment Reporting	31
Impact of Adopting A-IFRS	33
Change in Accounting Policy	39
<b>Lead Auditor's Independence Declaration</b>	40
<b>Directors' Declaration</b>	41
<b>Independent Review Report to the Members of Qantas Airways Limited</b>	42

**RESULTS FOR ANNOUNCEMENT TO THE MARKET IN ACCORDANCE WITH AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS)**

	<b>31 Dec 2005</b>	<b>31 Dec 2004<sup>1</sup></b>	<b>Change</b>	<b>Change</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>%</b>
Sales and operating revenue	6,846.8	6,308.1	538.7	up 8.5%
Profit for the period	352.6	390.2	(37.6)	down 9.6%

<sup>1</sup> 2004 comparative numbers have been restated and presented under A-IFRS.

**DIVIDENDS**

31 December 2005 interim dividend - to be paid 5 April 2006	
Amount per security (cents)	11.0
Franked amount per security at 30% tax	11.0
Record date for determining entitlements to the dividend	8 March 2006
Date the dividend is payable	5 April 2006
Total dividend declared (\$m)	212.2
Qantas operates a Dividend Reinvestment Plan (DRP) under which shareholders can reinvest the dividends payable on participating shares in newly issued Qantas shares.	
Last date for receipt of election notice for participation in dividend reinvestment plan	8 March 2006

**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 2005 Annual Report.

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

**OTHER INFORMATION**

	<b>Dec 2005</b>	<b>Dec 2004</b>
	<b>\$</b>	<b>\$</b>
<b>Net Tangible Assets per ordinary share</b>	<b>2.98</b>	<b>2.68</b>

**Entities over which control gained or lost during the period:**

None.

**Details of associates and joint venture entities**

Equity accounted associates and joint ventures	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit	
	Dec 2005 %	Dec 2004 %	December 2005 \$m	December 2004 \$m
Air Pacific Limited	46.32	46.32	2.4	2.8
Australian air Express Pty Limited	50.00	50.00	5.6	11.0
Hallmark Aviation Services LP	49.00	49.00	0.1	0.4
Harvey Holidays Pty Limited	50.00	50.00	0.6	0.5
Holiday Tours and Travel (Phillipines)	36.75	-	-	-
Holidays Tours and Travel (Thailand) Limited	36.75	36.75	-	-
Holidays Tours and Travel Vietnam Joint Venture Company	36.75	-	-	-
Jet Turbine Services Pty Limited	50.00	50.00	(2.3)	(1.9)
Orangestar Holdings Pte Limited <sup>1</sup>	44.50	49.99	(12.2)	(9.7)
Jupiter Air Oceania Limited	47.62	47.62	-	0.1
Star Track Express Holdings Pty Limited	50.00	50.00	9.7	8.3
TET Limited	36.75	36.75	-	-
Thai Air Cargo Co., Ltd.	49.00	49.00	0.7	0.2
Travel Software Solutions Pty Limited	50.00	50.00	2.2	(0.1)
<b>Total</b>			<b>6.8</b>	<b>11.6</b>

<sup>1</sup> Formerly Jetstar Asia Pte Limited which merged with Valuair Airways Limited on 22 July 2005, now trading as Jetstar Asia.

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2005 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:

<b>Name</b>	<b>Period of Directorship</b>
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 6 July 2005</i>
Patricia Cross	<i>Director since January 2004</i>
Garry Hounsell	<i>Director since January 2005</i>
Jim Kennedy AO, CBE	<i>Director since October 1995</i>
James Packer	<i>Director since March 2004</i>
John Schubert	<i>Director since October 2000</i>

## **REVIEW OF OPERATIONS**

The Qantas Group achieved a net profit after tax for the half-year of \$352.6 million, representing a decrease of \$37.6 million or 9.6% on the comparative half-year.

Total sales and operating revenue for the half-year increased by \$538.7 million or 8.5% to \$6.8 billion. Excluding the unfavourable impact of foreign exchange rate movements, this increase amounted to 10.0%. Revenue Passenger Kilometres (RPKs) increased by 4.3% on increased capacity of 2.9%, leading to an increase in passenger load factor of 1.0% point, while yields have increased by 7.1%.

Total expenditure, excluding net interest expense, increased by \$619.1 million or 10.8% to \$6.3 billion. Excluding the favourable impact of foreign exchange rate movements, this increase amounted to 12.8%.

Qantas mainline ("Qantas") contributed EBIT of \$404.4m, a decrease of \$63.5 million or 13.6% over the comparative half-year. RPKs increased by 2.0% on marginally increased capacity of 0.1%, leading to an increase in passenger load factor of 1.4%.

Jetstar contributed EBIT of \$27.7 million, an increase of \$8.7 million over the comparative half-year. RPKs increased by 51.8% on increased capacity of 46.0%, leading to an increase in passenger load factor of 2.9%.

**DIRECTORS' REPORT (continued)**

QantasLink contributed EBIT of \$35.8 million, an increase of \$6.6 million over the comparative half-year. RPKs increased by 5.2% on increased capacity of 10.4%, leading to a decrease in passenger load factor of 3.4%.

Australian Airlines contributed an EBIT loss of \$6.9 million, a decrease of \$15.4 million over the comparative half-year. RPKs decreased by 7.2% on decreased capacity of 1.9%, leading to a decrease in passenger load factor of 3.9%.

EBIT for other subsidiary operations decreased by \$16.8 million or 25.1% to \$50.0 million.

**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.

The Lead Auditor's Independence Declaration is set out on page 40 and forms part of the Directors' Report for the half-year ended 31 December 2005.

**ROUNDING**

The Company is of a kind referred to in ASIC Class Order No. 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Directors' Report and the Financial Report have been rounded off to the nearest one hundred thousand dollars, unless otherwise stated.

Signed pursuant to a Resolution of the Directors:



**MARGARET JACKSON**

Chairman



**GEOFF DIXON**

Chief Executive Officer

Sydney, 15 February 2006

**CONSOLIDATED INCOME STATEMENT**

for the half-year ended 31 December 2005

	December 2005 \$m	December 2004 \$m
<b>Sales and operating revenue</b>		
Net passenger revenue	5,279.2	4,795.1
Net freight revenue	462.8	364.3
Tours and travel revenue	381.9	394.3
Contract work revenue	240.8	232.1
Other sources	482.1	522.3
	<b>6,846.8</b>	<b>6,308.1</b>
<b>Expenditure</b>		
Manpower and staff related	1,664.9	1,613.1
Selling and marketing	228.9	274.5
Aircraft operating - variable	1,289.2	1,196.4
Fuel and oil	1,347.5	852.9
Property	163.1	153.6
Computer and communication	239.9	266.8
Tours and travel cost of sales	312.6	317.0
Capacity hire	192.8	158.6
Other	144.6	167.5
Share of net profit of associates	(6.8)	(11.6)
Depreciation and amortisation	601.0	619.8
Non-cancellable operating lease rentals	158.1	108.1
	<b>6,335.8</b>	<b>5,716.7</b>
<b>Earnings before interest and tax</b>	<b>511.0</b>	<b>591.4</b>
Interest revenue	69.0	48.5
Interest expense	(96.5)	(139.3)
	(27.5)	(90.8)
<b>Profit before tax</b>	<b>483.5</b>	<b>500.6</b>
Income tax expense	(130.9)	(110.4)
<b>Profit for the period</b>	<b>352.6</b>	<b>390.2</b>
<b>Attributable to:</b>		
Equity holders of the parent	352.8	389.8
Minority interest	(0.2)	0.4
	<b>352.6</b>	<b>390.2</b>
<b>Earnings per share (EPS)</b>		
Basic earnings per share (cents)	18.4	21.0
Diluted earnings per share (cents)	18.4	20.9

The Income Statement is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 9 to 39.

**CONSOLIDATED BALANCE SHEET**

as at 31 December 2005

	December 2005 \$m	June 2005 \$m
<b>Current assets</b>		
Cash and cash equivalents	2,204.0	1,903.8
Receivables	1,214.1	1,130.3
Other financial assets	452.9	-
Net receivables under hedge/swap contracts	-	185.1
Inventories	355.2	333.0
Other	122.7	152.5
<b>Total current assets</b>	<b>4,348.9</b>	<b>3,704.7</b>
<b>Non-current assets</b>		
Receivables	237.4	287.7
Other financial assets	868.7	-
Net receivables under hedge/swap contracts	-	853.7
Investments accounted for using the equity method	369.8	356.0
Other investments	63.9	99.9
Property, plant and equipment	12,560.5	12,684.5
Intangible assets	323.5	319.1
Deferred tax assets	1.7	0.2
Other	46.3	84.8
<b>Total non-current assets</b>	<b>14,471.8</b>	<b>14,685.9</b>
<b>Total assets</b>	<b>18,820.7</b>	<b>18,390.6</b>
<b>Current liabilities</b>		
Payables	2,086.9	1,913.7
Interest bearing liabilities	430.7	315.0
Other financial liabilities	161.2	-
Net payables under hedge/swap contracts	-	142.8
Provisions	478.1	468.4
Current tax liabilities	64.9	93.2
Revenue received in advance	2,034.5	2,106.0
Deferred lease benefits/income	40.8	44.1
<b>Total current liabilities</b>	<b>5,297.1</b>	<b>5,083.2</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	5,251.0	5,599.7
Other financial liabilities	272.8	-
Net payables under hedge/swap contracts	-	450.0
Provisions	410.6	392.2
Deferred tax liabilities	708.7	518.2
Revenue received in advance	692.8	676.6
Deferred lease benefits/income	116.8	140.9
<b>Total non-current liabilities</b>	<b>7,452.7</b>	<b>7,777.6</b>
<b>Total liabilities</b>	<b>12,749.8</b>	<b>12,860.8</b>
<b>Net assets</b>	<b>6,070.9</b>	<b>5,529.8</b>
<b>Equity</b>		
Issued capital	4,289.7	4,181.5
Treasury shares	(26.0)	(17.9)
Reserves	330.0	14.6
Retained profits	1,473.2	1,347.4
<b>Equity attributable to members of Qantas</b>	<b>6,066.9</b>	<b>5,525.6</b>
Minority interests in controlled entities	4.0	4.2
<b>Total equity</b>	<b>6,070.9</b>	<b>5,529.8</b>

The Balance Sheet is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 9 to 39.

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
for the half-year ended 31 December 2005

	Consolidated	
	31 Dec 05 \$m	31 Dec 04 \$m
Net decrease in retained earnings on initial adoption of AASB 132 and AASB 139 as of 1 July 2005 (net of tax) (refer to note 8)	(37.0)	-
Net increase in hedge reserve on initial adoption of AASB 132 and AASB 139 as of 1 July 2005 (net of tax) (refer to note 8)	377.9	-
Effective portion of changes in fair value of cash flow hedges (net of tax)	(30.1)	-
Change in fair value of assets available for sale on initial adoption of AASB 139 as of 1 July 2005	(28.8)	-
Change in fair value of assets available for sale	(7.2)	-
Foreign exchange translation differences	-	1.7
<b>Net income recognised directly in equity</b>	<b>274.8</b>	<b>1.7</b>
Profit for the period	352.6	390.2
Total recognised income and expense for the period	627.4	391.9
Attributable to:		
- Equity holders of the parent	627.6	391.5
- Minority interest	(0.2)	0.4
Total recognised income and expense for the period	627.4	391.9

The Consolidated Statement of Recognised Income and Expense is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 9 to 39.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the half-year ended 31 December 2005

	December 2005 \$m	December 2004 \$m
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	7,250.2	6,728.3
Cash payments in the course of operations	(6,120.1)	(5,463.1)
Interest received	69.6	43.7
Interest paid	(132.5)	(169.5)
Dividends received	18.5	9.7
Income taxes paid	(100.2)	(58.2)
<b>Net cash from operating activities</b>	<b>985.5</b>	<b>1,090.9</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(820.0)	(1,198.8)
Proceeds from sale of property, plant and equipment	20.4	10.5
Proceeds from financing of non-current assets	383.3	265.7
Payments for investments, net of cash acquired	(25.2)	(45.0)
(Advances)/repayment of investment loans	(3.0)	0.9
<b>Net cash from investing activities</b>	<b>(444.5)</b>	<b>(966.7)</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(191.7)	(628.8)
Proceeds from borrowings/swaps	43.1	1,262.0
Receipts from aircraft security deposits	-	0.5
Dividends paid	(92.2)	(92.7)
<b>Net cash from financing activities</b>	<b>(240.8)</b>	<b>541.0</b>
<b>Net increase in cash and cash equivalents held</b>	<b>300.2</b>	<b>665.2</b>
Cash and cash equivalents at the beginning of the financial period	1,903.8	1,365.3
<b>Cash and cash equivalents at the end of the financial period</b>	<b>2,204.0</b>	<b>2,030.5</b>

**Non-cash financing and investing activities**

During the period 31,024,893 (2004: 22,675,271) shares were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash during the period totalled \$97.4 million (2004: \$73.8 million).

Included in the proceeds from financing of non-current assets was \$161.2 million (2004: \$nil) in relation to nine aircraft. The rights to these aircraft were sold prior to delivery of the aircraft to a lessor and leased back via operating lease. The remainder of the amount relates to the sale and leaseback of aircraft.

The Statement of Cashflows is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 9 to 39.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies**

This is Qantas' first financial report prepared in accordance with A-IFRS and AASB 1 First Time Adoption of A-IFRS has been applied. The financial report does not include all of the information required for a full annual financial report. An explanation of how the transition to A-IFRS has affected the reported balance sheet, income statement and cash flows of the Qantas Group is provided in Note 7.

The significant accounting policies which have been adopted in the preparation of this Financial Report are:

#### **(a) Statement of Compliance**

Qantas Airways Limited (Qantas) is a company domiciled in Australia. The Condensed Consolidated Interim Financial Report (financial report) of Qantas for the six months ended 31 December 2005 comprise Qantas and its subsidiaries (Qantas Group) and Qantas Group's interest in associates and joint ventures. The Financial Report was authorised for issue by the Directors on 15 February 2006.

This half-year financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act. International Financial Reporting Standards (IFRSs) form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS (A-IFRS). The financial reports of the Qantas Group and Qantas also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

This financial report is to be read in conjunction with the annual report for the year ended 30 June 2005 however, the basis of preparation is different to that of the most recent annual financial report due to the first time adoption of A-IFRS. 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 and ASX Listing Rules.

#### **(b) Basis of Preparation**

The financial report is presented in Australian dollars.

This Financial Report has been prepared on the basis of historical costs except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values in accordance with relevant accounting policies.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 1. Statement of Significant Accounting Policies (continued)

Qantas is a company of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with AASB 134 Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This financial report has been prepared on the basis of A-IFRS in issue that are effective or available for early adoption at the Qantas Group's first A-IFRS annual reporting date, 30 June 2006. Based on these A-IFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first A-IFRS annual financial report is prepared for the year-ended 30 June 2006.

Qantas has elected to early adopt the following revised accounting standards:

- AASB 119 Employee Benefits (December 2004);
- AASB 2004-1 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 116 Property, Plant and Equipment, AASB 138 Intangible Assets;
- AASB 2004-2 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 121 The Effects of Changes in Foreign Exchange Rates, AASB 131 Interests in Joint Ventures, AASB 134 Interim Financial Reporting, AASB 139 Financial Instruments: Recognition and Measurement, AASB 141 Agriculture;
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures;
- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-2 Amendments to Australian Accounting Standards (June 2005) amending AASB 1023 General Insurance Contracts;
- AASB 2005-3 Amendments to Australian Accounting Standards (June 2005) amending AASB 119 Employee Benefits (either July or December 2004);

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 1. Statement of Significant Accounting Policies (continued)

- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 1023 General Insurance Contracts, AASB 1038 Life Insurance Contracts;
- AASB 2005-5 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004) and AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-6 Amendments to Australian Accounting Standards (June 2005) amending AASB 3 Business Combinations;
- AASB 2005-7 Amendments to Australian Accounting Standards (June 2005) amending AASB 134 Interim Financial Reporting;
- AASB 2005-8 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004);
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) amending AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-11 Amendments to Australian Accounting Standards (September 2005) amending AASB 101 Presentation of Financial Statements, AASB 112 Income Taxes, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement and AASB 141 Agriculture; and
- UIG 4 Determining whether an Arrangement contains a Lease.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first A-IFRS annual financial statements are prepared at 30 June 2006.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

The preparation of the financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. Except for the change in accounting policy relating to classification and measurement of financial instruments (refer Note 8), the accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening A-IFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – A-IFRS, as required by AASB 1.

The impact of the transition from previous GAAP to A-IFRS is explained in Note 7. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout Qantas for the purposes of this condensed consolidated interim financial report.

#### **(c) Principles of Consolidation**

##### Controlled Entities

The Qantas Financial Statements comprise the Financial Statements of Qantas and the Qantas Group. Results of subsidiaries, which were acquired or disposed of during the year, are included in the Qantas financial statements from the date control commenced or up to the date control ceased. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The consolidation process eliminates balances and transactions with or between Qantas and its controlled entities. Minority interests in the results of subsidiaries are shown as a separate item in the Qantas Group Financial Statements.

##### Associates and Joint Ventures

Associates and joint ventures are those entities over which the Qantas Group exercises significant influence or joint control.

Investments in associates and joint ventures are accounted for using equity accounting principles. Investments in associates and joint ventures are carried at the lower of the equity accounted amount and recoverable amount. The Qantas Group's equity accounted share of the net profit of associates and joint ventures is recognised in the consolidated Income Statement from the date significant influence or joint control commenced, up to the date significant influence or joint control ceased.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 1. Statement of Significant Accounting Policies (continued)

#### (d) Foreign Currency Transactions

##### Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of each transaction. At balance date, amounts receivable and payable in foreign currencies are translated at the rates of exchange ruling at that date. Resulting exchange differences are brought to account as exchange gains or losses in the Income Statement in the financial year in which the exchange rates change. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

##### Translation of Foreign Operations

Assets and liabilities of foreign operations are translated at the rates of exchange ruling at balance date. The Income Statements of controlled foreign entities are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising on translation are recorded in the foreign currency translation reserve. The balance of the foreign currency translation reserve relating to a controlled entity that is disposed of, or partially disposed of, is recognised in the Income Statement in the year of disposal.

#### (e) Derivative Financial Instruments

##### Current Period Policy

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

Derivative financial instruments are recognised at fair value both initially and on an ongoing basis. The method of recognising gains and losses resulting from movements in market prices depends on whether the derivative is a designated hedging instrument, and if so, the nature of the item being hedged. The Qantas Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges). Gains and losses on derivative financial instruments qualifying for hedge accounting are recognised in the same income statement category as the underlying hedged instrument.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 1. Statement of Significant Accounting Policies (continued)

Qantas documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking each transaction. Qantas also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedge transactions have been and will continue to be highly effective.

#### *Fair Value Hedge*

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

#### *Cash Flow Hedge*

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognised in Equity in the Hedge Reserve. Amounts accumulated in the Hedge Reserve are recognised in the Income Statement in the periods when the hedged item will affect profit or loss (ie when the underlying income or expense is recognised). Where the hedged item is of a capital nature, amounts accumulated in the hedge reserve are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity in respect of the hedging instrument is recognised immediately in the Income Statement.

#### *Derivatives That Do Not Qualify For Hedge Accounting*

From time to time certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument, or part of a derivative instrument, that does not qualify for hedge accounting are recognised immediately in the income statement in Other Expenses (\$18.8 million net gain in the six months to 31 December 2005).

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### *Fair Value Calculations*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques consistent with accepted market practice. The Qantas Group uses a variety of methods and input assumptions that are based on market conditions existing at balance date. The fair value of derivative financial instruments includes the present value of estimated future cash flows.

#### Comparative Period Policy

Qantas has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Qantas has applied previous Australian GAAP for comparative information on financial instruments within the scope of AASB 132 and AASB 139. Principal amounts outstanding under individual cross-currency swaps are disclosed as a net asset or liability. Interest payments and receipts under cross-currency swaps are recognised on an accruals basis in the Balance Sheet. Premiums paid on interest rate options are included in other assets and are amortised over the period of the hedge.

Gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying exposures to which they relate. Accordingly, hedge gains and losses are included in the Income Statement when the gains and losses arising on the related hedged position are recognised in the Income Statement.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains and losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase, sale or interest transaction when it occurs. When a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains and losses that arose on the hedge prior to its termination are included in the income statement for the year.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### **(f) Revenue Recognition**

##### Passenger, Freight and Tours & Travel Sales Revenue

Passenger, freight and tours and travel sales revenue is included in the Income Statement at the fair value of the consideration received net of sales discount, passenger and freight interline/IATA commission and goods and services tax (GST). Passenger recoveries (including fuel surcharge on passenger tickets) are disclosed as part of net passenger revenue. Freight fuel surcharge is disclosed as part of net freight revenue. Tours and travel sales commissions paid by Qantas are included in cost of sales. Passenger, freight and tours and travel sales are credited to revenue received in advance and subsequently transferred to revenue when passengers or freight are uplifted or when tours and travel air tickets and land content are utilised. Refer also to the Frequent Flyer accounting policy in note 1(q).

##### Contract Work Revenue

Contract work revenue is recognised in proportion to the stage of completion of the contract when the stage of contract completion can be reliably measured.

##### Catering Revenue

Revenue from the sale of catering products is recognised when the significant risks and rewards of ownership of the goods passes to the customer and is disclosed as part of contract work revenue.

##### Other Revenue

Other revenue includes revenue from aircraft charter and leases, property income, Qantas Club membership fees, frequent flyer revenue relating to other carriers, freight terminal and service fees, commission revenue, age availed surplus revenue and unavailed revenue and other miscellaneous income.

##### Interest Revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### Asset Sales

The gain or loss on the disposal of assets is recognised at the date the significant risks and rewards of ownership of the asset passes to the buyer, usually when the purchaser takes delivery of the asset. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

#### Aircraft Financing Fees

Fees relating to linked transactions involving the legal form of a lease are recognised as revenue only when there are no significant obligations to perform or refrain from significant activities, there are no significant limitations on use of the underlying asset and the possibility of reimbursement is remote. Where these criteria are not met, fees are brought to account as revenue or expenditure over the period of the respective lease or on a basis which is representative of the pattern of benefits derived from the leasing transactions.

#### Dividend Revenue

Distributions from controlled entities are recognised as revenue by Qantas when dividends are declared by the controlled entities. Dividends/distributions from associates and joint ventures and other investments are recognised when dividends are received.

Dividend/distribution revenue is recognised net of any franking credits.

#### **(g) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### **(h) Income Tax**

Income tax on the Income Statement for the periods presented comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Qantas is taxed as a public company and provides for income tax in both Australia and overseas jurisdictions where a liability exists.

#### **(i) Tax Consolidation**

Qantas is the head entity in the tax-consolidated group comprising Qantas and all of its Australian wholly-owned subsidiaries and partnerships. The implementation date of the tax consolidations system for the tax-consolidated group was 1 July 2003.

The current and deferred tax amounts for the tax-consolidated group are allocated among the entities in the group using a group allocation method. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the balance sheet of Qantas and their tax values applying under tax consolidation.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 1. Statement of Significant Accounting Policies (continued)

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts payable/(receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

Qantas recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the tax-consolidated group have entered into a tax funding arrangement, which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/(from) the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity. The members of the tax-consolidated group have also entered into a valid Tax Sharing Agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax-consolidated group. In the opinion of the Directors, the tax sharing agreement limits, subject to any ASIC Class Order, the joint and several income tax-related liability of the wholly-owned entities of the consolidated group in the case of default by Qantas.

#### (j) Receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

#### (k) Inventories

Engineering expendables, consumable stores and work in progress are valued at weighted average cost, less any applicable allowance for obsolescence. Inventories held for sale are valued at the lower of cost and net realisable value.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### **(l) Impairment**

The carrying amounts of non-current assets valued on the cost basis are reviewed regularly to determine whether they are in excess of their recoverable amount at balance date. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. Assets, which primarily generate cash flows as a group, such as aircraft, are assessed on a cash generating unit basis inclusive of related infrastructure and intangible assets and compared to net cash flows for the unit. Expected net cash flows used in determining recoverable amounts have been discounted to their net present value, using a rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit of assets.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

An appropriate impairment charge is made if the carrying amount of a non-current asset exceeds its recoverable amount. The impairment is expensed in the financial year in which it occurs. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

#### **(m) Investments**

##### Current Accounting Policy

The investment in Air New Zealand is classified as being available-for-sale and is stated at fair value, with any resultant gain or loss recognised directly in equity, except for impairment losses. Where such investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

##### Comparative Period Policy

All investments are recorded at the lower of cost and recoverable amount.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### **(n) Property, Plant & Equipment**

##### Owned Assets

Items of property, plant and equipment are initially recorded at cost, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. The cost of acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate. Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards – A-IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Major modifications to aircraft and the costs associated with placing the aircraft into service are capitalised as part of the cost of the asset to which they relate. The cost of major inspections of aircraft and engines is capitalised and depreciated over the scheduled usage period to the next major inspection event. All other aircraft maintenance costs are expensed as incurred. Manpower costs in relation to employees that are dedicated to major modifications to aircraft are capitalised as part of the cost of the modification to which they relate. Borrowing costs associated with the acquisition of qualifying assets such as aircraft and the acquisition, construction or production of significant items of other property, plant and equipment are capitalised as part of the cost of the asset to which they relate.

##### Depreciation and Amortisation

Depreciation and amortisation are provided on a straight-line basis on all items of property, plant and equipment except for freehold and leasehold land. The depreciation and amortisation rates of owned assets are calculated so as to allocate the costs or valuation of an asset, less any estimated residual value, over the asset's estimated useful life to the Qantas Group. Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. The costs of improvements to assets are amortised over the remaining useful life of the asset or the estimated useful life of the improvement, whichever is the shorter. Assets under finance lease are amortised over the term of the relevant lease or, where it is likely the Qantas Group will obtain ownership of the asset, the life of the asset.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 1. Statement of Significant Accounting Policies (continued)

The principal asset depreciation and amortisation periods and estimated residual value percentages are:

	<u>Years</u>	<u>Residual Value</u>
- Buildings and leasehold improvements	10-50	0
- Plant and equipment	3-40	0
- Jet aircraft and engines	20	0-20
- Non-jet aircraft and engines	10-20	0-20
- Aircraft spare parts	15-20	0-20
- Major aircraft inspections	Inspection life	0

These rates are in line with those for the prior year.

Depreciation and amortisation rates and residual values are reviewed annually and reassessed having regard to commercial and technological developments and the estimated useful life of assets to the Qantas Group.

#### Leased and Hire Purchase Assets

Leased assets under which the Qantas Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Linked transactions involving the legal form of a lease are accounted for as one transaction when a series of transactions are negotiated as one or take place concurrently or in sequence and cannot be understood economically alone.

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Any gains and losses under sale and leaseback arrangements are deferred and amortised over the lease term. Capitalised leased assets are amortised on a straight-line basis over the period in which benefits are expected to arise from the use of those assets. Lease payments are allocated between the reduction in the principal component of the lease liability and interest expense.

Fully prepaid leases are classified in the balance sheet as hire purchase assets, to recognise that the financing structures impose certain obligations, commitments and/or restrictions on the Qantas Group, which differentiate these aircraft from owned assets.

Lease expenses are recognised on a straight-line basis.

Leases are deemed to be non-cancellable if significant financial penalties associated with termination are anticipated.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 1. Statement of Significant Accounting Policies (continued)

In respect of any premises rented under long-term operating leases, which are subject to sub-tenancy agreements, provision is made for any shortfall between primary payments to the head lessor less any recoveries from sub-tenants. These provisions are determined on a discounted cash flow basis, using a rate reflecting the cost of funds.

When an obligation exists to dismantle and remove an item of property, the present value of the estimated cost to restore the site is capitalised into the cost of the asset to which they relate and a provision created. The unwinding of the discount is treated as a finance charge.

#### (o) Intangible Assets

##### Goodwill

###### *Business Combinations Prior to 1 July 2004*

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2003 has not been reconsidered in preparing the consolidated entity's opening A-IFRS balance sheet at 1 July 2004.

###### *Business Combinations Since 1 July 2004*

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

##### Software

Software development expenditure is only recognised as an asset when the Qantas Group controls future economic benefits as a result of the costs incurred and it is probable that those future economic benefits will eventuate and the costs can be measured reliably. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful life of three to five years.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### Other Intangibles

Airport landing slots are stated at cost less any accumulated impairment losses. Airport landing slots are allocated to cash generating units and are not amortised as they are considered to have an indefinite useful life and are tested annually for impairment.

#### **(p) Payables**

Liabilities for trade creditors and other amounts are carried at cost.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

#### **(q) Frequent Flyer Accounting**

The Qantas Group receives revenue from the sale to third parties of rights to have Qantas award points allocated to members of the Qantas Frequent Flyer Program. This revenue is deferred and recognised in the Income Statement when the points are redeemed and passengers uplifted. Members of the Qantas Frequent Flyer Program also accumulate points by travelling on qualifying Qantas and partner airline services. The obligation to provide travel rewards to members arising from these points is provided as points are accumulated, net of estimated points that will not be redeemed. The provision is based on the incremental cost (being the cost of meals, fuel and passenger expenses) of providing the travel rewards. The provision is reduced as members redeem awards or their entitlements expire.

#### **(r) Employee Benefits**

##### Wages and Salaries, Annual Leave and Sick Leave

Liabilities for employee benefits for wages, salaries, annual leave (including leave loading) and sick leave vesting to employees expected to be settled within 12 months of the year end represent present obligations resulting from employees' services provided to balance date. The calculation of this liability is based on remuneration wage and salary rates that the Qantas Group expects to pay as at balance date including related on-costs, such as workers' compensation insurance and payroll tax. Amounts expected to be settled greater than 12 months after year end are discounted to their present value.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### Employee Share Plans

The fair value of share based entitlements granted to employees after 7 November 2002 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the equity instrument. The fair value of the entitlements granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the entitlements were granted. The amount recognised as an expense is adjusted to reflect the actual number of entitlements that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

#### Long Service Leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to balance date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on staff turnover history and is discounted using the rates attaching to Australian government bonds at balance date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as a finance charge.

#### Defined Contribution Superannuation Plans

The Qantas Group contributes to employee defined contribution superannuation funds. Contributions to these funds are recognised as an expense in the Income Statement as incurred.

#### Defined Benefit Superannuation Plans

Qantas' net obligation in respect of defined benefit superannuation plans is calculated separately for each plan. The calculation estimates the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating to the terms of Qantas' obligations. The calculation is performed by a qualified Actuary using the "projected unit credit method".

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Income Statement.

All actuarial gains and losses as at 1 July 2004, the date of transition to A-IFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 July 2004 in calculating Qantas' obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in plan assets exceeding plan liabilities, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

#### **(s) Provisions**

A provision is recognised when there is a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as a finance charge.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire amount, regardless of the extent to which the dividend will be paid in cash.

#### Employee Termination Benefits

Provisions for termination benefits are only recognised when there is a detailed formal plan for the termination and where there is no realistic possibility of withdrawal.

#### Insurance

Qantas is a licensed self-insurer under the New South Wales Workers Compensation Act, the Victorian Accident Compensation Act and the Queensland Workers' Compensation and Rehabilitation Act. Qantas has made provision for all notified assessed workers' compensation liabilities, together with an estimate of liabilities incurred but not reported, based on an independent actuarial assessment. Workers' compensation for all remaining employees is insured commercially.

#### **(t) Earnings Per Share**

Basic earnings per share is determined by dividing the Qantas Group's net profit attributable to members of Qantas by the weighted average number of shares on issue during the current financial year.

Diluted earnings per share is calculated after taking into account the number of ordinary shares to be issued for no consideration in relation to dilutive potential ordinary shares.

#### **(u) Statement of Cash Flows**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash at bank and on hand, cash at call, short-term money market securities and term deposits with an original maturity of three months or less.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### **(v) Net Financing Costs**

##### Current Accounting Policy

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend and coupon income and foreign exchange gains and losses. Interest income is recognised in the Income Statement as it accrues, using the effective interest method. Dividend income is recognised in the Income Statement on the date the entity's right to receive payments is established. Where interest costs relate to qualifying assets they are capitalised to the cost of the assets. Qualifying assets are assets that necessarily take a substantial period of time to ready for intended use. Where funds are borrowed generally, borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities being 7.3 per cent (2004: 6.8 per cent) in the current year. During the year, borrowing costs totalling \$35.5 million (2004: \$33.0 million) were capitalised into the cost of qualifying assets.

##### Comparative Period Policy

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings. Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or swap.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. In these circumstances, borrowing costs are capitalised to the cost of the assets.

#### **(w) Interest-Bearing Liabilities**

##### Current Accounting Policies

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### **Note 1. Statement of Significant Accounting Policies (continued)**

#### Comparative Period Policy

Bank and other loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in other creditors and accruals. Material items of expenditure are deferred to the extent that the Qantas Group considers it is probable that future economic benefits embodied in the expenditure will eventuate and can be measured reliably, do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the Qantas Group. Deferred expenditure items include guarantee fees, bank fees and other fees associated with the establishment of lending facilities and are amortised over the period that the future economic benefits will be received. The deferred expenditure in the Qantas Group balance sheet at 31 December 2005 is \$77.8 million (June 2005: \$158.9 million).

#### **(x) Non-Current Assets Held For Sale and Discontinued Operations**

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

### **Note 2. Dividends**

A fully franked final dividend of 10 cents (2004: 9 cents fully franked) per ordinary share was paid on 28 September 2005 in relation to the financial year ended 30 June 2005. The total amount of the dividend declared was \$189.8 million (2004: \$166.1 million).

### **Note 3. Contingent Liabilities**

The contingent liabilities disclosed in the 30 June 2005 Annual Report remain unresolved. There have been no new material claims made against the Qantas Group during the period.

### **Note 4. Post Balance Date Events**

There has not arisen in the interval between 31 December 2005 and the date of this report, any event that would have had a material effect on the interim financial statements at 31 December 2005.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the half-year ended 31 December 2005

**Note 5. Reconciliation of Movement in Capital and Reserves**

	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 2004 (previous GAAP)	3,994.9	-	-	-	-	55.5	(1.1)	1,776.3	14.7	5,840.3
Transition to A-IFRS (Note 7)	8.2	(8.7)	3.7	-	-	(55.5)	1.1	(770.7)	-	(821.9)
Restated balance	4,003.1	(8.7)	3.7	-	-	-	-	1,005.6	14.7	5,018.4
Total recognised income for the period	-	-	-	-	-	-	-	389.8	0.4	390.2
Shares vested to employees	-	0.1	(0.1)	-	-	-	-	-	-	-
Cost of share based payments	-	-	5.2	-	-	-	-	-	-	5.2
Acquisition of minority interest in subsidiary	-	-	-	-	-	-	-	7.1	(11.3)	(4.2)
Translation of foreign currency subsidiaries	-	-	-	-	-	-	(1.7)	-	-	(1.7)
Dividends to shareholders	73.8	-	-	-	-	-	-	(167.0)	-	(93.2)
<b>Balance at 31 December 2004</b>	<b>4,076.9</b>	<b>(8.6)</b>	<b>8.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.7)</b>	<b>1,235.5</b>	<b>3.8</b>	<b>5,314.7</b>
Balance at 1 July 2005	4,181.5	(17.9)	13.7	-	-	4.4	(3.5)	1,347.4	4.2	5,529.8
Impact of AASB 132 & AASB 139 (Note 7)	10.8	-	-	377.9	(28.8)	-	-	(37.0)	-	322.9
Restated balance	4,192.3	(17.9)	13.7	377.9	(28.8)	4.4	(3.5)	1,310.4	4.2	5,852.7
Total recognised income for the period	-	-	-	-	-	-	-	352.8	(0.2)	352.6
Own shares acquired	-	(9.8)	-	-	-	-	-	-	-	(9.8)
Shares vested to employees	-	1.7	(1.7)	-	-	-	-	-	-	-
Cost of share based payments	-	-	5.7	-	-	-	-	-	-	5.7
Effective portion of changes in fair value of cashflow hedges	-	-	-	(30.1)	-	-	-	-	-	(30.1)
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)
Dividends to shareholders	97.4	-	-	-	-	-	-	(190.0)	-	(92.6)
<b>Balance at 31 December 2005</b>	<b>4,289.7</b>	<b>(26.0)</b>	<b>17.7</b>	<b>347.8</b>	<b>(36.0)</b>	<b>4.0</b>	<b>(3.5)</b>	<b>1,473.2</b>	<b>4.0</b>	<b>6,070.9</b>

---

**NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

**Note 6. Segment Reporting**

**Business Segments**

The segmentation of the Qantas Group into three separate business types (Flying Businesses, Flying Services and Associated Businesses) 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, Australian Airlines, QantasLink and Jetstar as the Qantas Group's Flying Businesses, which are supported by Engineering Technical Operations and Maintenance Services, Airports and Qantas Freight;
2. Qantas Holidays, which comprises the Qantas Holidays segment which forms part of the Associated Businesses portfolio; and
3. Catering, which reflects the wholly-owned catering entities within the Airports and Catering segment which forms part of the Flying Services Businesses.

**NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

**Note 6. Segment Reporting (continued)**

Analysis by Business Segments	Qantas		Australian Airlines		QantasLink		Jetstar *		Qantas Holidays		Qantas Flight Catering		Eliminations		Consolidated	
	\$m		\$m		\$m		\$m		\$m		\$m		\$m			
	Dec-05	Dec-04	Dec-05	Dec-04	Dec-05	Dec-04	Dec-05	Dec-04	Dec-05	Dec-04	Dec-05	Dec-04	Dec-05	Dec-04	Dec-05	Dec-04
<b>Revenue</b>																
External segment revenue	5,596.3	5,181.2	156.4	165.9	323.2	285.5	301.9	194.1	381.9	394.3	87.1	87.1	-	-	6,846.8	6,308.1
Inter-segment revenue	131.9	118.1	12.3	14.4	(7.9)	(10.2)	22.5	47.2	104.9	135.6	190.6	193.1	(454.3)	(498.2)	-	-
<b>Total segment revenue</b>	<b>5,728.2</b>	<b>5,299.3</b>	<b>168.7</b>	<b>180.3</b>	<b>315.3</b>	<b>275.3</b>	<b>324.4</b>	<b>241.3</b>	<b>486.8</b>	<b>529.9</b>	<b>277.7</b>	<b>280.2</b>	<b>(454.3)</b>	<b>(498.2)</b>	<b>6,846.8</b>	<b>6,308.1</b>
Share of net profit of associates	6.8	11.6	-	-	-	-	-	-	-	-	-	-	-	-	6.8	11.6
Earnings before interest and tax (segment result)	419.9	495.6	(6.9)	8.5	35.8	29.2	27.7	19.0	18.4	27.1	16.1	12.0	-	-	511.0	591.4
Net finance cost															(27.5)	(90.8)
<b>Profit before tax</b>															<b>483.5</b>	<b>500.6</b>
Income tax expense															(130.9)	(110.4)
<b>Profit for period</b>															<b>352.6</b>	<b>390.2</b>

\* In allocating financing costs across the segments, A320-200 non-cancellable operating lease rentals have been notionally split between principal and interest based upon the effective financing cost to the Qantas Group.

---

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### **Note 7. Impact of Adopting A-IFRS**

As stated in Note 1(a), these are Qantas' first A-IFRS based interim financial statements for part of the period covered by the first annual consolidated financial statements being prepared in accordance with A-IFRS.

The accounting policies in Note 1 have been applied in preparing the half-year interim financial statements for the half-year ended 31 December 2005, the comparative information for the half-year ended 31 December 2004, the full year ended 30 June 2005 and the preparation of an opening A-IFRS balance sheet at 1 July 2004 (Qantas' date of transition).

In preparing its opening A-IFRS balance sheet, comparative information for the half-year ended 31 December 2004 and financial statements for the year ended 30 June 2005, Qantas has adjusted amounts reported previously in financial statements which were prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to A-IFRSs has affected Qantas' financial position and financial performance is set out in the following tables and the notes that accompany the tables.

The Qantas 2005 Annual Report provides a detailed description of A-IFRS transition adjustments. The table on the next page summarises the significant A-IFRS changes and separately shows the impact of the transition to A-IFRS on profit for the six months to 31 December 2004 (1H) and the impact on profit for the six months to 30 June 2005 (2H).

The tables on the subsequent pages show the impact of transition to A-IFRS on the Balance Sheets at 1 July 2004, 31 December 2004, 30 June 2005 and 1 July 2005. Changes to the A-IFRS Balance Sheet disclosed in the 30 June 2005 Annual Report principally resulted from the offset of deferred tax assets and liabilities and reassessment of the current/non-current allocation of frequent flyer deferred revenue.

**NOTES TO THE FINANCIAL STATEMENTS**

for the half-year ended 31 December 2005

**Note 7. Impact of Adopting A-IFRS (continued)**

Summary of A-IFRS Transition Adjustments

Standard <sup>1</sup>	Comment	Transition impact on retained profits at 1 July 2004	Post-tax impact of A-IFRS on Income Statement		Impact on retained profits on adoption of AASB 139 at 1 July 2005	Total
			1H	2H		
(a) AASB 118 - Revenue	A-IFRS required the revenue on the sale to third parties of rights to have Qantas award points allocated to members of the Frequent Flyer program, deferred and recognised when the points are redeemed.	(669.0)	(80.7)	(18.9)	-	(768.6)
(b) AASB 119 - Employee Benefits	Qantas elected to use the "corridor" method to recognise the net funding position of its defined benefit superannuation plans.	(53.5)	8.8	8.8	-	(35.9)
(c) AASB 117 - Leases	A-IFRS required the reclassification of six aircraft from operating to finance leases.	(45.8)	(1.6)	(1.6)	-	(49.0)
	A-IFRS required other changes to recognise operating leases expense on a straight line basis.	(6.4)	(4.1)	(4.1)	-	(14.6)
(d) AASB 116 - Property, Plant & Equipment	Qantas elected to reset the Asset Revaluation Reserve on transition to A-IFRS.	55.5	-	-	-	55.5
	A-IFRS requires the capitalisation of the cost of major aircraft and engine inspections.	(40.3)	(3.0)	(3.0)	-	(46.3)
(e) AASB 112 - Income Tax	A-IFRS requires the application of the "balance-sheet" method of tax-effect accounting.	(10.3)	(2.7)	(2.7)	-	(15.7)
(f) Other	A-IFRS requires adjustment in the areas of Share Based Payments, Business Combinations and Foreign Exchange.	(0.9)	14.7	15.0	-	28.8
<b>A-IFRS Transition Adjustments to 30 June 2005 <sup>2</sup></b>		<b>(770.7)</b>	<b>(68.6)</b>	<b>(6.5)</b>	<b>-</b>	<b>(845.8)</b>
(f) Other	A-IFRS requires Qantas to recognise Associate/Joint Venture adjustments direct to Retained Profits (refer Note 1(c))	-	0.1	-	-	0.1
(g) AASB 139 - Financial Instruments	A-IFRS requires adjustment to the recognition and classification of revenue, fuel and currency hedging transactions as well as the measurement of assets and liabilities classified as financial instruments. <sup>3</sup>	-	-	-	(37.0)	(37.0)
<b>Impact of A-IFRS Transition Adjustments and adoption of AASB 139 at 1 July 2005</b>					<b>(37.0)</b>	<b>(882.7)</b>

<sup>1</sup> The impact of adopting A-IFRS on the comparative Income Statement and Balance Sheets is shown on the following pages.

<sup>2</sup> Inclusive of \$3.8 million adjustment to the A-IFRS adoption adjustments previously reported in the Qantas 2005 Annual Report.

<sup>3</sup> Refer to page 39 for details of the impact of the adoption of AASB 139 Financial Instruments at 1 July 2005.

**Note 7. Impact of Adopting A-IFRS (continued)**

	Ref	Previous GAAP 1 July 2004 \$m	Effect of transition to A-IFRS \$m	A-IFRS 1 July 2004 \$m	Previous GAAP 31 Dec 2004 \$m	Effect of transition to A-IFRS \$m	A-IFRS 31 Dec 2004 \$m	Previous GAAP 30 June 2005 \$m	Effect of transition to A-IFRS \$m	A-IFRS 30 June 2005 \$m	Effect of transition to AASB 139 & 132 \$m	A-IFRS 1 July 2005 \$m
<b>Current assets</b>												
Cash <sup>^</sup>		335.9	1,029.4	1,365.3	345.9	1,684.6	2,030.5	198.0	1,705.8	1,903.8	-	1,903.8
Receivables <sup>^</sup>		2,116.3	(1,029.4)	1,086.9	2,869.0	(1,684.6)	1,184.4	2,836.1	(1,705.8)	1,130.3	(0.6)	1,129.7
Other financial assets		-	-	-	-	-	-	-	-	-	664.8	664.8
Net hedge/swap receivable	8	302.1	-	302.1	208.8	-	208.8	185.1	-	185.1	(185.1)	-
Inventories		375.5	-	375.5	373.3	-	373.3	333.0	-	333.0	-	333.0
Other	f	192.2	(5.3)	186.9	158.3	0.5	158.8	157.7	(5.2)	152.5	58.4	210.9
<b>Total current assets</b>		<b>3,322.0</b>	<b>(5.3)</b>	<b>3,316.7</b>	<b>3,955.3</b>	<b>0.5</b>	<b>3,955.8</b>	<b>3,709.9</b>	<b>(5.2)</b>	<b>3,704.7</b>	<b>537.5</b>	<b>4,242.2</b>
<b>Non-current assets</b>												
Receivables		304.6	-	304.6	300.7	-	300.7	287.7	-	287.7	-	287.7
Other financial assets		-	-	-	-	-	-	-	-	-	885.3	885.3
Net hedge/swap receivable		997.0	-	997.0	891.5	-	891.5	853.7	-	853.7	(853.7)	-
Investments accounted for using the equity method		339.7	(1.0)	338.7	365.6	5.4	371.0	343.7	12.3	356.0	(0.8)	355.2
Other investments		110.1	-	110.1	99.9	-	99.9	99.9	-	99.9	(28.8)	71.1
Property, plant and equipment	c,d,f	12,256.6	142.4	12,399.0	12,635.0	107.2	12,742.2	12,612.5	72.0	12,684.5	(1.1)	12,683.4
Intangible assets	f	152.4	141.7	294.1	151.9	159.2	311.1	142.0	177.1	319.1	-	319.1
Deferred tax assets	e*	0.9	-	0.9	0.7	-	0.7	0.2	-	0.2	-	0.2
Other		90.9	-	90.9	91.5	-	91.5	84.8	-	84.8	(24.4)	60.4
<b>Total non-current assets</b>		<b>14,252.2</b>	<b>283.1</b>	<b>14,535.3</b>	<b>14,536.8</b>	<b>271.8</b>	<b>14,808.6</b>	<b>14,424.5</b>	<b>261.4</b>	<b>14,685.9</b>	<b>(23.5)</b>	<b>14,662.4</b>
<b>Total assets</b>		<b>17,574.2</b>	<b>277.8</b>	<b>17,852.0</b>	<b>18,492.1</b>	<b>272.3</b>	<b>18,764.4</b>	<b>18,134.4</b>	<b>256.2</b>	<b>18,390.6</b>	<b>514.0</b>	<b>18,904.6</b>

\* Inclusive of the tax impact of other A-IFRS transition adjustments.

<sup>^</sup> Short-term money market deposits of \$1,684.6 million at 31 December 2004 and \$1,705.8 million at 30 June 2005 convertible into cash with a maturity of less than three months have been reclassified as cash and cash equivalents under A-IFRS.

**Note 7. Impact of Adopting A-IFRS (continued)**

	Ref	Previous GAAP 1 July 2004 \$m	Effect of transition to A-IFRS \$m	A-IFRS 1 July 2004 \$m	Previous GAAP 31 Dec 2004 \$m	Effect of transition to A-IFRS \$m	A-IFRS 31 Dec 2004 \$m	Previous GAAP 30 June 2005 \$m	Effect of transition to A-IFRS \$m	A-IFRS 30 June 2005 \$m	Effect of transition to AASB 139 & 132 \$m	A-IFRS 1 July 2005 \$m
<b>Current liabilities</b>												
Payables <sup>1</sup>	a,c	2,167.5	7.3	2,174.8	2,018.6	(0.8)	2,017.8	1,894.5	19.2	1,913.7	5.3	1,919.0
Interest bearing liabilities		821.9	-	821.9	684.9	15.0	699.9	315.0	-	315.0	(45.1)	269.9
Other financial liabilities		-	-	-	-	-	-	-	-	-	288.0	288.0
Net hedge/swap payable		250.8	-	250.8	266.8	-	266.8	142.8	-	142.8	(142.8)	-
Provisions <sup>1</sup>	a,f	381.6	(174.3)	207.3	674.7	(195.8)	478.9	616.9	(148.5)	468.4	-	468.4
Current tax liabilities	e*	30.1	2.2	32.3	91.5	(3.5)	88.0	85.9	7.3	93.2	-	93.2
Revenue received in advance	a,f	1,493.3	493.2	1,986.5	1,412.2	576.2	1,988.4	1,535.8	570.2	2,106.0	-	2,106.0
Deferred lease benefits/income		45.0	-	45.0	45.4	-	45.4	44.1	-	44.1	-	44.1
<b>Total current liabilities</b>		<b>5,190.2</b>	<b>328.4</b>	<b>5,518.6</b>	<b>5,194.1</b>	<b>391.1</b>	<b>5,585.2</b>	<b>4,635.0</b>	<b>448.2</b>	<b>5,083.2</b>	<b>105.4</b>	<b>5,188.6</b>
<b>Non current liabilities</b>												
Interest bearing liabilities	c	5,081.8	403.9	5,485.7	5,435.8	384.5	5,820.3	5,234.7	365.0	5,599.7	103.9	5,703.6
Other financial liabilities		-	-	-	-	-	-	-	-	-	283.6	283.6
Net hedge/swap payable		131.6	-	131.6	335.5	-	335.5	450.0	-	450.0	(450.0)	-
Provisions	a,b,f	331.7	80.1	411.8	334.0	68.0	402.0	336.3	55.9	392.2	-	392.2
Deferred tax liabilities	e*	806.9	(349.3)	457.6	830.0	(362.6)	467.4	910.6	(392.4)	518.2	150.9	669.1
Revenue received in advance	a	-	636.7	636.7	-	676.9	676.9	-	676.6	676.6	-	676.6
Deferred lease benefits/income		191.7	-	191.7	162.4	-	162.4	140.9	-	140.9	(2.7)	138.2
<b>Total non-current liabilities</b>		<b>6,543.7</b>	<b>771.4</b>	<b>7,315.1</b>	<b>7,097.7</b>	<b>766.8</b>	<b>7,864.5</b>	<b>7,072.5</b>	<b>705.1</b>	<b>7,777.6</b>	<b>85.7</b>	<b>7,863.3</b>
<b>Total liabilities</b>		<b>11,733.9</b>	<b>1,099.8</b>	<b>12,833.7</b>	<b>12,291.8</b>	<b>1,157.9</b>	<b>13,449.7</b>	<b>11,707.5</b>	<b>1,153.3</b>	<b>12,860.8</b>	<b>191.1</b>	<b>13,051.9</b>
<b>Net assets</b>		<b>5,840.3</b>	<b>(822.0)</b>	<b>5,018.3</b>	<b>6,200.3</b>	<b>(885.6)</b>	<b>5,314.7</b>	<b>6,426.9</b>	<b>(897.1)</b>	<b>5,529.8</b>	<b>322.9</b>	<b>5,852.7</b>

\* Inclusive of the tax impact of other A-IFRS transition adjustments.

<sup>1</sup> Frequent flyer provision of \$279.7 million as at 31 December 2004 and \$216.7 million as at 30 June 2005 has been reclassified from payables to provisions.

**Note 7. Impact of Adopting A-IFRS (continued)**

	Ref	Previous GAAP 1 July 2004 \$m	Effect of transition to A-IFRS \$m	A-IFRS 1 July 2004 \$m	Previous GAAP 31 Dec 2004 \$m	Effect of transition to A-IFRS \$m	A-IFRS 31 Dec 2004 \$m	Previous GAAP 30 June 2005 \$m	Effect of transition to A-IFRS \$m	A-IFRS 30 June 2005 \$m	Effect of transition to AASB 139 & 132 \$m	A-IFRS 1 July 2005 \$m
<b>Equity</b>												
Issued capital	e,g	3,994.9	8.2	4,003.1	4,068.7	8.2	4,076.9	4,173.4	8.1	4,181.5	10.8	4,192.3
Treasury shares	f	-	(8.7)	(8.7)	-	(8.6)	(8.6)	-	(17.9)	(17.9)	-	(17.9)
Employee compensation reserve	f	-	3.7	3.7	-	8.8	8.8	-	13.7	13.7	-	13.7
Hedge reserve		-	-	-	-	-	-	-	-	-	377.9	377.9
Fair value reserve		-	-	-	-	-	-	-	-	-	(28.8)	(28.8)
Asset revaluation reserve	d	55.5	(55.5)	-	55.5	(55.5)	-	59.9	(55.5)	4.4	-	4.4
Foreign currency translation reserve	f	(1.1)	1.1	-	(2.4)	0.7	(1.7)	(3.7)	0.2	(3.5)	-	(3.5)
Retained profits		1,776.3	(770.7)	1,005.6	2,074.7	(839.2)	1,235.5	2,193.1	(845.7)	1,347.4	(37.0)	1,310.4
<b>Equity attributable to members of the Company</b>		<b>5,825.6</b>	<b>(821.9)</b>	<b>5,003.7</b>	<b>6,196.5</b>	<b>(885.6)</b>	<b>5,310.9</b>	<b>6,422.7</b>	<b>(897.1)</b>	<b>5,525.6</b>	<b>322.9</b>	<b>5,848.5</b>
Minority interests in controlled entities		14.7	-	14.7	3.8	-	3.8	4.2	-	4.2	-	4.2
<b>Total equity</b>		<b>5,840.3</b>	<b>(821.9)</b>	<b>5,018.4</b>	<b>6,200.3</b>	<b>(885.6)</b>	<b>5,314.7</b>	<b>6,426.9</b>	<b>(897.1)</b>	<b>5,529.8</b>	<b>322.9</b>	<b>5,852.7</b>

The table on the next page shows the impact of transition to A-IFRS on the comparative Income Statements for the half-year ended 31 December 2004 and for the full year ended 30 June 2005.

## Note 7. Impact of Adopting A-IFRS (continued)

	Ref	Previous GAAP 6 months to December 2004 \$m	Effect of transition to A-IFRS \$m	A-IFRS 6 months to December 2004 \$m	Previous GAAP 12 months to June 2005 \$m	Effect of transition to A-IFRS \$m	A-IFRS 12 months to June 2005 \$m
<b>Sales and operating revenue</b>							
Net passenger revenue <sup>1</sup>	a	4,918.0	(122.9)	4,795.1	9,656.5	(84.9)	9,571.6
Net freight revenue <sup>2</sup>		364.3	-	364.3	759.9	-	759.9
Tours and travel revenue		394.3	-	394.3	707.8	-	707.8
Contract work revenue		232.1	-	232.1	484.9	-	484.9
Other sources <sup>1,2</sup>	a	522.3	-	522.3	1,039.7	-	1,039.7
		<b>6,431.0</b>	<b>(122.9)</b>	<b>6,308.1</b>	<b>12,648.8</b>	<b>(84.9)</b>	<b>12,563.9</b>
<b>Expenditure</b>							
Manpower and staff related	b	1,645.5	(32.4)	1,613.1	3,244.9	(65.1)	3,179.8
Selling and marketing	a	282.1	(7.6)	274.5	444.3	57.3	501.6
Aircraft operating - variable	d	1,229.0	(32.6)	1,196.4	2,435.8	(65.2)	2,370.6
Fuel and oil		852.9	-	852.9	1,931.7	-	1,931.7
Property	c,d,f	152.9	0.7	153.6	300.5	1.5	302.0
Computer and communication	c	261.3	5.5	266.8	491.9	10.9	502.8
Tours and travel cost of sales		317.0	-	317.0	563.7	-	563.7
Capacity hire		158.6	-	158.6	341.0	-	341.0
Other		167.5	-	167.5	365.1	-	365.1
Share of net profit of associates	f	(4.6)	(7.0)	(11.6)	(1.8)	(13.9)	(15.7)
Depreciation and amortisation	c,d,f	549.2	70.6	619.8	1,100.0	141.3	1,241.3
Non-cancellable operating lease rentals	c	148.0	(39.9)	108.1	310.0	(79.8)	230.2
		<b>5,759.4</b>	<b>(42.7)</b>	<b>5,716.7</b>	<b>11,527.1</b>	<b>(13.0)</b>	<b>11,514.1</b>
<b>Earnings before interest and tax</b>							
		<b>671.6</b>	<b>(80.2)</b>	<b>591.4</b>	<b>1,121.7</b>	<b>(71.9)</b>	<b>1,049.8</b>
Interest revenue		48.5	-	48.5	117.0	-	117.0
Interest cost	c	(118.8)	(20.5)	(139.3)	(211.5)	(41.0)	(252.5)
		<b>(70.3)</b>	<b>(20.5)</b>	<b>(90.8)</b>	<b>(94.5)</b>	<b>(41.0)</b>	<b>(135.5)</b>
<b>Profit before tax</b>							
		<b>601.3</b>	<b>(100.7)</b>	<b>500.6</b>	<b>1,027.2</b>	<b>(112.9)</b>	<b>914.3</b>
Income tax expense	e*	(142.5)	32.1	(110.4)	(262.8)	37.8	(225.0)
<b>Net profit</b>							
		<b>458.8</b>	<b>(68.6)</b>	<b>390.2</b>	<b>764.4</b>	<b>(75.1)</b>	<b>689.3</b>
Minority interests in net profit		(0.4)	-	(0.4)	(0.8)	-	(0.8)
<b>Net profit attributable to members of the Company</b>							
		<b>458.4</b>	<b>(68.6)</b>	<b>389.8</b>	<b>763.6</b>	<b>(75.1)</b>	<b>688.5</b>

\* Inclusive of the tax impact of other A-IFRS transition adjustments.

1 An amount of \$57.9 million (half year) and \$178.6 million (full year) was reclassified from passenger revenue to other revenue under previous GAAP.

2 An amount of \$46.2 million relating to freight fuel surcharge was reclassified from other revenue to freight revenue under previous GAAP.

## NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 31 December 2005

### Note 8. Change in Accounting Policy

#### Reconciliation of Financial Instruments as if AASB 139 was Applied at 1 July 2005

In the current year the consolidated entity adopted AASB 132 Financial Instruments: Disclosure and presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets and liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity at 1 July 2005.

The impact on the balance sheet in the comparative period is set out below as an adjustment to the opening balance sheet at 1 July 2005. The transitional provisions will not have any effect in future reporting periods.

#### Application of AASB 132 and AASB 139 prospectively from 1 July 2005

	Note	Previous GAAP \$'m	Impact of change in accounting policy \$'m	A-IFRS \$'m
Receivables		1,130.3	(0.6)	1,129.7
Other financial assets	(a)	-	1,550.1	1,550.1
Net hedge/swap receivable		1,038.8	(1,038.8)	-
Other assets		237.3	34.0	271.3
Investments accounted for using the equity method		356.0	(0.8)	355.2
Other investments	(b)	99.9	(28.8)	71.1
Property, plant and equipment		12,684.5	(1.1)	12,683.4
Payables		(1,913.7)	(5.3)	(1,919.0)
Interest-bearing liabilities		(5,914.7)	(58.8)	(5,973.5)
Other financial liabilities	(a)	-	(571.6)	(571.6)
Net hedge/swap payable		(592.8)	592.8	-
Deferred tax liabilities		(518.2)	(150.9)	(669.1)
Deferred lease benefits		(140.9)	2.7	(138.2)
Issued capital		(4,181.5)	(10.8)	(4,192.3)
Hedge reserve	(a)	-	(377.9)	(377.9)
Fair value reserve		-	28.8	28.8
Retained profits		(1,347.4)	37.0	(1,310.4)

(a) Under previous Australian GAAP, the Qantas Group did not recognise derivatives at fair value on the balance sheet. In accordance with A-IFRS derivatives are now recognised at fair value.

(b) Under previous Australian GAAP, the Qantas Group recorded available-for-sale equity securities at cost. In accordance with A-IFRS they are now recognised at fair value.



*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To the Directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2005, 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 blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Mark Epper'.

Mark Epper  
Partner

Sydney

15 February 2006

**DIRECTORS' DECLARATION**

In the opinion of the Directors of Qantas Airways Limited:

- (a) the financial statements and notes set out on pages 5 to 39, are in accordance with the Corporations Act, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 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, 15 February 2006



## Independent review report to the members of Qantas Airways Limited

### *Scope*

#### *The Financial Report and Directors' responsibility*

The Financial Report comprises the condensed consolidated interim income statement, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes 1 to 8 to the financial statements, and the directors' declaration for the Qantas Airways Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2005. The Consolidated Entity comprises Qantas Airways Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the Financial Report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

#### *Review approach*

We conducted an independent review in order for the Company to lodge the Financial Report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the Financial Report does not present fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.



The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Qantas Airways Limited is not in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2005 and of its performance 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) other mandatory financial reporting requirements in Australia.

KPMG

Mark Epper  
*Partner*

Sydney

15 February 2006

**QANTAS AIRWAYS LIMITED**  
**ABN 16 009 661 901**

**OPERATIONAL STATISTICS**

for the half-year ended 31 December 2005

<b>(Unaudited)</b>		<b>Half-Year Ended 31 Dec 2005</b>	<b>Half-Year Ended 31 Dec 2004</b>	<b>Percentage Increase/ (Decrease)</b>
<b>QANTAS INTERNATIONAL - SCHEDULED SERVICES</b>				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	4,364	4,385	(0.5)
Revenue passenger kilometres (RPK)	m	28,314	27,409	3.3
Available seat kilometres (ASK)	m	36,521	36,399	0.3
Revenue seat factor	%	77.5	75.3	2.2 pts
Revenue freight tonne kilometres (RFTK)	m	1,382	1,118	23.6
<b>AUSTRALIAN AIRLINES - SCHEDULED SERVICES</b>				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	412	427	(3.5)
Revenue passenger kilometres (RPK)	m	1,905	2,053	(7.2)
Available seat kilometres (ASK)	m	2,798	2,852	(1.9)
Revenue seat factor	%	68.1	72.0	(3.9) pts
<b>QANTAS DOMESTIC - SCHEDULED SERVICES</b>				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	8,133	8,404	(3.2)
Revenue passenger kilometres (RPK)	m	11,664	11,793	(1.1)
Available seat kilometres (ASK)	m	14,474	14,527	(0.4)
Revenue seat factor	%	80.6	81.2	(0.6) pts
<b>QANTASLINK - SCHEDULED SERVICES</b>				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	1,629	1,561	4.4
Revenue passenger kilometres (RPK)	m	1,016	966	5.2
Available seat kilometres (ASK)	m	1,458	1,321	10.4
Revenue seat factor	%	69.7	73.1	(3.4) pts
<b>JETSTAR - SCHEDULED SERVICES</b>				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	2,722	1,986	37.1
Revenue passenger kilometres (RPK)	m	2,895	1,907	51.8
Available seat kilometres (ASK)	m	3,823	2,619	46.0
Revenue seat factor	%	75.7	72.8	2.9 pts
<b>QANTAS GROUP OPERATIONS</b>				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	17,260	16,548	4.3
Revenue passenger kilometres (RPK)	m	45,794	43,907	4.3
Available seat kilometres (ASK)	m	59,074	57,402	2.9
Revenue seat factor	%	77.5	76.5	1.0 pts
Aircraft in service at year end	#	205	196	9 units
<i>FINANCIAL</i>				
Yield (passenger revenue per RPK)	¢	10.87	10.31	5.4
<i>PRODUCTIVITY</i>				
Average full-time equivalent employees	#	35,158	35,310	(0.4)
RPK per employee	000	2,584	2,467	4.7
ASK per employee	000	3,333	3,225	3.3

**QANTAS AIRWAYS LIMITED****ABN 16 009 661 901****CONSOLIDATED EARNINGS BEFORE INTEREST AND TAX**

for the half-year ended 31 December 2005

<b>(Unaudited)</b>	<b>Half-Year Ended 31 December 2005 \$m</b>	<b>% of Group Total</b>	<b>Half-Year Ended 31 December 2004 \$m</b>	<b>% of Group Total</b>
Qantas	404.4	79.1	467.9	79.1
Australian Airlines	(6.9)	(1.4)	8.5	1.4
QantasLink Group	35.8	7.0	29.2	4.9
Jetstar <sup>1</sup>	27.7	5.4	19.0	3.2
<b>Total Flying Operations</b>	<b>461.0</b>	<b>90.1</b>	<b>524.6</b>	<b>88.6</b>
<b>Other Subsidiaries:<sup>2</sup></b>				
Qantas Holidays Group	18.4	3.6	27.1	4.6
Qantas Flight Catering Group	16.1	3.2	12.0	2.0
Qantas Defence Services	4.1	0.8	4.0	0.7
Equity Accounting	6.8	1.3	11.6	2.0
Other Subsidiaries	4.6	1.0	12.1	2.1
<b>Total Other Subsidiaries</b>	<b>50.0</b>	<b>9.9</b>	<b>66.8</b>	<b>11.4</b>
<b>Group Earnings Before Interest and Tax</b>	<b>511.0</b>	<b>100.0</b>	<b>591.4</b>	<b>100.0</b>

**Notes**

1 In allocating financing costs across the segments, A320-200 non-cancellable operating lease rentals have been notionally split between principal and interest based upon the effective financing cost to the Qantas Group.

2 Subsidiary operations earnings before interest and tax includes profit earned on services provided to Qantas Airways Limited.

**QANTAS AIRWAYS LIMITED**  
**ABN 16 009 661 901**

**CONSOLIDATED NET INTEREST AS A PERCENTAGE OF**  
**AVERAGE NET DEBT**  
as at 31 December 2005

<b>(Unaudited)</b>	<b>Half-Year Ended 31 December 2005 \$m</b>	<b>Half-Year Ended 31 December 2004 \$m</b>
<b>Borrowing Costs</b>		
Net Borrowing Costs	27.5	90.8
Capitalised Interest	35.5	33.0
Interest on Non-cancellable Operating Leases	80.7	52.1
<b>Adjusted Net Interest Expense</b>	<b>143.7</b>	<b>175.9</b>
<b>Interest Cover</b>	18.6	6.5
<b>Average Net Debt *</b>		
Average Net Debt Including Off Balance Sheet Debt ^	5,057.0	5,995.7
<b>Adjusted Net Borrowing Costs as a Percentage of:</b>		
Average Net Debt Including Off Balance Sheet Debt ^	2.8	2.9

\* Average Net Debt balances are calculated on a weighted average basis.

^ Prior year comparative included a revenue hedge receivable of \$228.4 million. Current year includes net other financial assets of \$887.6 million relating primarily to the fair value of hedge derivatives recognised on balance sheet in accordance with AASB 139.