A New Era

Annual Report 2007

QANTAS

1944
The original kangaroo symbol, which appeared on Qantas aircraft was adapted from the Australian one penny coin.

1947
The winged kangaroo symbol first appeared in 1947 to coincide with Qantas' introduction of Lockheed L749 Constellations.

1968
The flying kangaroo was placed in a circle and the aircraft livery was modified on the Boeing 707 V-jets. The words "Overseas Airline" were removed from the fuselage, leaving the words "Australia" and "Qantas." The Australian flag was moved from the rear of the aircraft, to sit in between these two words.

1984
The flying kangaroo was refined to a more slender, stylised presentation. The wings on the kangaroo were removed to help strengthen the design and the typeface for the airline's name was changed from hand-drawn to a standard typeface.

2007
A new interpretation of the logo was revealed. The modern kangaroo was designed to reflect the changing structure of the A380 and other new generation aircraft, and keeping with the airline's increasing focus on contemporary design for its inflight and on-the-ground products.

Contents

About Qantas

Tenacity and the ability to survive adverse conditions have characterised the history of Qantas since its first tentative flights across outback Queensland in the early 1920s.

The Qantas Group once again faced a series of challenges that included the APA takeover bid, fierce competition, aircraft delivery delays and record fuel prices.

During this period Qantas continued to uphold its commitment to safety, reliability, technical innovation, professionalism, customer service, the communities it serves and to being Australian.

Qantas and its people remain focused firmly on the future, to getting on with the job and moving into a new era.

Our Key Objectives

Creating Shareholder Value

Service

We are committed to providing the highest quality travel experience, tailored to meet the diverse needs of our customers. To achieve this, we are investing extensively in the most advanced aircraft, complemented by innovative product and training to enable our people to deliver excellent service. The Qantas Group will take delivery of the world's finest new aircraft, the A380 and B787 next year. In addition, Qantas is setting a new benchmark in premium travel with its rollout of the next generation of inflight and on-the-ground product over the next 12 months.

Sustainability

A broad sense of responsibility to stakeholders is ingrained in the Qantas Group's DNA. That extends from our commitment to safety, which has and always will be our first priority, to our proud track record of providing assistance in national emergencies.

We are working hard to minimise the environmental impact of our operations. We also share the spirit through our sponsorship of many community, arts and sporting organisations across Australia.

People

The dedication and professionalism of our people is critical to Qantas' success. Qantas in turn is committed to being a responsible employer. We have created over 7,000 jobs since 1999 and we invest extensively in training. Our growth plans will create more jobs and exciting careers for Australians.

Growth

The profitable growth of both of our two major flying brands, Qantas and Jetstar, continues to be our core strategy.

Qantas will focus on strengthening its leading position in premium markets domestically, regionally and internationally.

Jetstar, our low cost brand, will expand rapidly in international leisure markets, while adding to its established domestic network. Jetstar will also lead the development of our value based airline interests in Asia, with the aim of building a pan-Asian network to complement the broader Qantas and Jetstar operations. For customers, this means more destinations, more connections and more choice.

Efficiency

To compete effectively, we must become more efficient as we grow. The Sustainable Future Program ensures central co-ordination of efficiency and cost improvements in all parts of the business and this work remains a strategic priority. To continue the momentum, we will focus on reducing complexity, developing and expanding lower cost production models and streamlining the way our businesses work together.

Optimisation

Flying people is our primary business, but we do much more. We have strong strategic positions, valuable expertise and assets in related but distinct markets such as loyalty, freight and aircraft. These parts of our business represent substantial growth opportunities and tend to be less cyclical than passenger air transport. We are developing and progressively separating key parts of our business, whilst reviewing ownership alternatives to ensure the value of our portfolio is fully optimised for shareholders.

Financial Highlights

Revenue +11.0 per cent to $15.2 billion

Profit before tax +53.8 per cent to $1.0 billion

Net cash held +15.9 per cent to $3.4 billion

Earnings per share +11.5 cents to 36.4 cents

Full year dividends per share +8.0 cents to 30.0 cents a share

Sales and other income ($M)

07	**15,165.7**
06	13,660.6
05	12,563.9
04*	11,353.7
03*	11,374.9

Profit before related income tax expense ($M)

07	**1,032.1**
06	671.2
05	914.3
04*	964.6
03*	502.3

* As reported under previous GAAP.

Operational Highlights

36.4 million passengers carried

The Qantas Group operated 6,335 services per week to 140 destinations in 37 countries

3.3 million+ Frequent Flyer reward seat redemptions

Achieved emission savings of 130,000 tonnes

Dividends (cents per share)

07	**30.0**
06	22.0
05	20.0
04	17.0
03	17.0

Passengers carried (000)

07	**36,449**
06	34,075
05	32,658
04	30,076
03	28,746

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

Report from the Chairman & the Chief Executive Officer

In 2006/07, the Qantas Group began to reap the benefits of a sustained period of investment, innovation and cost-containment in an environment of unprecedented market growth. A private equity bid to take over the company attracted widespread attention, but did not distract Qantas and its people from a core commitment to safety, reliability, technical innovation and customer service.

As always, Qantas honoured its responsibility to the Australian people through extensive contributions to arts, sport and charitable organisations. Qantas continued to invest, change and grow to provide a platform for future success.

To our fellow shareholders

During the difficult first six years of this century, the aviation industry confronted the challenges of war, terrorism, fuel price rises, the SARS virus and a massive industry downturn.

However, Qantas remained focused on long-term growth, developing an innovative two brand strategy and investing billions of dollars in fleet, product and customer service, while also working hard to attack inefficiencies, change work practices and lower our cost base.

Today, we are in a new global operating environment for aviation. Passenger numbers are up, productivity has increased, costs have been reduced, and some industry consolidation is underway. The Asia Pacific region, centred around China and India, is expected to become the world's single largest aviation market by 2010.

Next year, new generation aircraft, led by the Airbus A380 and the Boeing 787 Dreamliner, will come online and offer passengers an exciting new standard in flying.

The Qantas Group has worked hard to position itself to take advantage of this very positive environment – and our results reflect the skill and dedication of all our people.

Our Results

Qantas announced a record profit before tax of $1,032.1 million for the year ended 30 June 2007, a 53.8 per cent increase on the prior year, achieved in a strong operating environment.

At the same time, jet fuel prices remained high, increasing costs by around $500 million before hedging benefits.

Highlights included:

- profit before tax of $1,032.1 million;
- net profit after tax of $719.6 million;
- revenue of $15.2 billion;
- earnings per share of 36.4 cents; and
- operating cash flow $2.4 billion.

The Directors declared a fully franked final ordinary dividend of 15.0 cents per share, bringing the full year dividend to 30.0 cents per share.

This strong result was based on the ongoing strengths of the company's fundamentals and driven by:

- the robust economic environment, domestically and internationally, with high levels of demand in both business and leisure markets leading to a 6.9 per cent yield improvement and a 2.9 percentage point improvement in seat factor to 79.9 per cent;
- a significant improvement in international operations and continuing improvement in domestic operations, driven by high yields and loads; and
- continued pressure on the cost base, with unit costs improving by 1.9 per cent following a further $753 million in efficiencies achieved by the Sustainable Future Program.

Airline Partners Australia Bid

Between December 2006 and May 2007, the private equity group Airline Partners Australia (APA) conducted an off-market bid to acquire 100 per cent of the Qantas Group.

The Offer provided a substantial premium for shareholders and the Independent Non-Executive Directors and Executive Directors believed it was fair and reasonable. Following an independent expert's opinion, the Non-Executive Directors unanimously recommended that shareholders consider the Offer.

The bid period coincided with very strong growth in the Australian sharemarket, with the benchmark (S&P/ASX 200) index rising by more than 13 per cent. Global airline stocks also rose over the period.

After clearing all regulatory requirements, the bid failed to reach a 50 per cent acceptance level at its close on 4 May 2007. On 8 May 2007, APA announced that its Offer would not be renewed.

The bid triggered widespread and detailed attention to the underlying value in Qantas.

Between December 2006 and May 2007, Qantas' shareholder base changed significantly. Nearly 2.8 billion shares were traded – the equivalent of turning over all the Qantas shares on issue. Since the bid ended, turnover in Qantas shares went even higher, averaging 70 million shares a day.

Following the collapse of the APA bid, the Qantas share price has traded in the range of $4.92 to $5.85, reflecting newfound confidence by shareholders in Qantas' prospects.

Investment and Growth

Our investment and growth strategy is based around:

- our two strong flying brands of Qantas and Jetstar;
- our commitment to new generation aircraft and product; and
- working our assets harder.

Our two brand flying strategy enables us to serve customers right across the spectrum and to adapt quickly to changes in customer demand.

A mark of our success is that both of our flying businesses are now recognised as being among the world's best. Qantas has been named in the world's top five airlines for five years in a row in the prestigious Skytrax survey, and this year, Jetstar was named the world's best low cost airline.

Qantas is continuing its strong focus on growing premium business and leisure markets and offering customers a high quality, full service product and the convenience of excellent international, domestic and regional connections.

Qantas unveiled new generation cabins and seating, including a state-of-the art First suite and new Premium Economy offering, to be installed on the airline's flagship fleet of A380 aircraft that will be delivered from August 2008. Premium Economy will also be introduced progressively on all international B747-400 services and cabin upgrades across the existing B767 and B737 domestic fleets is being undertaken to ensure a fresh and contemporary look.

Jetstar has redefined the value-based market and brought together excellent customer service, new aircraft and low costs. Having rapidly established a significant domestic operation, the airline has moved into the international arena and is already looking at expansion opportunities. Our recent purchase of a stake in Vietnam's Pacific Airlines supports Jetstar's growth strategy and further extends the Group's reach into South-East Asia's low cost airline market.

Portfolio Business Opportunities

The Qantas Group's related businesses – including freight, catering and holidays – each have leading positions in their own markets. The Group continues to search for new ways to develop these assets. While each segment continues to focus on unit costs and the pursuit of profitable growth, we will also be looking closely at linkages between the businesses, such as between the airlines and airports and engineering, to further reduce complexity and improve efficiency.

Opportunities announced during the year included:

- the establishment in August 2006 of a new controlled entity, Express Freighters Australia, as a wet lease management company to provide aircraft with crew, maintenance and insurance to Australian air Express;
- the opening in June 2007 of a second freight terminal in Sydney, at an off-airport location, to allow Qantas Freight to increase capacity and meet growing customer demand;
- the purchase in May 2007 of a stake in express freighter operator DPEX China, as well as commencing to acquire an interest in Singapore-based DPEX Transport;
- the formation in July 2007 of Tour East Australia, a new Sydney-based inbound tourism business and joint venture between Qantas and Qantas Holidays' Singapore-based controlled entity Holiday Tours and Travel, to provide land content for packaging by travel wholesalers and travel companies worldwide; and
- the establishment of a stand-alone Australia-based flight training business, which will open by the end of 2007 and train 3,000 pilots over 10 years for all Qantas Group airlines as well as for the broader aviation industry.

Moving forward, we will focus on extending our successful business segmentation program – a process that was accelerated by the APA bid – to unlock further value in our individual business assets.

Reviews are underway across the company to identify opportunities for us to do this – most notably in our newly established Group Loyalty segment, which is looking at the management of the Frequent Flyer program, and our freight, fleet and holiday divisions.

We are looking at new ownership structures, with the potential for demergers, as well as strategic acquisitions, and expect to make announcements during the coming year as the various reviews are completed.

New Fleet

Since 2000, an average of $2 billion per year has been invested to upgrade the international, domestic and regional fleets. From next year, we will start to take delivery of 20 A380s and 65 B787s (with options and purchase rights for a further 50). Qantas will launch the A380, while Jetstar will be the Group's – and Australia's – launch airline for the B787, taking the first 15 aircraft.

These new generation aircraft will allow us to deliver a new standard of flying to our customers as well as offer significant reductions in fuel burn, emissions and noise. They will also give Qantas and Jetstar a 15 to 20 per cent cost advantage over competitors using older aircraft.

Further fleet additions, including lease over purchase options, are under active consideration.

A Sustainable Future

The Group's Sustainable Future Program is essential to our long-term competitiveness.

The Program met its original three year target of $1.5 billion by June 2006 and is on track to achieve an additional two year target of $1.5 billon by June 2008. This total $3 billion Sustainable Future Program target represents a 20 to 25 per cent reduction in the overall Group cost base.

During 2006/07, the Program delivered efficiencies of $753 million across a range of areas including distribution, improved recovery of customer service costs, process efficiencies and productivity initiatives.

Capital Management

A prudent approach to capital management has served Qantas well over the past seven years. This approach has allowed the company to withstand numerous external shocks and continue to grow.

However, a sustained period of low interest rates and the favourable aviation operating environment, combined with the higher appetite for risk shown by private equity investors, have caused the Board to reassess the level of gearing that is appropriate for the Group and acceptable to shareholders.

As always, the task is to strike the right balance between risk and reward and short-term versus long-term results.

We have announced a plan to buy back up to approximately 10 per cent of Qantas shares which, once completed, is anticipated to amount to a reduction of capital of over $1 billion.

Qantas will continue to target an investment grade rating.

Tasman Network Agreement

In February 2007, Qantas announced the formal termination of its Strategic Alliance Agreement and Tasman Network Agreement with Air New Zealand, as the Australian Competition and Consumer Commission's draft determination refused approval of the Agreement in November 2006.

The loss of the opportunity to develop a closer relationship with Air New Zealand was regrettable, particularly as consolidation opportunities are limited for airlines in this region.

Following the termination of the Agreements, all of the Convertible Notes issued by Air New Zealand to Qantas were converted into ordinary shares in the airline, equivalent to approximately 4.2 per cent of Air New Zealand's ordinary shares on issue. In June 2007, Qantas sold this stake.

Safety and Security

Our commitment to safety and security – of our customers, our employees and our assets – remains paramount.

Qantas this year completed the International Air Transport Association's Operational Safety Audit (IOSA) and achieved IOSA Registration. The internationally recognised IOSA program is a global benchmark for airline safety and quality and the most stringent safety and security audit program in the industry.

The Group's employee occupational health and safety program **be safe!**, has dramatically increased safety awareness and operational safety reporting rates indicate a continuously improving safety culture. **be safe!** has led to an 80 per cent reduction in employee injury since it commenced in 2001.

We look forward to the Federal Government's introduction of mandatory random alcohol and drug testing for all safety sensitive roles in the aviation industry.

Qantas' commitment to passenger security has been underscored by the Group's investment of more than $1 billion in enhanced security measures since 2001. New screening equipment includes x-ray and explosive trace detection technology for carry on, checked baggage and air freight.

Qantas complies with all security requirements of the many countries in which the Group operates.

We worked closely with the Federal Government to facilitate the introduction of enhanced cabin baggage security measures for international flights in March 2007, which limits the quantities of liquids, aerosols and gels taken through security screening points by people flying to and from Australia.

Our People

This year, we pay particular tribute to our Qantas people, who have risen admirably to the challenges of innovation, efficiency and rapid growth. Qantas staff showed exceptional professionalism during the bid for Qantas by APA and we thank them for never faltering in their dedication or performance throughout this period of uncertainty.

In recognition of the contribution Qantas made in achieving our strong financial result in 2006/07, eligible Qantas employees were awarded a bonus totalling $2,000, comprising a $1,000 cash payment and $1,000 worth of Qantas shares.

Qantas will always be one of Australia's largest employers. With around 37,000 people, we have 18 per cent more full-time equivalent employees than seven years ago and more than 90 per cent of our people are based in Australia.

Our human resources strategy is to improve productivity, develop management and leadership, engage employees and build a safer workplace. Together, these continue to build on our reputation as a responsible employer. Key areas of focus include:

- instilling safety as a priority for all staff;
- promoting diversity in our workforce;
- leading and managing a multi-generational workforce;
- managing skills shortages through keeping and growing key talent; and
- using flexible work practices to foster work-life balance and operational effectiveness.

Qantas continued its focus on vocational training, with more than $280 million spent on staff training and related costs during the year.

A second Joey Club child care facility was established for Qantas staff at Melbourne Airport in January 2007. The first Joey Club was opened at Qantas' Sydney headquarters in 2003.

Community and the Environment

During the past year, Qantas contributed millions of dollars to arts, sporting and community groups and charities – including key Qantas charities CanTeen, CARE Australia, Mission Australia, Starlight Children's Foundation Australia and UNICEF – through sponsorship, donations and in-kind support.

Twenty two paintings sold from the Qantas art collection achieved a total sale price of more than $3.4 million. The proceeds will be used to establish a major art scholarship program, which will officially launch in 2008.

The impact of climate change on the environment is a major concern. The Group has invested millions of dollars in recent years to make its day-to-day operations more efficient and reduce its emissions footprint. This has been achieved through a range of initiatives that this year delivered more than 280,000 tonnes saving of carbon dioxide emissions. The Group is on course to achieve cumulative savings of two million tonnes over the five years to June 2011 through a range of initiatives including the entry into service of new fuel efficient aircraft. By June 2011, annual emissions will have been reduced by 870,000 tonnes compared to 2004/05 aircraft consumption rates.

Qantas will continue to actively manage its operations and growth in a sustainable manner, with the aim of reducing our environmental impact where possible.

Board Changes

In May 2007, the Chairman of Qantas and Independent Non-Executive Director Margaret Jackson, AC and Independent Non-Executive Director James Packer announced their intention to retire from the Board of Qantas later this year.

Leigh Clifford was appointed as a Non-Executive Director in August 2007 and will become the new Chairman of Qantas at the conclusion of the Qantas Annual General Meeting in November 2007. Mr Clifford had a 37 year career with Rio Tinto before stepping down as Chief Executive Officer in April 2007.

Our Challenges

Aviation remains a highly competitive industry. The positive global environment is likely to continue, encouraging current players and new entrants to expand market capacity.

Fuel costs remain a challenge. In 2005/06, fuel prices totalled $2.8 billion – a 45.1 per cent increase on the previous year. This year, they increased by a further 19 per cent, or more than $500 million, despite hedging programs.

Domestically, Virgin Blue is targeting the business travel market and will grow capacity on trunk and regional routes when it starts taking delivery of a new fleet of regional jets. The Singapore-based low cost carrier Tiger Airways has also arrived as a new domestic competitor for both Qantas and Jetstar.

On most international routes, Qantas competes with at least one airline that benefits from government ownership, control or support. Many also operate from favourable hub locations that enable them to combine sets of air rights obtained from third countries to build strong networks more readily than "end of line" carriers such as Qantas.

The challenges facing Qantas in the international arena have been underscored by the Australian Government's recent decision to grant significant additional air rights to three Middle Eastern hub carriers. Virgin Blue plans to commence trans-Pacific services in 2008 and new Malaysian long-haul low cost carrier AirAsia X is planning services between Malaysia and Australia.

This current era for aviation presents an historic opportunity for Qantas to make ourselves an integral part of the Asia Pacific growth story. At the same time, we must remain poised to adapt to any unexpected challenges that arise. To succeed, we must continue our relentless focus on costs and maintain our flexibility, discipline and resilience.

Qantas is one of the world's premier airlines, offering the most comprehensive route network across Australia and an extensive range of international services.

Qantas flies around 2,300 domestic flights a week to 18 destinations. QantasLink, Australia's largest regional carrier, provides 2,000 services a week to 49 Australian destinations. Internationally, Qantas operates around 750 flights a week to destinations in Asia Pacific, the Americas, Europe and Africa.

Qantas Highlights

International

Qantas unveiled new state-of-the-art interior and seating to be installed onboard its fleet of 20 A380 aircraft, which are scheduled for delivery from August 2008.

Domestic

During 2007, Qantas added a total of more than 435,000 seats across a number of routes.

Regional

Qantas continues to grow through a $200 million investment in new aircraft dedicated to regional routes.

International

Qantas is one of only two airlines to have been listed in the top five airlines in the world for five consecutive years in the prestigious Skytrax Awards – the world's largest airline passenger survey voted by more than 14 million air travellers from over 90 countries.

Qantas International experienced a strong year, with positive operating conditions expected to continue into 2008.

The airline added capacity on growth routes including the United States of America, the United Kingdom, China, Hong Kong and South Africa.

Qantas is focused on the arrival of its first Airbus A380 in August 2008. The aircraft will allow Qantas to pursue network growth, provide additional capacity particularly into slot-constrained airports such as Los Angeles and London and introduce new generation product in its cabin interiors.

In July 2007, the airline unveiled its next generation of inflight products and services, including a new Premium Economy cabin, designed by renowned Australian industrial designer and Qantas Creative Director Marc Newson.

Network Developments

China: Qantas continued to increase services between Australia and China, with an additional return service between Sydney and Shanghai added in August 2007 and new services between Melbourne and Shanghai to commence in March 2008. This will take the number of services between the two countries to 10 per week.

Japan: Qantas increased frequencies between Sydney and Tokyo from October 2006, increasing the number of flights on the route from seven to 11 and moving to an all A330 operation.

New Zealand: In addition to the airline's year-round Sydney-Queenstown services, Qantas operated four non-stop weekly return services between Australia and Queenstown for the New Zealand ski season. Two services are operating from Sydney, one from Melbourne and one from Brisbane between June and September 2007. Qantas suspended its three-times-a-week direct service between Adelaide and Auckland from July 2007.

South Africa: Qantas announced that it would increase services to Johannesburg from five to six per week from November 2008.

South America: Qantas announced in May 2007 that it would commence services between Sydney and South America in November 2008.

USA: Services between Australia and San Francisco increased from three to five per week in March 2007. The airline operated 18 supplementary flights between Sydney and Los Angeles in June and July 2007. Qantas increased New York services from five per week to daily in August 2007 and announced three additional services to Los Angeles each week, one from Sydney and two from Brisbane, from March 2008. This will result in the airline offering a daily service between Brisbane and Los Angeles and a record 43 services per week between Australia and the USA.

“Qantas International experienced a strong year, with positive operating conditions expected to continue into 2008.”

Designer collection

New designer amenity collections created by some of Australia's most recognised creative talent. The collection by Marc Newson, Collette Dinnigan, Akira Isogawa and Peter Morrissey was introduced on Qantas international services from March 2007. This collection includes Business pyjamas on selected flights.

Product Developments

- In July 2007, Qantas unveiled a state-of-the-art range of Marc Newson designed aircraft seats, interiors, product enhancements and a new Premium Economy cabin for its fleet of 20 new A380s being delivered from August 2008.

  The Qantas A380 will be configured with 450 seats – 14 in First, 72 in Business, 32 in Premium Economy and 332 in Economy. Key features include private suites in First and an enhanced, fully flat Skybed sleeper seat in Business, a completely new experience in Premium Economy including seats by Recaro, and revolutionary new seats – also manufactured by Recaro – in Economy.

  The A380 will feature wireless connectivity, larger wide-screen monitors and a new on-demand inflight entertainment system offering 120 movies, 300 television selections, 500 CDs, 30 games and a selection of audio books, destination information, language tutorials and radio channels.
- Qantas' new Premium Economy cabin will be introduced progressively on the airline's international B747-400 aircraft from February 2008, as well as being delivered already installed on the new A380s. Premium Economy seats will be wider than those in Economy, with extra recline. Premium Economy will feature more comfort and enhanced levels of service, including dedicated check-in, a self-service bar and in-arm video screen.
- New First lounges were opened in Sydney and Melbourne in May 2007. Designed by Marc Newson, the lounges are managed by luxury hotel group Sofitel and offer a full concierge, restaurant and chair-side waiter service, day spa and state-of-the-art business facilities.
- Special dedicated check-in facilities were introduced for First customers, also in May 2007. Qantas First Hosts manage the check-in process from preparing departure documentation the day prior to departure through to providing a kerb-side greeting, arranging porter service and providing an escort through security screening and immigration.
- Qantas introduced a range of new product in March 2007, including new designer amenity collections in First and Business, pyjamas for Business passengers on selected services and new crockery, cutlery and glassware. A world-first eight course degustation menu developed by Australian chef and restaurateur Neil Perry, was also introduced in First on selected flights.
- For the second consecutive year, Qantas was recognised as having the *Best Overall Inflight Entertainment* by the World Airline Entertainment Association. Qantas has won the *Best Overall* award for four out of the past five years.

Alliances

Qantas is a founding member of the **one**world Alliance, which continued to expand, with the addition of Japan Airlines, Malév Hungarian Airlines and Royal Jordanian Airlines in April 2007. The three new members increased the Alliance's reach to 9,000 daily departures covering nearly 150 countries and 700 airports.

Qantas also has equity investments, commercial arrangements and other agreements with a wide range of international carriers, including 25 codeshare relationships.

These arrangements give Qantas cost and efficiency benefits and offer customers an expanded network, more frequent flights and Frequent Flyer opportunities.

During the year, Qantas entered into new codeshare relationships with Air China, India's Jet Airways, Mexicana, new **one**world member Malév Hungarian Airlines and Germany's Deutsche Bahn, Qantas' first codeshare arrangement outside Australia with a rail operator. Qantas also expanded its existing arrangements with Air France.

"In July 2007, Qantas unveiled a state-of-the-art range of Marc Newson designed aircraft seats, interiors, product enhancements and a new Premium Economy cabin for its fleet of 20 new A380s being delivered from August 2008."

First lounge

New Marc Newson designed First lounges opened in Sydney and Melbourne.

Domestic

Qantas recorded a strong domestic performance, increasing capacity by more than five per cent – more than 435,000 seats – across its network and offering high frequency, high volume capacity to major metropolitan and regional centres.

Australian domestic routes are operated by a mix of Qantas, QantasLink regional and value-based Jetstar services. The service mix is tailored to meet market needs, allowing the Group to best match capacity and demand to each market and providing flexibility to increase capacity and/or frequency on routes in line with changes in market demand.

The Group maintained its strong domestic position in 2006/07, with a market share consistently above 65 per cent.

Qantas Domestic operates two class aircraft and offers complimentary inflight meals and entertainment as well as a range of associated products for both business and leisure travellers.

The airline's customer satisfaction ratings are consistent and the majority of business customers would prefer to choose Qantas for their next business flight.

On-time performance statistics also continued to improve to a point where Qantas was a market leader from all months from January to June 2007.

Network Developments

- Qantas increased capacity on Perth services, deploying B747 aircraft on flights from Sydney and Melbourne as well as boosting B737 services from Adelaide, Melbourne and Sydney.
- Capacity into and out of Brisbane was significantly increased in August 2007, with the addition of three weekly Brisbane-Canberra services, three new Brisbane-Perth services and two Brisbane-Mount Isa services.
- More discounted seats were made available across the network, with an additional 800,000 lowest available Red e-Deal fares purchased in 2006/07 compared to the prior year. The periodic release of promotional fares also continued to stimulate demand for travel, with Qantas offering 10 major seat sales, in addition to route-specific offers, throughout 2006/07.
- In September 2006, Qantas experienced record demand for domestic seats to the AFL and NRL finals. Qantas operated more than 23,000 additional seats, comprising 99 extra flights and 35 flights upgraded to larger aircraft, to carry football fans in the final two weeks of the season.

"The Group maintained its strong domestic position in 2006/07, with a market share consistently above 65 per cent."

Product Developments

- Qantas is investing in new look, contemporary interiors for its Australian and New Zealand domestic fleet of B737-400, B737-800 and B767-300 aircraft, with new seat fabrics, curtains, carpets, pillows, blankets, head-rest covers and tableware designed by Marc Newson. The first refitted aircraft, a B767, took to the skies in July 2007, with the remainder of the domestic fleet scheduled for completion by June 2008.
- In July 2007, Qantas introduced Qantas Connect, a series of internet workbenches and wireless hotspots in high traffic areas of the airport enabling customers to stay connected for longer.
- In October 2006, Qantas launched a new online check in service allowing Qantas Domestic and QantasLink passengers to check in for their flight before arriving at the airport. Customers can check in for same day return flights, choose their preferred seat and print their own boarding passes from any home or office printer. At the airport, those travelling with only carry-on baggage can head straight to their departure gate. The service can be used up to 24 hours prior to departure.
- Since August 2006, Qantas customers have been able to check in for their flight at the Accor Group's Sofitel hotels across Australia. Similar facilities are being installed at other Accor properties across Australia during the coming year.
- During the year, Qantas evaluated technology on a domestic B767-300 aircraft that allows customers to use mobile phones to send and receive SMS and email inflight. The results of the trial are being evaluated ahead of a decision on future options for this technology. Internal inflight research conducted during the three month evaluation period showed a strong desire, particularly among premium passengers, to use this service.
- Qantas will introduce new dedicated domestic Business class lounges at its key Business airports: Brisbane, Melbourne and Sydney, by mid 2008. The lounges will offer a superior range of services to Business class travellers as well as top tier Qantas and **one**world Frequent Flyers, including a more spacious layout, more private seating arrangements, a wide selection of hot food and enhanced business services such as private work suites and complementary wireless internet access.

Qantas is investing in new look, contemporary interiors for its Australian and New Zealand domestic fleet of B737-400, B737-800 and B767-300 aircraft, with new seat fabrics, curtains, carpets, pillows, blankets, head-rest covers and tableware designed by Marc Newson.”

Regional

QantasLink became the first airline in the Southern Hemisphere to operate the 72 seat Bombardier Q400 in January 2006. It took delivery of its seventh aircraft in October 2006 with a further two Q400s due in January 2008.

This $200 million investment in new regional aircraft has reduced flight times and operating costs, provided improved passenger comfort and delivered a 44 per cent increase in capacity on upgraded services to Cairns, Canberra, Emerald, Gladstone, Mackay, Rockhampton and Townsville.

The introduction of Q400 aircraft on Canberra routes from Brisbane and Sydney has added a combined 188,000 seats annually on these routes and led to the creation of a new Q400 pilot and cabin crew base in Canberra in August 2006.

QantasLink will expand its 115 seat B717 fleet from eight to 11 aircraft as part of a renewed operating agreement with National Jet Systems. The first additional aircraft entered service in Western Australia in August 2007. This fleet expansion will take QantasLink's total jet and turboprop fleet to 49 aircraft and allow for greater service frequency and capacity increases on key regional routes in Western Australia, the Northern Territory and north Queensland. It has also created a total of more than 120 jobs in Alice Springs, Cairns, Darwin and Perth.

Network Developments

New services introduced by QantasLink include Brisbane-Hervey Bay and Brisbane-Biloela from October 2006 and seasonal services between Port Macquarie and Lord Howe Island and between Weipa and Horn Island from March 2007.

Additional capacity was added on a number of services during the year including: Brisbane to Roma, Charleville, Longreach, Blackall and Barcaldine; Melbourne-Mildura; and Sydney to Armidale, Dubbo, Port Macquarie and Tamworth.

Other Developments

- QantasLink won the Major Tour and Transport Operator category for the third year running at the 2006 Outback Queensland Tourism Awards held in Longreach and will be inducted into the Outback Queensland Tourism Hall of Fame at the next awards in 2007.
- Sunstate Airlines, which has flown under the QantasLink brand since 2001, celebrated its 25th birthday in December 2006.
- QantasLink remained the sole bidder for the five year renewal of the NSW Government licence route between Sydney and Lord Howe Island, ensuring a continuation of the service QantasLink has provided for 16 years.

"This $200 million investment in new regional aircraft has reduced flight times and operating costs, provided improved passenger comfort and delivered a 44 per cent increase in capacity on upgraded services."

QantasLink

QantasLink continues to grow through increased investment in new aircraft, fleet expansion and an extended network.

Qantas Holidays

Qantas Holidays is one of Australia's leading travel wholesalers, selling holidays and travel services to close to 1.7 million customers in 2006/07.

As well as working with Qantas Group airlines, Qantas Holidays markets travel packages for other airlines under the Viva! Holidays brand.

Qantas Holidays is in the process of transitioning its business to increase its focus on online services and inbound traffic, in line with changes occurring in the wholesaling industry.

Product Developments

- A new inbound tourism business, Sydney-based Tour East Australia, began operations in July 2007 and is managed by Qantas Holidays' Singapore-based joint venture company Holiday Tours and Travel (HTT). Tour East Australia will provide land content, including sightseeing tours and accommodation, for packaging by travel wholesalers and travel companies worldwide. It will also provide a comprehensive travel service for the inbound meetings, incentives, conferences and events market and offer a meet-and-greet airport transfer service for individual and group travellers.
- Travel management company HTT, which is 75 per cent owned by the Qantas Group, represents the Qantas Group in many parts of Asia. Its destination management arm, Tour East, offers a full range of ground handling services including accommodation, sightseeing tours, regional tours and the meetings, incentives, conferences and events market. As well as focusing on its established United Kingdom market, Tour East is increasing its penetration in new markets such as China, India and Europe. The HTT Group handled more than 900,000 customers in 2006/07.
- Qantas Holidays' online hotel booking service for Australian and New Zealand hotels continues to grow, with year-on-year revenue growth of 60 per cent. Rated the best Australian hotel booking website in terms of meeting customer expectations by Melbourne-based evaluation company Global Reviews, the hotel booking engine on qantas.com is the only one to offer Qantas Frequent Flyer points on both last minute and year-round accommodation.
- Qantas Holidays has developed a new online dynamic packaging system that enables customers to book combined flight, hotels, sightseeing and car hire packages in a single transaction. The first phase of this system, covering Australian domestic and New Zealand holidays, was launched in July 2007, with further enhancements being released progressively through 2007/08.
- Qantas Holidays launched an online booking system for international hotels on qantas.com in July 2007.

Marketing Initiatives

- Qantas Holidays' product brochures have been completely redesigned for the 2007/08 holiday range to feature stronger visuals and more detailed travel tips, positioning the brand as a destination expert.
- Qantas Holidays experienced exponential growth in its Red e-Mail database in 2006/07, almost doubling its number of subscribers. It now reaches more than 500,000 travel customers, offering timely email advice about offers and new holiday options.

qantas.com

With six million hits each month, qantas.com continues to be one of the world's top airline websites.

qantas.com serves as a one stop online shop, providing access to the lowest fares, product information, a full range of Frequent Flyer services and corporate and investor information.

Qantas continues to invest in self-service options available through qantas.com, including a domestic online check-in service introduced in October 2006.

The site was enhanced in July 2006 to allow customers to book the full range of domestic flights with both Qantas and Jetstar. Additional enhancements followed to enable multi-city domestic bookings in August 2006, and multi-city international bookings in April 2007.

qantas.com has over one million subscribers to its Red e-Mail in Australia, offering subscribers an easy way to stay informed about Qantas' flight specials.

Jetstar's focus on offering the lowest priced fares has enabled more people to experience air travel. Jetstar carried over 7.6 million passengers in the 2006/07 year and holds over 15 per cent of the Australian domestic market. Jetstar spread its wings in 2007, commencing services to long-haul international destinations.

Jetstar

Low cost domestic flights

Low cost international flights

Low cost intra-Asia

Jetstar Highlights

Skytrax Awards

World's Best Low Cost Airline and Best Cabin Staff Australia/New Zealand in 2007.

International expansion

Successfully launched international low cost operations, with eight destinations by September 2007.

Allocated seating and low fare commitment

Introduction of allocated seating on all domestic services and demonstrating commitment to low fares with a double the difference voucher guarantee.

Jetstar

Jetstar has maintained its position as a cost leader in the Australian market, providing flights that complement those of the full-service Qantas airline and ensuring more profitable returns for the Qantas Group.

The Jetstar footprint is expanding in Australia and Asia. It has trebled in size since it commenced flying in May 2004 and is expected to be 10 times its current size within three years. By 2010/11, around 70 per cent of Jetstar's total operations will be dedicated to international flying.

Domestic

Jetstar now operates around 1,050 short-haul services each week to 20 Australian destinations.

Since June 2006, Jetstar has operated an all-A320 fleet of 24 aircraft, including a wet leased A320 from Jetstar Asia, and has the youngest domestic fleet in Australia.

Network Developments

Jetstar has continued to expand its domestic operations and service offering, with:

- nine additional Airbus A320 aircraft scheduled for delivery from late 2007, enabling it to grow its domestic operation by 40 per cent;
- a new A320 flight crew and aircraft base in Adelaide to support new South Australian services introduced in 2006/07 – a daily flight from Adelaide to the Gold Coast and increased capacity to Darwin and Cairns through increased peak season flying; and
- the transition from 125 seat B717 aircraft to 177 seat A320 aircraft, which has resulted in increased capacity in many regional markets across Australia, including Avalon and Newcastle, where Jetstar's capacity has almost trebled.

Operational Developments

- Jetstar's new aircraft maintenance facility at Newcastle Airport officially opened in March 2007, creating 50 new engineering jobs – including new apprenticeship positions – to support its national A320 operations.
- Traffic on Jetstar.com has grown by 300 per cent since 2004, with the site now attracting 2.7 million visitors per month. Around 80 per cent of Jetstar domestic fares continue to be booked online. New site enhancements have included dynamic currency conversion, offering most international customers the opportunity of paying in their home currency and the ability for domestic customers to purchase online travel insurance during the booking process.

Long-haul International

Jetstar became one of the world's first value-based long-haul carriers when it commenced international operations with direct flights from Melbourne to Bangkok in November 2006. Its international long-haul network has rapidly grown to eight destinations, with Jetstar operating wide body A330-200s to Denpasar, Ho Chi Minh City, Honolulu, Kuala Lumpur (subject to regulatory approval), Osaka, Nagoya and Phuket.

Jetstar began a daily Sydney-Osaka-Brisbane service in March 2007 and also announced new services between Cairns and Nagoya and Cairns and Osaka, growing Qantas Group capacity to western Japan.

Jetstar's two class A330-200 fleet has grown from an initial two to six aircraft and the airline will be the Australian launch customer for the new B787 Dreamliner from August 2008. Jetstar will operate the first of 15 Qantas Group B787-8s and transition to a fleet of B787-9s from March 2011.

While initially concentrating on point-to-point flying, primarily to Asia, to complement existing Qantas international operations, future expansion opportunities include two stage B787 flying from Australia to Europe via Asia.

Vietnam

Qantas has signed an investment agreement to progressively purchase a 30 per cent stake in Pacific Airlines, Vietnam's second largest carrier.

StarClass

StarClass provides premium travel service on Jetstar international services.

Jetstar Product

- Jetstar became the first Australian airline to allow customers to pre-select their seat at the time of fare purchase for all domestic and international flights.
- Jetstar commenced allocated seating on domestic services from October 2006.
- Jetstar introduced *StarClass* on its long-haul international services in November 2006. The product, which offers premium class travel at the average price of competitors' standard economy fare, has been very popular.

Jetstar Asia

Qantas owns a 45.04 per cent stake in Orangestar Investment Holdings Pte Limited, which was formed in July 2005 after Jetstar Asia acquired Valuair and owns and operates both carriers.

Jetstar Asia and Valuair continue to operate in their own right and fly to 12 destinations in nine Asian countries – Cambodia, Hong Kong, India, Indonesia, Myanmar, the Philippines, Taiwan, Thailand and Vietnam. Jetstar Asia operates a fleet of four A320 aircraft, while Valuair operates two A320s.

Future opportunities in the intra-Asia market will be explored.

Pacific Airlines

Following an agreement signed in April 2007, the Qantas Group finalised the first of three investment instalments in Pacific Airlines, Vietnam's second largest carrier, in July 2007. The Group's current 18 per cent stake will increase to 30 per cent over the next three years.

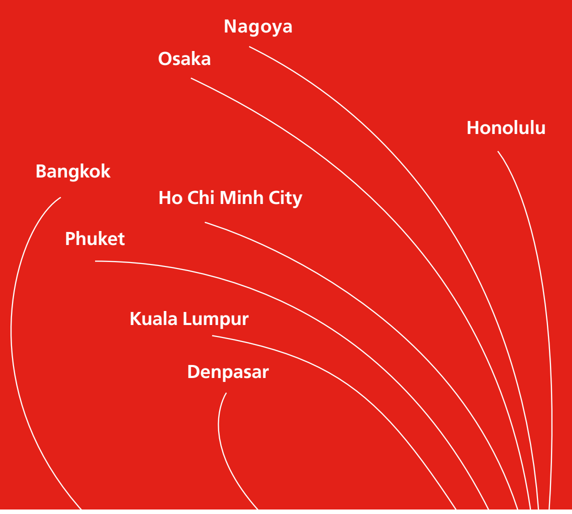
A business plan has been developed in consultation with our investment partner, the State Capital Investment Corporation, to reposition Pacific Airlines as Vietnam's only low cost carrier and expand its operations within Vietnam and, in the future, internationally, through short-haul intra-Asia services.

The investment supports Jetstar's pan-Asian growth strategy and will help enable the Qantas Group to extend its reach in the fast growing Asian region.

"Jetstar became one of the world's first value-based long-haul carriers when it commenced international operations with direct flights from Melbourne to Bangkok in November 2006."

New international destinations

Jetstar's network offers a range of international destinations including Denpasar, Ho Chi Minh City, Honolulu, Kuala Lumpur and Phuket.



Fleet

Nine A320 aircraft will facilitate 40 per cent growth in domestic services.

In addition to our flying businesses, the Qantas Group operates a diverse portfolio of airline related businesses.

As well as providing a range of essential services to Qantas, QantasLink and Jetstar, these portfolio businesses are all important parts of Qantas' operations in their own right and are essential components of the Qantas Group's growth strategy.

Portfolio Businesses

Portfolio Businesses Highlights

Freight

Qantas Freight Enterprises continues to grow its international air cargo business particularly in the Asia Pacific region.

Engineering

Qantas Engineering is one of the largest industrial organisations in Australia, with around 6,000 people employed at its maintenance facilities. Qantas Engineering is also strongly committed to apprentices and skilled training.

Airports

Qantas continues to develop its airport facilities with features including automated check-in facilities, state-of-the-art First lounges, wireless hotspots, Business lounges and dedicated conference facilities.

Qantas Freight Enterprises

Qantas Freight Enterprises is progressing plans to create an integrated Asia Pacific freight and logistics company. This new business will allow Qantas to consolidate freight operations and assets under central management.

The company will manage a valuable set of strategic freight assets, including:

- exclusive access to Qantas and Jetstar's belly space;
- dedicated freighter aircraft operations servicing major continents;
- cargo handling terminals in Australia's largest gateways;
- investments in premium door-to-door road and air express businesses in Australia; and
- an express business with operations across 19 Asian countries.

Business Developments

Through the continued expansion of its freighter network, Qantas Freight Enterprises has added four weekly trans-Tasman services and a round the world route in August 2007. Qantas Freight Enterprises has built up a five per cent share of the Shanghai to USA air freight market. Qantas Freight Enterprises derives around 30 per cent of its air cargo revenues from its freighter operations and over 50 per cent from Asian points of sale.

Qantas Freight Enterprises continues to invest in its Australian International Air Cargo Terminal businesses to deliver improved services to its customers.

- In late 2006, the Sydney Freight Terminal underwent a multi-million dollar facelift and the Melbourne Freight Terminal is introducing state-of-the-art materials handling equipment to deal with growing export operations. When the redevelopment is completed in 2008, the Melbourne Freight Terminal will be the largest airfreight facility in Victoria.
- In June 2007, Qantas Freight Enterprises opened Australia's first off airport international air cargo terminal. The facility, located in Sydney, will enable service improvements across all Sydney terminal operations and accommodate growth.
- Qantas Freight Enterprises commenced the Express Freighters Australia business in October 2006, wet leasing B737 freighter aircraft to Australian air Express. Three aircraft are now in operation in Australia with a fourth aircraft to be delivered by November 2007. The four B737-300F will boost Australian air Express' dedicated freighter fleet to nine aircraft.

Qantas' Freighter Network

Qantas Freight Enterprises operates dedicated freighters in addition to the Qantas Group's scheduled passenger services.

Growth

Qantas Freight Enterprises continues to grow its international air cargo business.

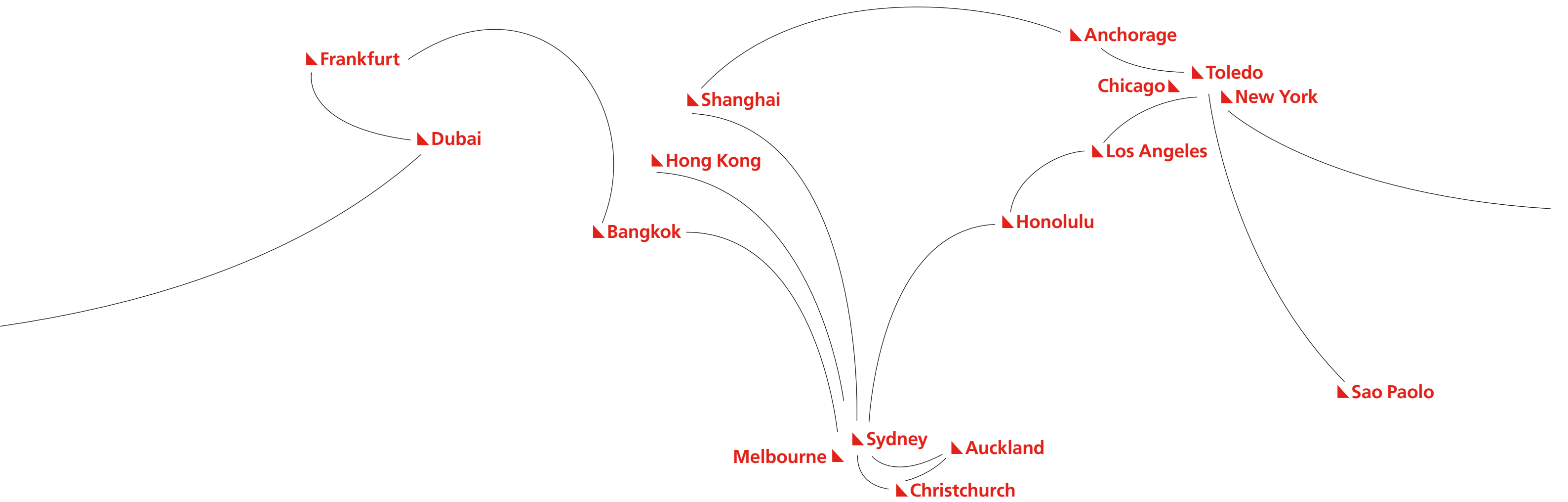
Qantas and Australia Post work closely on two jointly controlled entities, Star Track Express and Australian air Express.

Star Track Express continues to offer its customers the highest service standards in the time definite express freight market in Australia and has experienced continued strong sales growth. Star Track Express uses highly sophisticated automated sortation systems in each of its distribution centres, ensuring high service standards are maintained.

Australian air Express and its customers will benefit from its investment in new automated sortation facilities and the improved performance of the new B737 freighter aircraft wet leased from Qantas Freight Enterprises. The combination of dedicated freighters and Qantas' belly space enables Australian air Express to offer its customers the broadest network coverage with the highest frequency and the most versatile capacity.

In May 2007, Qantas Freight Enterprises commenced its acquisition of the DPEX Group, a road express business with operations in 19 Asian countries. The business owns operations in Singapore and Hong Kong, joint venture operations in Korea and China and franchisee operations in 15 other countries. This acquisition further increased Qantas Freight Enterprises' Asian presence. In this rapidly growing market, the business will continue to expand and opportunities for an intra-Asian freighter operation continue to be evaluated.

"In late 2006, Sydney Freight Terminal underwent a multi-million dollar facelift and the Melbourne Freight Terminal is introducing state-of-the-art materials handling equipment to deal with growing export operations."



Freighters

Dedicated freighter aircraft operations servicing major continents.

Partnerships

Three more dedicated freighters joined the Australian air Express fleet, providing domestic freight and mail services.

Engineering

Qantas Engineering operates one of the largest aircraft maintenance, repair and overhaul (MRO) businesses in the Asia Pacific region, with around 6,000 people working in facilities across Australia.

Over the past five years, Qantas has invested more than $360 million in advanced technical equipment and facilities and best practice technical training, which allows Qantas to undertake the vast majority of its aircraft heavy maintenance in Australia.

In November 2006, Qantas announced that narrow-body Boeing 737 heavy maintenance work would remain in Melbourne pending a 12 month review. The review also includes whether Qantas will commit to bringing the A330 heavy maintenance onshore and establish inhouse engineering and maintenance capabilities for the new B787 and A380 aircraft.

Qantas' preferred option is to establish an onshore, inhouse operation with the scale and efficiency to handle its own maintenance as well as some third party work. The review, which is being undertaken in consultation with employees and unions, centres on improving Qantas Engineering's competitiveness in relation to other global MROs to create the conditions that would allow these aircraft to be maintained in Australia.

Business Highlights

- In preparation for the arrival of the A380, the refurbishment of a line maintenance hangar at the Qantas Jet Base in Sydney was completed in May 2007.
- In a first for Australia, four former B737 passenger aircraft were converted by Qantas Engineering at its Avalon base in Victoria into dedicated freighters for use by Qantas' jointly controlled entity Australian air Express. The first freighter was delivered in October 2006.

Australia-based Maintenance

Qantas Engineering operates the largest MRO facilities in Australia and undertakes a comprehensive range of engineering and maintenance facilities in Avalon, Brisbane, Melbourne and Sydney operating to world best practice standards.

Approximately 90 per cent of Qantas' aircraft heavy maintenance continues to be carried out in Australia.

The remainder, which is generally overflow work or work on aircraft types where the volume is low, including new aircraft types such as the A330, is carried out overseas by specialist top tier providers who are certified by Qantas and CASA.

Qantas Engineering undertakes nearly 200 maintenance audits each year, as well as being audited by CASA and airworthiness regulators from other countries.

Qantas Defence Services

Qantas Defence Services (QDS) partners with global aerospace companies to provide aviation maintenance services for current and future Australian Defence Force programs.

In February 2007, QDS signed a contract with the Department of Defence to provide support services for the Royal Australian Air Force's (RAAF) fleet of five A330 Multi Role Tanker Transport aircraft. The contract covers the provision of technical, spares, training and maintenance support for the tanker fleet for the entire period the aircraft remain in service with the RAAF. The conversion work will occur at Qantas Engineering's maintenance base at Brisbane Airport, creating new employment opportunities for up to 100 people.

The contract follows a successful joint bid in 2004 by EADS CASA and Qantas to provide the RAAF with a tanker version of the A330-200.

$360 million investment

Over the past five years, Qantas has invested more than $360 million in advanced technical equipment and facilities and best practice training in its operations.

Airports

Airport terminals continue to adapt to meet growing customer expectations. Self-service options such as Qantas' QuickCheck kiosks and online check-in via qantas.com have reduced check-in times, with terminals offering an increasingly broad range of customer services.

Qantas owns or solely leases eight domestic terminals in Australia – Brisbane, Canberra, Gold Coast, Hobart, Launceston, Melbourne, Perth and Sydney.

Retail options remain an important growth area, providing revenue streams for airports and services for customers. More than 90 retail outlets now operate from Qantas terminals in Brisbane, Gold Coast, Melbourne, Perth and Sydney, in addition to valet, car hire and traveller services.

Product and Infrastructure Developments

- QuickCheck e-ticket kiosks allow customers to check themselves in for their flight quickly and easily. For customers without baggage, the process can take less than 60 seconds. In August 2007, Qantas introduced QuickCheck facilities at Adelaide Airport. Qantas is also planning to boost its QuickCheck facilities at existing locations, being Brisbane, Canberra, Melbourne, Perth and Sydney.
- Work is well advanced to ensure airport readiness for the arrival of the A380 and B787 in 2008. Qantas is working closely with airport authorities in Hong Kong, London, Los Angeles, Melbourne, Singapore and Sydney to provide the necessary services and facilities.
- In association with the Australian Government and Sydney and Melbourne Airports, Qantas commenced a trial of express immigration and security lanes for First and International Business customers and top tier Frequent Flyers in May 2007.
- Qantas relocated its Bangkok operations to the city's new Suvarnabhumi International Airport when it officially opened in September 2006.
- Work is continuing on Qantas joining other **one**world alliance airlines in operating from Heathrow's upgraded Terminal 3 in 2008.
- Enhancements for Qantas customers during the year included new international First lounges in Sydney and Melbourne in May 2007 and Qantas Connect internet work benches and wireless hotspots in domestic terminals in Brisbane, Melbourne, Sydney and Perth in July 2007.
- The Qantas Valet parking service at Sydney International Airport was extended in August 2006 to cater for customers of all airlines.
- Work on a $50 million program of improvements to the Qantas domestic terminal at Perth Airport will commence before the end of 2007.

"Work is well advanced to ensure airport readiness for the arrival of the A380 and B787 in 2008. Qantas is working closely with airport authorities in Hong Kong, London, Los Angeles, Melbourne, Singapore and Sydney to provide the necessary services and facilities."

Customer care

Qantas provides a comprehensive range of customer facilities at its eight exclusive terminals in Australia.

Qantas Group Flight Training

Qantas will establish a new stand-alone flight training business by the end of 2007, with the aim of training 3,000 new pilots for the Qantas Group over the next 10 years. The new business is also expected to train a significant number of pilots for other airlines.

The facility, which will use Qantas' existing simulator facilities in Melbourne and Sydney, will be one of the largest pilot training businesses in the world.

The airline also established two new pilot training courses with Queensland's Griffith University and Victoria's Swinburne University of Technology.

"The facility, which will use Qantas' existing simulator facilities in Melbourne and Sydney, will be one of the largest pilot training businesses in the world."

Catering

Qantas has two catering operations, Qantas Flight Catering Limited (QFCL) and Caterair Airport Services Pty Limited (Caterair), which are leaders in flight catering. QFCL has centres in Adelaide, Brisbane, Melbourne, Perth and Sydney and Caterair operates centres in Cairns and Sydney. Qantas' frozen meal facility, Snap Fresh Pty Limited, operates in Brisbane. Together these facilities employ around 3,800 people.

In 2006/07, the facilities prepared more than 38 million meals for Qantas and 33 other clients. More than 27 million of these meals were served on Qantas flights.

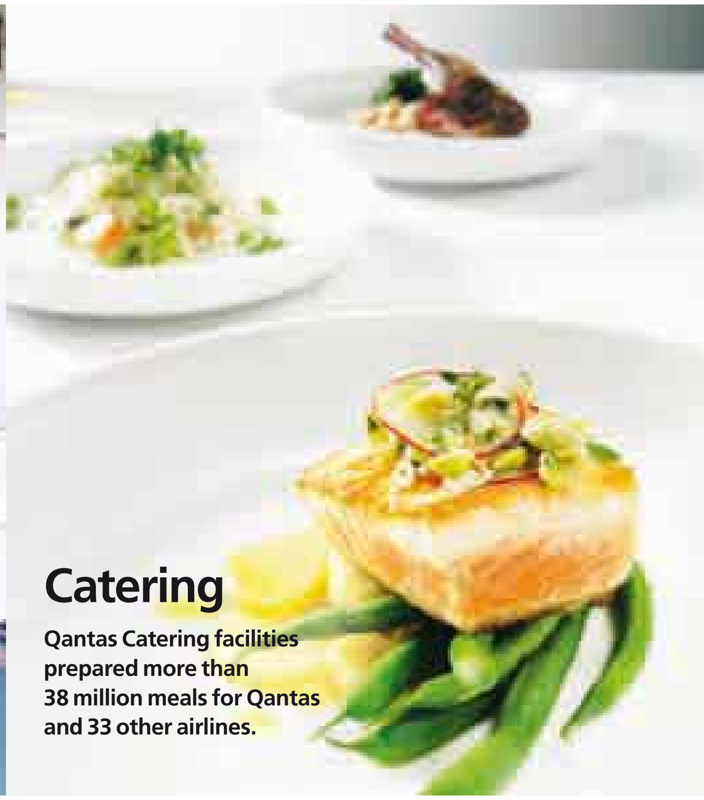
In June 2006, Qantas announced that it would retain and restructure the Group's catering businesses. The decision followed a review of operations that included major restructuring opportunities and a potential sale.

The restructure has initially focused on the two Sydney facilities of QFCL and Caterair, which undertake the greatest volume of the Group's catering work. With QFCL Sydney now focusing on Qantas' business and Caterair Sydney concentrating on client airlines, the dedicated facilities allow for streamlined processes and more efficient operation.

The restructure of Qantas Catering's five other centres in Adelaide, Brisbane, Cairns, Melbourne and Perth is also underway. This involves reviewing the supply chain, improving product engineering and demand forecasting, reducing inventory lines, leveraging buying power and improving the use of food production technologies.

Flight training

With a range of simulators including an A380 simulator situated in Qantas facilities, pilots receive the most comprehensive training available.



Catering

Qantas Catering facilities prepared more than 38 million meals for Qantas and 33 other airlines.

Qantas Frequent Flyer

The Qantas Frequent Flyer Program is Australia's leading loyalty program with more than five million members and 222 program partners providing extensive opportunities to earn rewards.

The Program is a significant driver of value, which is reflected in Qantas' yield premium and market share. More than three million Frequent Flyer seats were redeemed in 2006/07.

During the year, Qantas announced the establishment of a separate Group Loyalty segment to manage the Qantas Frequent Flyer Program. A dedicated management team has been established to focus on enhancing the Program and delivering value to members and shareholders.

Business Developments

In 2006 Qantas undertook a wide-ranging review of the Program to identify opportunities to enhance the offering for its members by expanding their opportunities to earn and redeem rewards.

As a result, a number of new features are planned to be introduced over the next 12 months. These include:

- allowing members to redeem their points for any available seat on Qantas and Jetstar;
- launching a loyalty offering for Jetstar;
- expanding the Frequent Flyer Store to include a wider choice of reward merchandise and voucher rewards using points and points-plus-pay options;
- expanding travel reward options including hotels, rental cars and packaged holidays; and
- introducing additional Frequent Flyer Program partners.

"During the year, Qantas announced the establishment of a separate Group Loyalty segment to manage the Qantas Frequent Flyer Program. A dedicated management team has been established to focus on enhancing the Program and delivering value to members and shareholders."

Frequent Flyer

Qantas Frequent Flyer Program remains one of the most outstanding loyalty programs of any airline in the world.

Rewarding

With 24 airline partners and 198 non-airline partners the Qantas Frequent Flyer Program offers an extensive number of ways to earn and use points.

For Qantas, operating in the best interests of our passengers, employees, shareholders and Australia is a balancing act. Our commitment to the economy, the environment and society is long standing. We aim to maximise the positives and minimise negatives.

To provide visibility over our progress, this year Qantas introduces sustainability information which has been independently reviewed. This can be found on page 136.

Sustainability Highlights

Carbon dioxide emission savings

In the year, Qantas achieved savings of more than 280,000 tonnes, of which 130,000 tonnes related to specific initiatives to improve operational fuel efficiency.

Safety certification

In 2006/07, Qantas achieved the internationally recognised IATA Operational Safety Audit Certification.

$100 million on security

Qantas spent more than $100 million on equipment and infrastructure for domestic checked baggage screening, closed circuit television and explosive trace detection devices.

Sustainability

Community

Qantas' community support is visible through an active partnership program that encompasses a wide range of community, arts and sporting organisations.

Sharing the Spirit

Qantas launched its most substantial community support program – Sharing the Spirit in 2004.

This important initiative provides assistance to five key charities – CanTeen, CARE Australia, Mission Australia, Starlight Children's Foundation Australia and UNICEF.

Highlights for 2006/07 included:

- hosting 80 guests from Starlight Children's Foundation and Mission Australia at the Australian Formula 1 Grand Prix in March 2007;
- interactive athletics clinics for schools conducted by Qantas Ambassadors, Olympian Cathy Freeman and Commonwealth gold medallist John Steffensen;
- the second annual Qantas AFL Kickstart Camp, which assists the development of young Indigenous players from remote areas; and
- swimming clinics conducted by Olympian and Qantas Ambassador Kieren Perkins in a number of regional locations including Coffs Harbour, Broome, Launceston, Mildura and Bundaberg.

Each year, Qantas operates special flights to raise money for charities. The Annual Pathfinders charity flight raised over $65,000 for the Royal Institute for Deaf and Blind Children, while more than $100,000 was raised for the Victoria's Royal Children's Hospital Annual Good Friday Appeal.

Change for Good

Now in its 16th year, the Change for Good partnership with Qantas' global charity partner, UNICEF, has raised more than $16 million for children in more than 150 developing countries. More than $2.1 million was collected through passenger donations in 2006.

In 2006/07, UNICEF projects supported by Change for Good included:

- provision of emergency aid to children affected by the earthquake in Java and conflict in Timor-Leste, Lebanon and Ethiopia;
- support for children affected by HIV/AIDS in Zambia and Zimbabwe; and
- provide water, sanitation and education for children in Cambodia.

Workplace Giving Program

In August 2006, the Qantas Group introduced a Workplace Giving program as a simple and tax-effective way for Qantas employees to make regular donations to any of 47 nominated groups or to their own preferred charity. Groups supported by this initiative include Amnesty International, Australian Red Cross, Australian Youth Orchestra, The Cancer Council, Clean Up Australia, The Garvan Institute, Guide Dogs, Oxfam Australia, Police and Community Youth Clubs, the Salvation Army and the Save the Children Fund.

Spirit of Youth Awards

The Qantas Spirit of Youth Awards (SOYA) recognise and support Australia's young creative talent. More than 40,000 young Australians submitted entries in 2006 in the areas of industrial design, photography, pictures, music, dance, writing, moving pictures and fashion design. SOYA winners receive $5,000 cash and $5,000 in airfares to pursue their dreams as well as mentoring from some of Australia's best known creative talent. The annual awards are run in conjunction with the Australian Government's Noise Festival.

Jetstar

Since its foundation, Jetstar has steadily increased its contribution to various community, social and sporting organisations.

In 2006/07, these included the launch of *StarKids*, a joint initiative between Jetstar and World Vision Australia, with a commitment to raise $3 million to support World Vision community-based projects in key Jetstar international destinations such as Indonesia, Thailand and Vietnam, as well as domestic projects in Australia.

Athletics

The Qantas Athletics Experience program gives children of Frequent Flyers the chance to win an atheletics clinic with Cathy Freeman and John Steffensen.

Jetstar supported *A Helping Hand*, a special assistance program that provided 100 return flights for drought-stricken Australian farming families to holiday in New Zealand.

The airline was the inaugural major sponsor of the new National Rugby League team, the Jetstar Gold Coast Titans and is also community support partner of AFL matches held in Tasmania and corporate support partner of the AFL's Geelong Football Club and its football volunteer program.

Jetstar also continued its well established partnership with the Tasmanian Symphony Orchestra to support its school education program.

Sponsorships

As part of its naming rights sponsorship of the Qantas Socceroos, the airline was involved in the team's return from the 2006 FIFA World Cup and hosted homecoming events in Brisbane and Sydney. Qantas also organised a joy flight in October 2006, where Qantas Socceroos stars spent time with children from Sharing the Spirit charities.

Qantas' flying tribute to the Qantas Wallabies, a specially painted B767-300, took to the air for the first time in May 2007. The green and gold aircraft features the Qantas kangaroo wearing a Wallabies scarf.

Sporting bodies and events supported in 2006/07 included: the Australian Football League; the Australian Olympic Committee; the Australian Rugby Union; Football Federation Australia; the Australian Open Tennis Championships; and the Formula 1 Australian Grand Prix.

On a national level, Qantas supports the following arts organisations: the Australian Ballet; the Australian Chamber Orchestra; the Australian Youth Orchestra; Bangarra Dance Theatre; Bell Shakespeare Company; Opera Australia; the Sydney Dance Company; and Tropfest.

Assistance is also given at State and regional levels, with partnerships including: the Art Gallery of New South Wales; Canberra Symphony Orchestra; the Queensland Performing Arts Centre; and the Sydney Theatre Company.

Qantas also supports many community and charitable organisations, including: Clean Up Australia and Clean Up the World; Landcare Australia; National Australia Day Council; National Breast Cancer Foundation of Australia; and the Prime Minister's Disability Awards.

Community Assistance

Qantas was involved in a number of unique initiatives supporting community and arts organisations during the year.

- Qantas is establishing a major State-based art scholarship program with proceeds from an auction of selected works from the Qantas art collection held in May 2007.
- In March 2007, in celebration of the 75th Anniversary of Sydney Harbour Bridge, a special joy flight was organised for members of the public and families from Sharing the Spirit charities.
- In May 2007, Qantas flew more than 80 Reconciliation Australia guests to Canberra to attend commemorative events associated with the 40th anniversary of the 1967 referendum. The airline's painted B737-800 aircraft, Yananyi Dreaming, was operated by a predominantly Indigenous crew.
- In May 2007, Qantas became the first major corporate partner to support World Youth Day 2008. The event, which will be held in Sydney in July 2008, is expected to attract over 100,000 overseas visitors and marks the first visit to Australia of His Holiness Pope Benedict XVI.

Support in Times of Crisis

Qantas' history of assistance in times of emergency goes back decades, with recent efforts including support for relief efforts following the December 2004 Asian tsunami, the Bali bombings of October 2002 and December 2005, the October 2005 Pakistani earthquake, and Cyclone Larry in Far North Queensland in March 2006.

In July 2006, Qantas supported the Department of Foreign Affairs and Trade in its efforts to evacuate Australians caught in Lebanon's war zones and provided seats for people potentially stranded by the business failures of Air Paradise and OzJet.

Clean Up

Clean Up Australia Day is one of the world's most successful community based environmental programs. Qantas has been a major sponsor for over 10 years.

Sponsorships

Qantas supports various sporting and arts organisations including the Bangarra Dance Theatre.

Environment

Qantas plans to save two million tonnes of carbon dioxide emissions by June 2011.

Qantas acknowledges that air transport is growing faster than any other transport sector and that, as a visible producer of greenhouse gases, aviation has a high profile in the climate change debate.

Qantas seeks to grow its business in a sustainable manner. As a result, the increase in total carbon dioxide emissions is due to business growth, not inefficiency. Savings in emissions can be measured against 2004/05 aircraft consumption rates.

In the year, Qantas achieved savings of more than 280,000 tonnes, of which 130,000 tonnes related to specific initiatives to improve operational fuel efficiency. Further initiatives are being put in place to achieve cumulative savings of two million tonnes by June 2011. By this time, annual emissions will have been reduced by 870,000 tonnes, compared to 2004/05 aircraft consumption rates. This will result from entry into service of new fuel efficient aircraft as well as other fuel conservation activities.

There is no practical alternative to air transport. While aviation contributes between two and three per cent of carbon dioxide emissions globally, it generates eight per cent of world economic activity. It facilitates business, delivers goods to market, delivers tourists to their destinations and reunites families and friends. Aviation is also a fundamental facilitator of tourism in Australia, an industry that supports more than half a million Australian jobs and generates in excess of $81 billion to the nation's economy.

Qantas is committed to actively manage its operations and growth in a sustainable manner and to reducing its environmental impact, while balancing the concerns and interests of all its stakeholders. Actions to mitigate one environmental impact may have an adverse effect on other areas and it may require more than one attempt to achieve the perfect balance. For example, the most fuel efficient flight path may decrease carbon dioxide emissions but may increase the number of people exposed to aircraft noise. Qantas applies a co-ordinated sustainable development approach as a key element of risk management.

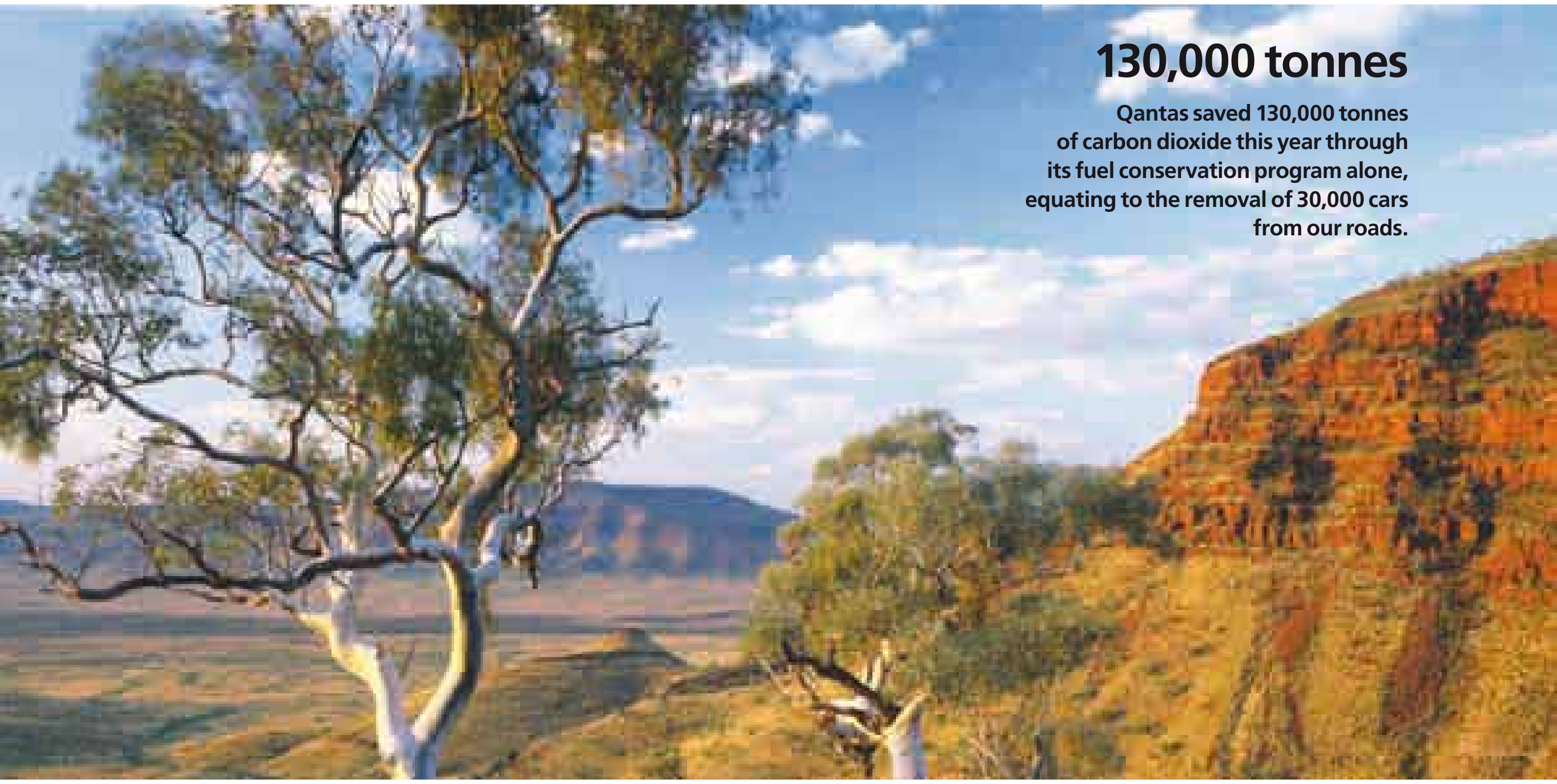
“Qantas is committed to actively manage its operations and growth in a sustainable manner and to reducing its environmental impact, while balancing the concerns and interests of all stakeholders.”

Efficiency and Technology

Over 95 per cent of Qantas Group emissions come from aircraft fuel consumed as part of normal operations. Any initiative to improve fuel efficiency will therefore directly reduce the volume of emissions produced. To date, many initiatives have been implemented to drive improvements in fuel efficiency.

Qantas is a world leader in the development and application of technological innovation and recognises the importance of new technology in driving improvements in fuel efficiency.

As part of its business strategy, the Qantas Group is making a multi-billion dollar investment in new aircraft to take advantage of the latest airframe and engine designs, which provide significant improvements in fuel efficiency and noise. For example, both the B787 and A380 will deliver improved fuel efficiency and reduced emissions in the range of 10 to 25 per cent and have significantly smaller noise footprints.



Other initiatives include:

- the establishment of an Environment and Fuel Conservation department in 2005 (Qantas has had a specialist environment group for a number of years);
- the use of Required Navigation Performance procedures that utilise Global Positioning System (GPS) technology to optimise flight approach and departure tracks. This reduces fuel consumption and emissions and improves safety;
- Qantas was instrumental in developing User Preferred Routes across the Pacific. The airline has been able to efficiently plan aircraft operations along flexible routes that adjust each day to make best use of higher-level wind patterns. These enhanced flight paths have reduced flight times and associated fuel consumption; and
- Variable Cost Index Flight Planning ensures that aircraft are operated at optimal speed, based on daily variations in wind, temperature and weight, to maximise efficiency and reduce fuel burn and emissions.

Carbon Offset Program

The Qantas Group has been working towards greener operations for some years. More can be done and a program to take the Group to the next level of environmental management will be launched later in 2007.

An important component of this launch will be a carbon offset program which has been rigorously assessed and accredited by the Australian Greenhouse Office's *Greenhouse Friendly Program*™. Under the program, Qantas and Jetstar passengers can choose to offset their share of flight emissions with all contributions going towards Australian Government approved carbon abatement programs. Qantas and Jetstar will also use the program to offset the emissions generated by staff work travel and ground transport operations.

To launch the program, the Group will fund a *Fly Carbon Neutral Day* and offset the emissions from all of its international and domestic flights over a 24 hour period.

This program is only one part of Qantas' overall strategy to mitigate its climate change impact which includes further conservation strategies relating to energy, water, and waste minimisation in all areas of the operation – inflight and on the ground.

Air Traffic Management

Improvements in air traffic management have the potential to deliver large operational benefits to air transport. Qantas is working closely with air service providers and air traffic control authorities, in Australia and around the world, to establish new navigational routes, approach paths and airborne holding procedures that will reduce flight times. These improvements promise to significantly improve fuel efficiency and reduce related emissions.

New Fuel Types

It is essential that technology is developed to provide alternative fuels that are both commercially viable for air transport and environmentally sustainable. While an alternative to jet fuel is still considered to be over a decade away, Qantas continues to encourage airframe and engine manufacturers to produce more efficient and environmentally friendly aircraft over the long term and to lobby the fuel supply industry and governments to provide the necessary support for research and development.

Significant issues exist for aviation with both synthetic and bio fuels. Manufacturing processes for current synthetic fuels emit large quantities of carbon dioxide and the fuel itself has less than optimal lubricating properties when compared to standard jet fuel. This can adversely impact fuel lines and seals. Bio fuels have poor thermal stability (they can freeze at around zero degrees centigrade) and lower energy output. They also require large amounts of arable land and water for their production and have the potential to impact on the price of standard food crops, which have to compete for that land.

Such alternative fuels promise to deliver the greatest environmental benefits to the aviation industry, however, significant technology breakthroughs are required.

Airline Industry Emissions Target

IATA has set an aspirational target of zero emissions by 2050. This target will be achieved by working with the industry to improve airspace efficiency and employing new technology, which incorporates onboard, engine and airframe advancement. Collaboration among airlines, manufacturers and government to focus efforts on development of sustainable alternative fuels will be essential to achieve this target.

70 per cent emissions reduction

Through new aircraft technology emissions per passenger kilometre have decreased by 70 per cent over the past 40 years, with a 20 per cent increase in fuel efficiency in the last decade alone.

Fleet

The technological advancement associated with the design of new aircraft like the A380 and B787 has helped airlines like Qantas deliver world class products.

Fleet Strategy

Qantas has always selected its aircraft from the most technologically advanced models available, taking into consideration key factors such as safety, passenger comfort, cost, and fuel consumption and matching them to customer requirements and network demands. Environmental performance, including fuel and noise emissions, has also become a key consideration in the Group's fleet strategy.

Qantas spends around $2 billion each year on new aircraft and currently has on order aircraft worth around $25 billion (at list prices). More than 100 new aircraft are scheduled for delivery from late 2007.

The next generation A380 and B787 being delivered from 2007/08 remain central to the future of the Group's flying businesses. Both types, including the variants of the B787, were carefully assessed to ensure they matched the specific performance, market and route requirements of both Qantas and Jetstar.

They will provide step change improvements in terms of fuel efficiency compared to currently available aircraft of similar size.

Fleet Milestones

A number of strategic fleet acquisition decisions were made during the year.

In October 2006, Qantas announced it intended to acquire eight additional A380s, six additional A330-200s for delivery from December 2007 and five additional B737-800s for delivery from February 2008.

In January 2007, QantasLink announced the purchase of two additional Bombardier Q400 aircraft to be delivered in January 2008, boosting the Group's Q400 fleet from seven to nine. On sectors such as Sydney to Canberra, the Q400 delivers 30 per cent fuel efficiency gains and emission reductions per passenger compared to regional jet aircraft of similar size.

In March 2007, Qantas announced it would acquire nine additional A320 aircraft for delivery over a 15-month period from late 2007, enabling Jetstar to grow on popular leisure routes such as Cairns, the Gold Coast, Perth and the Northern Territory and look at new destinations within Australia.

In a further boost to Group domestic capacity, four Qantas B767-300 international aircraft are being transferred to domestic operations.

QantasLink also announced in March 2007 the expansion of its B717-200 fleet from eight to 11 aircraft for operation on regional routes in Western Australia, the Northern Territory and North Queensland from August 2007.

In July 2007, Qantas announced that it would increase its B787 commitment by 20 to 65 firm orders for delivery from July 2008.

A380

Qantas will take delivery of its 20 A380 aircraft between August 2008 and 2013.

As well as providing vital capacity into constrained airports such as Los Angeles and London, the world's biggest passenger aircraft will showcase the future of Qantas' long-haul flying, with new First, Business, Premium Economy and Economy cabins. Marc Newson has been involved in every detail of the Qantas A380's cabin design with the focus on personal space and contemporary style.

The A380 will offer:

- advanced materials and aerodynamics;
- the most spacious cabins;
- a 10–12 per cent reduction in fuel consumption per passenger compared to the B747; and
- a substantially decreased noise footprint.

Following the A380's highly successful visit to Australia in November 2005 as part of Qantas' 75th anniversary celebrations, the airline worked closely with Airbus to bring the A380 to Sydney again in June 2007, where it operated the first passenger flight of the aircraft in Australia. This followed the A380's maiden visit to the United States in March 2007.

Renewing the fleet

The Qantas Group has more than 100 new aircraft currently on order, with a value of more than $25 billion.

World class

Qantas Engineering's world class facilities include the Rolls Royce Centre of Excellence, which provides Qantas with a specialised facility for the maintenance of its Rolls Royce engines.

B787

The choice of the B787 followed a detailed examination of every aspect of the aircraft's design. The Group's B787 commitment extends to up to 115 aircraft, including 65 firm orders, 20 options and purchase rights for a further 30. The mix of B787-8s and B787-9s will cater for international capacity growth, new routes and replacement over time of the Group's existing B767-300 fleet.

The first 15 B787-8s will be operated by Jetstar on international routes from the second half of 2008, with Qantas scheduled to begin operating the aircraft in March 2011. The first B787-9 will be delivered in 2011.

The B787 will offer:

- a leading-edge airframe design that includes significant amounts of lightweight composite carbon fibre and plastic materials;
- a 25 per cent reduction in fuel consumption per passenger compared to the B767;
- greater range capability, enabling Jetstar and Qantas to fly more point-to-point services without the need to operate over hubs; and
- improved freight capacity.

The fleet will be powered by General Electric GEnx engines which will deliver significant operational and environmental benefits including 25 per cent fuel efficiency and emission gains, 40 per cent reduction in nitrous oxides and a 50 per cent smaller noise footprint than current technology engines.

Fleet Renewal

At 30 June 2007, the Qantas Group operated a fleet of 213 passenger aircraft and three freighter aircraft.

The following aircraft were brought into service during 2006/07:

- three Bombardier Q400s; and
- three B737-300SF freighter aircraft (converted from former Qantas B737-300 passenger aircraft).

Between 30 June 2007 and 30 September 2007, an additional two A330-200 aircraft will also enter into service.

The following aircraft were retired during 2006/07:

- one B747-300;
- two British Aerospace 146-300s; and
- three B737-300 passenger aircraft (converted to B737-300SF freighter aircraft).

Operational Passenger Aircraft Fleet (as at 30 June 2007)

Qantas Group

Aircraft Type	Owned, HP & Finance	Other Operating Leases	Total in Service
Boeing 747-400ER	6	–	6
Boeing 747-400	20	4	24
Boeing 747-300 [1]	4	–	4
Boeing 767-300ER	19	10	29
Boeing 737-800	24	9	33
Boeing 737-400	21	–	21
Boeing 737-300 [2]	6	–	6
Airbus A330-200 [3]	4	–	4
Airbus A330-300	10	–	10
Airbus A320 [3]	–	24	24
Boeing 717-200 [4]	–	14	14
Bombardier Dash 8 100/200/300 (including Q series)	31	–	31
Bombardier Q400	7	–	7
Total	**152**	**61**	**213**

1 excludes one aircraft that is not in operational service.
2 includes one aircraft that is in the process of being converted to a freighter.
3 operated by Jetstar, including wet leased A320 aircraft from Jetstar Asia.
4 includes three aircraft that are not in operational service.

A380

The A380 will provide new levels of innovation, comfort and space, as well as meeting Qantas payload and range requirements and delivering significant improvements in environmental performance.

Safety

Air transport is recognised as the safest mode of transport and Qantas' reputation is built on its flight safety record. Safety is integral to Qantas' DNA and is a core value across the business.

The Qantas Group has a strong history of investment in flight safety technology. Qantas utilises GPS technology to provide pilots with enhanced three dimensional guidance when operating into a range of airports.

Data from inflight operations and ground activities is rigorously analysed and procedures or training are modified to address potential safety hazards. In addition, Qantas training programs apply the latest techniques for managing human error in areas such as engineering, flight operations and cabin crew.

Qantas' safety systems were recently reviewed by the International Air Transport Association (IATA), with the airline achieving the organisation's Operational Safety Audit certification.

Qantas Group businesses operate a formal Integrated Safety Management System (ISMS), which integrates all aspects of operational safety, occupational health and safety (OHS) and the environment, ensuring at a minimum, compliance with all legislation.

A key component of any safety management program is the willingness of staff to report all incidents that could affect operational safety, no matter how minor. The ability to do this without fear of retribution is a major factor in Qantas' strong safety culture. Our people understand how preventing 'minor' and 'low risk' incidents is the key to preventing more serious events.

Inflight Health

Qantas places a very high priority on customer and employee health, safety and wellbeing, both pre-flight and inflight. To ensure the highest level of inflight medical care possible:

- Qantas aircraft have satellite links to specialist physicians in case of an inflight medical emergency. As a foundation customer, Qantas contributed to setting a global standard for this service;
- the airline was one of the first international carriers to install defibrillators on its aircraft, allowing fast assistance for passengers who have had a cardiac arrest. Defibrillators are also available on Jetstar's A330 international fleet; and
- aircraft air filtration systems provide air quality to the standard of a hospital operating theatre.

Qantas is ready to respond to government directives with respect to the outbreak of infectious diseases and maintains the most up to date knowledge and practice based on advice from the World Health Organization, Centre of Disease Control and the Australian Government on pandemic influenza.

Occupational Health and Safety

Qantas has progressively developed and implemented a comprehensive suite of OHS programs, with the aim of bringing safety on the ground to the same high standard as in the air. The OHS programs within the ISMS are called **be safe!** and they have driven a Group-wide performance and cultural transformation. A systems approach, coupled with behavioural safety, the management of alcohol and other drugs and fatigue, and general health and wellbeing improvements, have been instrumental to the success of the program. **be safe!** also governs the design and management of facilities and equipment and extends to contractors and other suppliers. The program has prevented thousands of injuries and related suffering as well as contributed to increased productivity and a reduction in operating costs.

Flight safety monitoring

Qantas aircraft are fitted with recorders that continuously monitor aircraft operation. Data from each flight is rigorously analysed to proactively identify potential safety hazards.

The key measure of **be safe!**, and its goal of 'no injuries to anyone at any time' is the Lost Time Injury Frequency Rate (LTIFR). The Qantas Group has reduced this rate by 80 per cent over the last five years through:

- management leadership;
- implementation of strategic and operational OHS business plans through a hierarchy of safety committees;
- regular performance reporting triggering revision of actions;
- recommitting individuals to safe work practices by dedicating one week annually (Safety Week) to overt and public safety activities, talks and presentations, news articles, e-mails and posters;
- recognition of individual employees who demonstrate exceptional safety performance; and
- including an LTIFR reduction target in senior management performance remuneration.

A further 20 per cent reduction in LTIFR is targeted in 2007/08.

Qantas is leading the aviation industry in Australia with its comprehensive Alcohol and Other Drugs Program and its focus on education, treatment and counselling. Testing is undertaken following an incident, pre-employment for safety sensitive positions or on reasonable suspicion of a breach. The Program will be extended to adopt a random testing regime once government regulations are in place to support it. The Qantas Alcohol and Other Drugs Program has played a role in reducing workplace accidents and improving productivity. Positive behavioural change has been demonstrated by a steady improvement in post-incident test outcomes since the introduction of the Program.

Qantas looks forward to the Australian Government's introduction of mandatory/random testing for all safety sensitive roles in the aviation industry.

Security

Qantas has been at the forefront of aviation security for many years and continues to invest in equipment, training and technology to provide the most appropriate security for passengers, staff, aircraft and facilities.

Aviation security is a very dynamic area, and Qantas is continually upgrading and modifying procedures to meet changing circumstances as they arise. In doing so, Qantas provides protection to our passengers, staff, aircraft and facilities in a sustainable manner.

Governments and their respective security services take primary responsibility for threat assessment and national security. Qantas is responsible for the security of its operations and maintains a proactive and constructive dialogue with these bodies, enabling prompt response to changes in threat levels. In the spirit of co-operation, Qantas also makes available its experience and expertise to the process of setting sustainable global and national aviation security policy.

The Group's security measures include:

- passenger and baggage screening facilities including the use of x-ray and explosive trace detection equipment and additional security services for the monitoring of liquids, aerosols and gels carried on board an aircraft;
- reinforced doors at the flight deck entrance; and
- closed circuit television facilities at airports and other Qantas facilities.

To complete this program, Group employees are subject to regular security checks, as are contractors and other third party suppliers who work within secure areas.

In addition, Qantas works closely with aircraft manufacturers to design and build aircraft with security in mind. This will assist manufacturers incorporate the latest in security technology at manufacture, thus enhancing the suite of security measures available to Qantas.

1 Margaret Jackson, AC
Chairman, Independent Non-Executive Director

Margaret Jackson was appointed to the Qantas Board in July 1992 and as Chairman in August 2000. Ms Jackson also Chairs the Qantas Nominations Committee.

Ms Jackson is a Director of Australia and New Zealand Banking Group Limited and Billabong International Limited. She is also Chairman of Flexigroup Limited and a Director of the Florey Neuroscience Institutes. Ms Jackson is a Member of the Business Council of Australia Chairman's Panel, a Fellow of The Institute of Chartered Accountants in Australia and a Member of the Foreign Affairs Council. In addition, she is an Executive Committee Member of the Australia Japan Business Co-operation Committee.

Ms Jackson was a Partner of KPMG Peat Marwick's Management Consulting Division and the National Chairman of the KPMG Micro Economic Reform Group until 30 June 1992.

Ms Jackson was formerly Chairman of Victoria's Transport Accident Commission, Deputy Chairman of Southcorp Limited and a Director of John Fairfax Holdings Limited, ANZ Grindlays Bank Limited, The Broken Hill Proprietary Company Limited, Pacific Dunlop Limited, Telecom Australia and the Australian Wool Corporation.

Ms Jackson holds a MBA (with Distinction) from Melbourne University.

In 2003, Ms Jackson was made a Companion of the Order of Australia.

Age: 54

2 Geoff Dixon
Chief Executive Officer

Geoff Dixon was appointed Chief Executive Officer and Managing Director of Qantas in March 2001. He was Chief Executive Designate from November 2000, after serving as Deputy Chief Executive Officer since November 1998. He was appointed to the Qantas Board in August 2000.

Mr Dixon is a Member of the Qantas Safety, Environment & Security Committee and is Chairman of a number of controlled entities of the Qantas Group.

Mr Dixon is a Director of Publishing and Broadcasting Limited and Air Pacific Limited. He was formerly a Director of Leighton Holdings Limited.

Mr Dixon joined Qantas in 1994 and has had responsibility in the airline for all commercial activities, including worldwide sales and marketing, network development, revenue management, fleet planning, cabin crew, customer service, product development and airline alliances.

Before joining Qantas, Mr Dixon was Director of Marketing and Industry Sales at Ansett Australia and General Manager of Marketing and Corporate Affairs at Australian Airlines. He has also worked in the Mining and Media Industries.

Mr Dixon is on the Governing Board of IATA, the Board of the Business Council of Australia and is a Member of the International Marketing Institute of Australia.

Age: 67

3 Peter Gregg
Chief Financial Officer and Executive General Manager Strategy

Peter Gregg was appointed Chief Financial Officer and to the Qantas Board in September 2000.

He is Chairman of the Singapore-based company, Orangestar Investment Holdings Pte Limited and is a Director of a number of controlled entities and associated companies of the Qantas Group.

Mr Gregg is a Director of Leighton Holdings Limited and Stanwell Corporation Limited. He was formerly a Director of Air Pacific Limited.

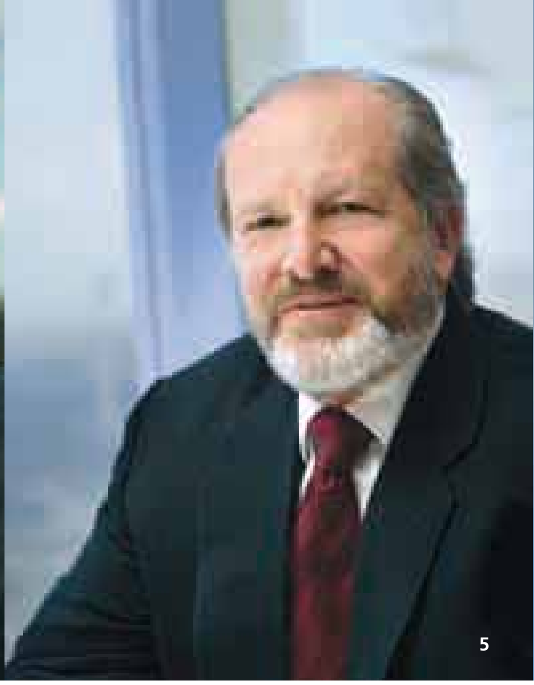
He was also actively involved in the privatisation of Qantas. Mr Gregg is responsible for Group Finance, Investor Relations, Strategy, Economics, IT Services, Shared Services and Strategic Procurement.

Previously Mr Gregg was the Deputy Chief Financial Officer and Group Treasurer at Qantas. He was also Treasurer Australian Airlines and has worked for the Queensland Government in various risk management roles.

He is a Fellow of the Finance and Treasury Association, a Member of the Australian Institute of Company Directors and holds a Bachelor of Economics.

Age: 52

Board of Directors



4 Leigh Clifford
Chairman-elect, Independent Non-Executive Director

Leigh Clifford was appointed to the Qantas Board on 9 August 2007.

Mr Clifford will succeed Margaret Jackson as Chairman following her retirement at the conclusion of the Qantas AGM on 14 November 2007.

Mr Clifford is a Director of Barclays Bank plc, a Member of the Bechtel Board of Counselors and Chairman of the International Council of Mining and Metals.

Mr Clifford was most recently Chief Executive of Rio Tinto plc from April 2000 to April 2007. He stepped down from the Board of Rio Tinto on 30 April 2007 after serving as a Director of Rio Tinto plc and Rio Tinto Limited for 13 and 12 years respectively. His executive and board career with Rio Tinto has spanned some 37 years, including a wide variety of operational and marketing roles in the coal and metalliferous operations of the Rio Tinto Group in Australia and overseas.

Mr Clifford was formerly a Member of the Coal Industry Advisory Board of the International Energy Agency for a number of years and its Chairman from 1998 to 2000. He was previously a Director of New Orleans-based Freeport-McMoRan Copper & Gold Inc.

Mr Clifford holds a Bachelor of Engineering and a Master of Engineering Science from the University of Melbourne.

Age: 60

5 Paul Anderson
Independent Non-Executive Director

Paul Anderson was appointed to the Qantas Board in September 2002.

He is a Member of the Qantas Remuneration Committee.

Mr Anderson is a Director of BHP Billiton Limited, Chairman of Spectra Energy Corporation, a Global Counsellor for The Conference Board and a Member of the US President's Council of Advisors on Science and Technology.

Mr Anderson most recently served as Chairman and Chief Executive Officer of Duke Energy Corporation and as a Director of US-based Temple Inland Inc and Fluor Corporation. He was the Chief Executive Officer of BHP Billiton Limited and its predecessor, The Broken Hill Proprietary Company Limited from 1998 to 2002.

Mr Anderson was previously the President and Chief Operating Officer of Duke Energy Corporation. He was President, Chairman and Chief Executive Officer of PanEnergy Corporation and Chief Financial Officer of Inland Steel Industries. Mr Anderson was a Director of Kerr-McGee Corporation, Baker Hughes Incorporated, TEPPCO Partners, LP and Petrolane Partners.

Mr Anderson holds a Bachelor of Science in Mechanical Engineering. He also holds a MBA from Stanford Graduate School of Business.

Age: 62

6 Mike Codd, AC
Independent Non-Executive Director

Mike Codd was appointed to the Qantas Board in January 1992.

He is Chairman of the Qantas Safety, Environment & Security Committee and a Member of the Qantas Audit Committee.

Mr Codd is the Chancellor of the University of Wollongong. He is a Director of the Wealth Management Companies of the National Australia Bank and of INGEUS Ltd.

He was Deputy Chairman of the Australian Nuclear Science and Technology Organisation (ANSTO) and the Menzies Foundation. Mr Codd was a Director of Telstra, IBM Australia and CitiPower Ltd. He was also a Member of the Advisory Boards of Spencer Stuart and Blake Dawson Waldron.

From 1981 to 1986, Mr Codd held senior positions in the Commonwealth Government, as Secretary of the Department of Employment and Industrial Relations, Chairman of the Industries Assistance Commission and Secretary of the Department of Community Services.

From 1986 to 1991, Mr Codd held the position of Head of Department of the Prime Minister and Cabinet, and Secretary to Cabinet.

Mr Codd holds a Bachelor of Economics (Honours).

In 1991, Mr Codd was made a Companion of the Order of Australia.

Age: 67

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7 General Peter Cosgrove, AC, MC
Independent Non-Executive Director

Peter Cosgrove was appointed to the Qantas Board in July 2005.

He is a Member of the Qantas Safety, Environment & Security Committee.

General Cosgrove is Vice-Chairman of the Australian Rugby Union and a Director of Cardno Limited. He is a consultant to Deloitte Touche Tohmatsu and is a Member of the Australian Institute of Company Directors. General Cosgrove is also Chairman of the South Australian Defence Industry Advisory Board and a Member of the Australian War Memorial Council.

General Cosgrove served in the Australian Army from 1965 and was the Chief of the Australian Defence Force from July 2002 until his retirement in July 2005.

He was in command of the international forces in East Timor from 1999 until the force was withdrawn in February 2000, for which General Cosgrove was appointed a Companion of the Military Division of the Order of Australia.

He was awarded the Military Cross for his service in Vietnam early in his career and has received several foreign awards including the Companion of the New Zealand Order of Merit (CNZM), Commander of the United States Legion of Merit, the Republic of Singapore's Distinguished Service Order and France's Legion D'Honneur.

General Cosgrove was Australian of the Year in 2001.

Age: 60

8 Patricia Cross
Independent Non-Executive Director

Patricia Cross was appointed to the Qantas Board in January 2004.

She is a Member of the Qantas Audit Committee and the Qantas Remuneration Committee.

Mrs Cross is a Director of Wesfarmers Limited, National Australia Bank Limited and the Murdoch Children's Research Institute.

She is also a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Management and a Fellow of the Finance and Treasury Association.

Mrs Cross was previously Chairman of Qantas Superannuation Limited and Deputy Chairman of Victoria's Transport Accident Commission. She was a Director of AMP Limited and Suncorp-Metway Limited. Mrs Cross was a Member of the Financial Sector Advisory Council, the Companies and Securities Advisory Committee, the Merrill Lynch Australasia Advisory Board and an Advisory Member of the Deloitte Touche Board of Partners. She has also served on a variety of not for profit boards.

Prior to becoming a professional company director in 1996, Mrs Cross held various senior executive positions with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank in New York, Europe and Australia.

Mrs Cross holds a Bachelor of Science (Honours), from Georgetown University.

In 2003, Mrs Cross received a Centenary Medal for service to Australian society through the finance industry.

Age: 48

9 Garry Hounsell
Independent Non-Executive Director

Garry Hounsell was appointed to the Qantas Board in January 2005.

He is Chairman of the Qantas Audit Committee and was appointed as a Member of the Qantas Nominations Committee on 18 July 2007.

Mr Hounsell is currently a Director of Orica Limited and Nufarm Limited. Mr Hounsell is also Deputy Chairman of Mitchell Communication Group Limited and a consultant to Investec Bank (Australia) Ltd.

He is a Director of The Macfarlane Burnet Institute for Medical Research and Public Health Ltd. He is also Fellow of The Institute of Chartered Accountants in Australia, a Certified Practicing Accountant and a Fellow of the Australian Institute of Company Directors.

Mr Hounsell is a former Senior Partner of Ernst & Young and Chief Executive Officer and Country Managing Partner of Arthur Andersen.

He holds a Bachelor of Business (Accounting).

Age: 52

10 James Packer
Independent Non-Executive Director

James Packer was appointed to the Qantas Board in March 2004.

Mr Packer has been Executive Chairman of Publishing and Broadcasting Limited since May 1998 and prior to that he was the Chief Executive Officer from March 1996 to May 1998.

Mr Packer is Executive Chairman of Consolidated Press Holdings Limited. He is also Non-Executive Chairman of SEEK Limited, a Director of Challenger Financial Services Group Limited and Sunland Group Limited.

Age: 39

11 Dr John Schubert
Independent Non-Executive Director

John Schubert, BE, PhD, FIEAust, CPEng, FTS, FIChemE, was appointed to the Qantas Board in October 2000.

He is a Member of the Qantas Safety, Environment & Security Committee and the Qantas Nominations Committee.

Dr Schubert is Chairman of the Commonwealth Bank of Australia and a Director of BHP Billiton Limited. He is also Chairman of G2 Therapies Limited and the Great Barrier Reef Research Foundation. Dr Schubert is a Member of the Business Council of Australia.

Dr Schubert commenced his career with Esso Australia Ltd as a professional engineer and held various positions with Esso in Australia and overseas. In 1983 he was appointed to the Board of Esso Australia. In 1985, Dr Schubert became Esso's Deputy Managing Director and in 1988 he became Esso's Chairman and Managing Director.

Dr Schubert was Managing Director and Chief Executive Officer of Pioneer International Limited from 1993 until 2000. From 2001 to 2003 he was the President of the Business Council of Australia. He was also previously Chairman of Worley Parsons Limited.

Age: 64

12 James Strong, AO
Independent Non-Executive Director

James Strong was appointed to the Qantas Board on 1 July 2006.

He is Chairman of the Qantas Remuneration Committee.

Mr Strong was previously the Chief Executive Officer and Managing Director of Qantas between 1993 and March 2001, following an appointment to the Board in 1991.

He is Chairman of Woolworths Limited, Insurance Australia Group Limited (IAG), IAG Finance (New Zealand) Limited, Rip Curl Group Pty Ltd and the Australia Council for the Arts. He is also involved in other arts and private organisations.

Mr Strong was formerly the Group Chief Executive of the DB Group in New Zealand and National Chairman of Partners of Corrs Chambers Westgarth. He was also Chief Executive Officer of Australian Airlines from December 1985 until September 1989. He has been admitted as a barrister and/or solicitor in various state jurisdictions in Australia.

In 2006 Mr Strong was made an Officer of the Order of Australia.

Age: 63

Executive Team

Geoff Dixon
Chief Executive Officer

Peter Gregg
Chief Financial Officer and Executive General Manager Strategy

John Borghetti
Executive General Manager Qantas

Kevin Brown
Executive General Manager People

David Cox
Executive General Manager Engineering

Curtis Davies
Executive General Manager Services

Grant Fenn
Executive General Manager Freight Enterprises

David Hawes
Group General Manager Government and International Relations

Simon Hickey
Executive General Manager Loyalty

Brett Johnson
General Counsel

Alan Joyce
Chief Executive Officer Jetstar

Rob Kella
Chief Risk Officer

Colin Storrie
Deputy Chief Financial Officer

2007 Corporate Governance Statement

Overview

Corporate Governance is core to ensuring the creation, protection and enhancement of shareholder value. The Board maintains, and ensures that Qantas management maintains, the highest level of corporate ethics. The Board comprises a majority of Independent Non-Executive Directors who, together with the Executive Directors, have extensive commercial experience and bring independence, accountability and judgment to the Board's deliberations to ensure maximum benefit to stakeholders including shareholders, customers, suppliers, employees, government regulators and members of communities where Qantas operates.

The Qantas Board endorses the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles).

The Board Lays Solid Foundations for Management and Oversight

The Board has adopted a formal Charter. A copy of the Board Charter is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance).

The Board is responsible for:

- promoting ethical and responsible decision-making;
- ensuring compliance with laws, tax obligations, regulations, appropriate accounting standards and corporate policies (including the Qantas Code of Conduct and Ethics);
- setting and reviewing strategic direction and approving the annual operating budget;
- overseeing the Qantas Group, including its control and accountability systems;
- monitoring the operating and financial performance of the Qantas Group;
- approving and monitoring major capital expenditure programs;
- appointment and removal of the Chief Executive Officer and Chief Financial Officer;
- monitoring the performance of the Chief Executive Officer, Chief Financial Officer and Executive Management;
- ensuring a clear relationship between performance and executive remuneration;
- monitoring risk management;
- ensuring that the market and shareholders are fully informed of material developments; and
- recognising the legitimate interests of stakeholders.

Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Board Meetings

The Board holds nine formal Meetings a year. Additional Meetings are held as required. A two-day Meeting is held in May to review and approve the strategy and financial plan for the next financial year. The Board also meets with senior management to consider matters of strategic importance to Qantas.

Details of the Directors, their qualifications, skills and experience are detailed on pages 40 to 43. Attendance at 2006/07 Board and Committee Meetings is detailed on page 54.

Australian Provisions

The Qantas Constitution contains the following provisions required by the Qantas Sale Act to ensure the independence of the Qantas Board and to protect the airline's position as the Australian flag carrier:

- head office must be in Australia;
- two-thirds of the Directors must be Australian citizens;
- Chairman must be an Australian citizen;
- quorum for a Directors' Meeting must include a majority of Directors who are Australian citizens;
- maximum 49 per cent aggregate foreign ownership;
- maximum 35 per cent aggregate foreign airline ownership; and
- maximum 25 per cent ownership by one foreign person.

The Board is Structured to Add Value

Qantas currently has 12 Directors (see details on pages 40 to 43). Ten Directors are Independent Non-Executive Directors elected by shareholders. The Independent Non-Executive Directors are:

Director	Year of Appointment
Margaret Jackson (Chairman)	1992
Paul Anderson	2002
Leigh Clifford	2007
Mike Codd	1992
Peter Cosgrove	2005
Patricia Cross	2004
Garry Hounsell	2005
James Packer	2004
John Schubert	2000
James Strong	2006

Independence

Independent Directors are those who have the ability to exercise their duties unfettered by any business or other relationship and are willing to express their opinions at the Board table free of concern about their position or the position of any third party. The Board does not believe it is possible to draft a list of criteria which are appropriate to characterise, in all circumstances, whether a Non-Executive Director is independent. It is the approach and attitude of each Non-Executive Director which is critical and this must be considered in relation to each Director while taking into account all other relevant factors, which may include whether the Non-Executive Director:

- is a substantial shareholder (within the definition of section 9 of the Corporations Act) of Qantas, or an officer of, or otherwise associated directly with, a substantial shareholder of Qantas;
- has, within the last three years, been employed in an executive capacity by the Qantas Group;
- has, within the last three years, been a principal of a material professional adviser or a material consultant to the Qantas Group or an employee materially associated with the service provided;
- is a material supplier or customer of the Qantas Group, or an officer of or otherwise associated directly or indirectly with, a material supplier or customer;
- has any material contractual relationship with the Qantas Group other than as a Director;
- has served on the Board for a period which could materially interfere with the Director's ability to act in the best interests of the Qantas Group (and it is neither possible nor appropriate to assign a fixed term to this criteria); or
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of Qantas.

The Board Charter requires each Director to immediately disclose to the Board if they have any concerns about their own independence.

All Independent Non-Executive Directors bring a real independent view to the consideration of Board issues.

Qantas believes that the following materiality thresholds are relevant when considering the independence of Non-Executive Directors:

- for Directors:
  - a relationship which accounts for more than 10 per cent of their gross income (other than Director's fees paid by Qantas); or
  - when the relationship is with a firm, company or entity, in respect of which the Director (or any associate) has more than a 20 per cent shareholding if a private company or two per cent shareholding if a listed company; and
- for Qantas:
  - in respect of advisers or consultants – where fees paid exceed $2 million per annum;
  - in respect of suppliers – where goods or services purchased by the Qantas Group exceed $100 million per annum (other than banks, where materiality must be determined on a case by case basis); or
  - in respect of customers – where goods or services supplied by the Qantas Group exceed $100 million per annum.

Qantas, as the principal Australian airline, has commercial relationships with most, if not all, major entities in Australia. As such, in determining whether a Non-Executive Director is independent, simply being a non-executive director on the board of another entity is not, in itself, sufficient to affect independence. Nevertheless, any Director on the board of another entity is ordinarily expected to excuse themselves from any meeting where that entity's commercial relationship with Qantas is directly or indirectly discussed.

Qantas has two Executive Directors, Geoff Dixon (Chief Executive Officer) and Peter Gregg (Chief Financial Officer). These Directors are not treated as independent.

Independent professional advice is available to the Directors if necessary, at the expense of Qantas.

At the 2000 AGM, shareholders approved Qantas entering into Director Protection Deeds with each Director.

Airline Partners Australia (APA) Bid

The Board managed any potential conflicts of interest that may have arisen during the APA bid by establishing strict protocols to govern the interaction between Qantas' Executives and the consortium investors and in the conduct of due diligence. The Board also appointed external financial and legal advisers. In addition, the decision to recommend the bid to Qantas shareholders (in the absence of a superior proposal and subject to the receipt of an Independent Expert's Report concluding that the Bid was fair and reasonable) was one made solely by the Independent Non-Executive Directors. Qantas' Executive Directors did not participate in the Board's consideration of the terms of the proposal or the Bid.

2007 Corporate Governance Statement

Nominations Committee

The Nominations Committee:

- has three Members who are Independent Non-Executive Directors;
- is chaired by Margaret Jackson;
- has a written Charter which is available on the Corporate Governance section of the Qantas website: (http://www.qantas.com.au/info/about/corporateGovernance); and
- assists the Board in fulfilling its Corporate Governance responsibilities in regards to:
  - Board appointments and performance;
  - Directors' induction program;
  - Committee Membership;
  - Executive Management succession planning, appointments and terminations; and
  - other matters referred to the Committee by the Board.

The experience and qualifications of Members of the Nominations Committee are detailed on pages 40 to 43. Membership of and attendance at 2006/07 Nominations Committee Meetings are detailed on page 54.

The Board Promotes Ethical and Responsible Decision-Making

The Board has a formal code of conduct and ethics which deals with:

- compliance with laws and regulations;
- political contributions;
- unacceptable payments;
- giving or receiving gifts;
- protection of Qantas assets;
- proper accounting;
- dealing with auditors;
- unauthorised public statements;
- conflict of interest;
- use of inside information; and
- Qantas Employee Share Trading Policy (Insider Trading).

A copy of the Qantas Code of Conduct and Ethics is available on the Corporate Governance section of the Qantas website: (http://www.qantas.com.au/info/about/corporateGovernance). The Qantas Code of Conduct and Ethics contains the Qantas Employee Share Trading Policy (Insider Trading). The Policy sets guidelines designed to protect Qantas and Qantas employees from intentionally or unintentionally breaching the law. Qantas Employees must not purchase or sell Qantas securities while in possession of material non-public information.

Crime and Corruption Control Policy

A Qantas Crime and Corruption Control Policy was launched in November 2006 to further strengthen the policy framework in the promotion of sound financial, legal and ethical decision making and behaviour. The policy adopts a "zero-tolerance" strategy in relation to crime and corruption and draws together existing prevention, detection, resolution and reporting initiatives adopted by Qantas.

Protected Disclosures

The Qantas Protected Disclosures Policy encourages employees to report concerns in relation to illegal, unethical or improper conduct in circumstances where they may be apprehensive about raising their concern because of fear of possible adverse repercussion. A Qantas Protected Disclosures Committee has been established to manage investigations and report to the Board and Audit Committee. The Policy is available to all Qantas Group employees and is also available on the Corporate Governance section of the Qantas website: (http://www.qantas.com.au/info/about/corporateGovernance).

The Board Safeguards the Integrity of Financial Reporting

As required by section 295A of the Corporations Act, the Chief Executive Officer and Chief Financial Officer have declared that:

"In our opinion:

a. the financial records of Qantas for the year ended 30 June 2007 (Financial Period) have been properly maintained in accordance with section 286 of the Corporations Act;
b. the financial statements and the notes referred to in section 295(3)(b) of the Corporations Act for the Financial Period comply with the accounting standards; and
c. the financial statements and notes for the Financial Period give a true and fair view in accordance with section 297 of the Corporations Act."

In addition, as suggested by Recommendation 4.1 of the Principles, the Chief Executive Officer and Chief Financial Officer state that:

"The Financial Report for the Financial Period presents a true and fair view, in all material respects, of the Qantas Group's financial condition and operational results and is in accordance with relevant accounting standards."

Audit Committee

The Board has an Audit Committee which:

- has three members who are Independent Non-Executive Directors;
- is chaired by Garry Hounsell, an Independent Non-Executive Director who is a Fellow of The Institute of Chartered Accountants in Australia and a Certified Practising Accountant;
- has a written Charter which is available on the Corporate Governance section of the Qantas website: (http://www.qantas.com.au/info/about/corporateGovernance);
- includes Members who are all financially literate; and
- is responsible for monitoring:
  - business risk management (other than the operational risk management issues delegated to the Safety, Environment and Security Committee (SESC));
  - compliance with legal and regulatory obligations (other than the operational compliance obligations monitored by the SESC);
  - compliance by all employees with all policies including the Qantas Code of Conduct and Ethics;
  - the integrity of Qantas' internal control framework;
  - the reliability and integrity of financial information for inclusion in the Financial Report of Qantas;
  - safeguarding the independence of the internal and external auditor; and
  - audit, accounting, financial and tax reporting obligations.

The experience and qualifications of Members of the Audit Committee are detailed on pages 40 to 43. Membership of and attendance at 2006/07 Audit Committee Meetings are detailed on page 54.

The Board and Audit Committee closely monitor the independence of the external auditor. Regular reviews occur of the independence safeguards put in place by the external auditor. As required by section 300(11D)(a) of the Corporations Act and clause 42 of the Audit Committee Charter, the Audit Committee has advised the Board that it is appropriate for the following statement to be included in the 2007 Directors' Report under the heading "Non-Audit Services":

"The Directors are satisfied that:

a. the non-audit services provided during the 2006/07 financial year by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and
b. any non-audit services provided during the 2006/07 financial year by KPMG as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:
   - KPMG services have not involved partners or staff acting in a managerial or decision making capacity within the Qantas Group or been involved in the processing or originating of transactions;
   - KPMG non-audit services have only been provided where Qantas is satisfied that the related function or process will not have a material bearing on the audit procedures;
   - KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes;
   - a description of all non-audit services undertaken by KPMG and the related fees have been reported to the Board to ensure complete transparency in relation to the services provided; and
   - the declaration required by section 307C of the Corporations Act confirming independence has been received from KPMG."

Qantas rotates the lead audit partner every five years and imposes restrictions on the employment of ex-employees of the external auditor.

Policies are in place to restrict the type of non-audit services which can be provided by the external auditor and there is a detailed monthly review of non-audit fees paid to the external auditor.

At each Meeting, the Audit Committee meets privately with management without the external auditor and with the external auditor without management.

The Board Makes Timely and Balanced Disclosure

Qantas has an established process to ensure that it is in compliance with its ASX Listing Rule disclosure requirements. This includes a bi-monthly confirmation by all senior management that their areas have complied with the Qantas Continuous Disclosure Policy, together with an ongoing obligation to advise the Company Secretary of any material non-public information arising in between confirmations. A copy of the Qantas Continuous Disclosure Policy is available on the Corporate Governance section of the Qantas website: (http://www.qantas.com.au/info/about/corporateGovernance). Qantas includes commentary on its financial results in its Annual Report.

The Board Respects the Rights of Shareholders

Qantas has a Shareholder Communications Policy which promotes effective communication with shareholders and encourages participation at general meetings. A copy of the Qantas Shareholder Communications Policy is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance).

Qantas places all market announcements on its website and registered shareholders receive an email when there is a material announcement.

The 2007 Notice of Meeting and Explanatory Letter will be posted on the Qantas website and the 2007 AGM will be available for viewing by live webcast. For shareholders unable to attend, a question form will accompany the Notice of Meeting, giving shareholders the opportunity to forward questions and comments to Qantas or the external auditor prior to the AGM.

Auditor at Annual General Meeting

The external auditor attends the AGM and is available to answer shareholder questions on:

- the conduct of the audit;
- the preparation and content of the auditor's report;
- the accounting policies adopted by Qantas in relation to the preparation of the Financial Report; and
- the independence of the auditor in relation to the conduct of the audit.

The Board Recognises and Manages Risk

The businesses operated by Qantas are complex and involve a range of strategic, operational, financial and legal risks. Recognising this, the Board has established a sound system of risk oversight and management and internal control designed to identify, assess, monitor and manage risk. The Audit Committee is primarily responsible for monitoring business risks whilst the Safety Environment and Security Committee is primarily responsible for monitoring operational risks. Both Board Committees are responsible for monitoring compliance with legal and regulatory obligations.

Policies have been developed that include components relating to oversight, risk profile, risk management and assessing the effectiveness of risk oversight and management. Qantas is continually aligning its system of risk management, internal compliance and control with principles included in the Australian/New Zealand Standard on Risk Management (AS/NZS 4360:2004) and the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework for evaluating internal controls.

Safety, Environment and Security Committee

In 1994, the Board established the SESC which:

- has four Members, the Chief Executive Officer and three Independent Non-Executive Directors;
- is chaired by Mike Codd, an Independent Non-Executive Director;
- has a written Charter which is available on the Corporate Governance section of the Qantas website: (http://www.qantas.com.au/info/about/corporateGovernance); and
- is responsible for monitoring:
  - safety, occupational health, the protection of the environment and operational security;
  - operational risk management (other than the business risk management issues delegated to the Audit Committee) to ensure that the appropriate risk management procedures are in place to protect the airline, its passengers, its employees and the community; and
  - compliance with all operational legal and regulatory obligations (other than the business compliance obligations monitored by the Audit Committee).

The experience and qualifications of Members of the SESC are detailed on pages 40 to 43. Membership of and attendance at 2006/07 SESC Meetings are detailed on page 54.

Chief Executive Officer /Chief Financial Officer Declaration
In accordance with Recommendation 7.2 of the ASX Principles, at the time the Chief Executive Officer and Chief Financial Officer provide the Board with the Financial Declaration, they also state to the Board that, in respect of the entire reporting period:

"1.1 the statement given in accordance with Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies which have been adopted by the Board of Directors either directly or through delegation to senior executives; and

1.2 the risk management and internal compliance and control systems are operating effectively, in all material respects, based on the risk management statement adopted by Qantas. This statement incorporates as its foundation the principles included in the Australian/New Zealand Standard on Risk Management (AS/NZS 4360:2004).

2. The statements given in accordance with Recommendation 7.2 (above) regarding the risk management and internal compliance and control system provide a reasonable, but not absolute level of assurance and do not imply a guarantee against adverse events or more volatile outcomes arising in the future."

Safety and Risk Leadership Committee
Qantas has established a Safety and Risk Leadership Committee (SRLC), whose members include Executive Management. The SRLC meets quarterly to identify all major risks, ensure appropriate risk management plans are in place and to monitor the effectiveness of the implementation of the risk management plans. The SRLC prepares a bi-monthly Corporate Risk Management and Internal Audit Activity Report for the Board which is reviewed in detail by both the Audit Committee and the SESC.

Risk Review Group
Qantas has also established a Risk Review Group (RRG), which reports to the SRLC and is responsible for monitoring:

- the identification of material risks within the Qantas Group and that appropriate risk management processes are in place and operating effectively;
- action plans in place to address inconsistencies or gaps identified within the risk management, internal compliance and control system; and
- the review and update of risk infrastructure for relevance to the Qantas Group.

The RRG meets monthly and its members comprise risk practitioners and other representatives from across the Qantas Group.

Internal Audit
Qantas has an effective Internal Audit function which is materially involved in risk identification and management. The Internal Audit function is independent of the external auditor, has full access to management and the right to seek information and explanation. The Audit Committee oversees the scope of the Internal Audit and has access to the Group General Manager Internal Audit without the presence of management. The Group General Manager Internal Audit has access to the Audit Committee and Board as required.

The Board Encourages Enhanced Performance
The Nominations Committee is responsible for implementing a process to evaluate the Board's performance.

The Board continually assesses its performance internally and discussed the Board's performance on a number of occasions during the year. The Board also periodically engages the assistance of external consultants to undertake formal Board performance reviews. A review undertaken by the Board and an external consultant during 2006 will be used to facilitate an internal Board performance review during the coming year.

The Chairman discusses performance with each Director during the year.

A formal induction program is available to new Directors to ensure they have a working knowledge of Qantas and the airline industry.

The Directors have open access to all relevant information, there are regular management presentations and visits to interstate/offshore operations. Directors may meet independently with management at any time to discuss areas of interest or concern.

The Board Remunerates Fairly and Responsibly
The Qantas Executive Remuneration Philosophy and Objectives is set out in full in the Directors' Report (from page 59).

Remuneration Committee
The Board has a Remuneration Committee which:

- has three members who are Independent Non-Executive Directors;
- is chaired by James Strong;
- has a written Charter which is available on the Corporate Governance section of the Qantas Website: (http://www.qantas.com.au/info/about/corporateGovernance); and
- is responsible for developing and recommending to the Board:
  - remuneration policies for Non-Executive Directors;
  - remuneration policies for the Chief Executive Officer and Chief Financial Officer;
  - remuneration policies for Executive Management;
  - Executive option and share grants;
  - human resources policies; and
  - other matters referred to the Committee by the Board.

The experience and qualifications of Members of the Remuneration Committee are detailed on pages 40 to 43. Membership of and attendance at 2006/07 Remuneration Committee Meetings are detailed on page 54.

The remuneration of the Key Management Personnel is disclosed in the Remuneration Report from page 59. All equity-based Executive remuneration is made in accordance with plans approved by shareholders.

On retirement, Qantas Directors are entitled to statutory superannuation and certain travel entitlements which are reasonable and standard practice in the aviation industry.

Qantas Recognises the Legitimate Interests of Stakeholders
The Board has a formal code of conduct and ethics which is available on the Corporate Governance section of the Qantas website: (http://www.qantas.com.au/info/about/corporateGovernance). Qantas also has formal policies relating to its legal and other obligations to all legitimate stakeholders. These include areas such as safety, service standards, occupational health and safety, employment practices, staff and contractor training, fair trading, consumer privacy and environmental protection. Each policy includes procedures for compliance and monitoring effectiveness.

Performance Summary

	Qantas Group		Increase/ (Decrease)
Income Statement	**2007 $M**	2006 $M	%
Sales and Other Income			
Net passenger revenue	**11,911.9**	10,504.0	13.4
Net freight revenue	**902.5**	887.8	1.7
Tours and travel revenue	**767.5**	719.4	6.7
Contract work revenue	**434.3**	469.0	(7.4)
Other	**1,149.5**	1,080.4	6.4
Sales and other income	**15,165.7**	13,660.6	11.0
Expenditure			
Manpower and staff related	**3,334.7**	3,321.7	0.4
Aircraft operating variable	**2,616.4**	2,525.3	3.6
Fuel	**3,336.8**	2,802.3	19.1
Selling and marketing	**503.4**	469.6	7.2
Property	**350.5**	320.1	9.5
Computer and communication	**527.0**	487.5	8.1
Tours and travel	**641.7**	591.2	8.5
Capacity hire	**303.2**	369.6	(18.0)
Ineffective derivatives – closed positions	**67.6**	71.3	(5.2)
Other	**651.8**	436.8	49.2
Depreciation and amortisation	**1,362.7**	1,249.8	9.0
Non-cancellable operating lease rentals	**415.3**	355.7	16.8
Share of net profit of associates and jointly controlled entities	**(46.5)**	(38.9)	19.5
Expenditure	**14,064.6**	12,962.0	8.5
Operating result	**1,101.1**	698.6	57.6
Ineffective derivatives –open positions	**(54.1)**	27.2	n/a
Profit before related income tax expense and net finance costs	**1,047.0**	725.8	44.3
Net finance costs	**(14.9)**	(54.6)	(72.7)
Profit before related income tax expense	**1,032.1**	671.2	53.8
Income tax expense	**(312.5)**	(191.2)	63.4
Profit for the year	**719.6**	480.0	49.9
Minority interest	**0.2**	0.5	(60.0)
Profit for the year attributable to members of Qantas	**719.4**	479.5	50.0
Balance Sheet			
Total assets	**19,605.7**	19,183.3	2.2
Total liabilities	**13,410.7**	13,102.2	2.4
Total equity	**6,195.0**	6,081.1	1.9
Cash Flow			
Net cash from operating activities	**2,353.4**	2,026.0	16.2
Net cash used in investing activities	**(1,220.2)**	(889.6)	37.2
Net cash used in financing activities	**(672.3)**	(138.2)	386.5
Net increase in cash and cash equivalents held	**460.9**	998.2	(53.8)
Performance Ratios			
Net debt to net debt plus equity (ratio)	**18:82**	27:73	n/a
Net debt to net debt plus equity including off Balance Sheet debt and hedge reserve (ratio)	**39:61**	45:55	n/a
Basic earnings per share (cents)	**36.4**	24.9	11.5 cents
Return on equity (percentage)	**11.6**	7.9	3.7 points
Return on equity including the notional capitalisation of non-cancellable operating leases on a hedged basis (percentage)	**12.1**	7.4	4.7 points
Profit before related income tax expense and net finance costs as a percentage of sales and other income (percentage)	**6.9**	5.3	1.6 points
Profit before related income tax expense as a percentage of sales and other income (percentage)	**6.8**	4.9	1.9 points

Discussion and Analysis of Performance Summary

for the year ended 30 June 2007

Discussion and Analysis of the Income Statement

Qantas Group Operational Statistics and Performance Indicators[1]	Unit	Qantas Group 2007	2006	Increase/(Decrease) %
Passengers carried	000	**36,449**	34,075	7.0
Revenue passenger kilometres (RPKs)	M	**97,622**	90,899	7.4
Available seat kilometres (ASKs)	M	**122,119**	118,070	3.4
Revenue seat factor	%	**79.9**	77.0	2.9 points
Passenger yield (passenger revenue per RPK)	cents	**11.69**	10.94	6.9
Average full-time equivalent employees	#	**34,267**	34,832	(1.6)
Operational passenger aircraft fleet at balance date	#	**213**	216	(3) aircraft
Return on total revenue	%	**4.7**	3.5	1.2 points
Return on equity	%	**11.6**	7.9	3.7 points

1 A glossary of terms appears on page 141.

Review of Income Statement

- Profit before related income tax expense (PBT) was $1,032.1 million, an increase of $360.9 million or 53.8 per cent. Profit attributable to members of Qantas was $719.4 million. This was achieved on a 3.4 per cent increase in capacity and reflected the strong operating environment over the year in both the domestic and international markets.
- PBT for Qantas operations (including QantasLink and Australian Airlines) totalled $865.0 million, an increase of $288.1 million or 49.9 per cent on the prior year. Net passenger revenue increased by 11.5 per cent, including fuel surcharge recoveries, reflecting a 8.7 per cent improvement in yield (excluding unfavourable foreign exchange rate movements) and a 3.4 point increase in seat factor to 80.6 per cent. Capacity decreased by 1.4 per cent reflecting the transfer of some trans-Tasman and domestic flying to Jetstar, offset by the new Q400 turboprop aircraft within QantasLink.
- Jetstar recorded a PBT result of $87.4 million, an increase of $75.1 million, which included $28.0 million of start-up costs (2006: $14.2 million). Excluding these costs, Jetstar's PBT was $115.4 million, an increase of $88.9 million on the prior year. PBT improved as a result of a 42.9 per cent increase in domestic passenger revenue and the successful launch of Jetstar International, offset by increased fuel costs and higher lease costs reflecting the transition to an all A320-200 fleet. Jetstar's passenger revenue exceeded $1 billion for the first time this year.
- PBT for non-flying businesses was $79.7 million, a decrease of $2.3 million or 2.8 per cent.

Review of Sales and Other Income

- Total sales and other income for the year increased by $1,505.1 million to $15.2 billion, an increase of 11.0 per cent on the prior year.
- Net passenger revenue increased by $1,407.9 million to $11.9 billion, an increase of 13.4 per cent. This was due to increased seat factor of 2.9 per cent and an improvement in yield of 6.9 per cent. Overall, Qantas Group capacity increased by 3.4 per cent compared with the prior year.
- Other revenue categories increased by $97.2 million to $3.3 billion, an increase of 3.1 per cent. This was primarily due to an increase in tours and travel revenue of $48.1 million, driven by growth in both passenger numbers and revenue per passenger, and an increase in other revenue of $69.1 million mainly arising from the gain on disposal of the investment in Air New Zealand.

Review of Expenditure

- Total expenditure, including net financing costs and ineffective derivatives – open positions, increased by $1,144.2 million or 8.8 per cent to $14.1 billion.
- Net expenditure cost per ASK increased by 8.1 per cent reflecting fuel cost increases and additional SFP restructuring costs. After eliminating the impact of these unfavourable increases and the unfavourable impact of foreign exchange movements, underlying normalised unit costs decreased by 1.9 per cent.
- Manpower and staff related expenditure increased by $13.0 million or 0.4 per cent. Activity growth and Enterprise Bargaining Agreement (EBA) wage and salary increases were largely offset by benefits delivered under the SFP which resulted in a 1.6 per cent reduction in average full-time equivalent employees (FTEs).
- Aircraft operating variable costs increased by $91.1 million or 3.6 per cent which reflected increased landing fees, passenger expenses and engineering material costs.
- Fuel costs increased by $534.5 million or 19.1 per cent. The average into-plane fuel price after hedging increased by 19.8 per cent to $88.89 per barrel, increasing costs by $555.0 million. The volume of barrels consumed increased by 2.9 per cent in line with higher flying hours, increasing costs by $93 million. The volume increase would have been $45 million higher if it were not for specific SFP fuel improvement initiatives undertaken in the year. Offsetting this was the stronger Australian dollar which resulted in savings of $126 million.
- Selling and marketing expenditure increased by $33.8 million or 7.2 per cent largely due to Jetstar International start-up costs and the Spirit of Tomorrow campaign.
- Property costs increased by $30.4 million or 9.5 per cent. This was driven by the increased rents at domestic airport terminals and higher maintenance on baggage sorting and screening equipment, as well as the recognition of future costs associated with vacant properties and a provision recognised for the make-good of properties at the end of the lease.
- Computer and communication costs increased by $39.5 million or 8.1 per cent due to higher finance system implementation costs, an increase in reservation fees associated with higher passenger volumes and an increase in infrastructure costs following the closure of the CBD Data Centre.
- Tours and Travel costs increased by $50.5 million or 8.5 per cent in line with increased Tours and Travel revenue.

Discussion and Analysis of the Income Statement continued

- Depreciation and amortisation increased by $112.9 million or 9.0 per cent reflecting increased depreciation on aircraft modifications and capitalised maintenance.
- Non-cancellable operating lease rentals increased by $59.6 million or 16.8 per cent reflecting the full year impact of 15 Jetstar A320 aircraft and nine B738 aircraft delivered in the prior year.
- Capacity hire costs decreased by $66.4 million or 18.0 per cent largely due to a move to a freesale codeshare arrangement with Air Pacific and Air Vanuatu and the return of five BAE 146 aircraft during the current and prior years.
- Other expenditure increased by $215.0 million or 49.2 per cent largely due to a loss on foreign currency hedges in the current year compared to a gain in the prior year (largely attributable to US dollar hedging), the impairment of the investment in Air New Zealand and higher legal and consultancy fees.
- The share of net profit in associates and jointly controlled entities increased by $7.6 million to $46.5 million. The main contributors to this result were the investments in Star Track Express and Australian air Express.

Review of Other Income Statement Items

- The requirement to mark-to-market open derivative positions under AASB 139 resulted in ineffective derivative losses of $54.1 million in the current year.
- Net finance costs decreased by $39.7 million or 72.7 per cent. This reflects additional interest received from a higher average cash balance and interest revenue on the unwinding of the discount on liquidated damages. This was offset by higher financing costs associated with higher interest rates on debt.
- The favourable net impact of foreign exchange rate movements on the overall PBT was $2.0 million.
- The effective tax rate increased from 28.5 per cent to 30.3 per cent. Basic earnings per share increased by 11.5 cents to 36.4 cents. This reflected the increased profit after tax for the year.

Discussion and Analysis of the Balance Sheet

The net assets of the Qantas Group increased by 1.9 per cent to $6,195.0 million during the year. The major movements are discussed below.

Review of Total Assets

- Total cash and current receivables increased by $713.4 million reflecting an increase of $460.9 million in net cash as discussed below, and an increase in current receivables of $252.5 million due to increased traffic and the disposal of the investment of Air New Zealand Limited in June 2007.
- Property, plant and equipment remained consistent which reflected capital expenditure on new aircraft acquisitions including one A330-300 and three Q400, and progress payments made on the A380, B787, B738 and A330 aircraft. This was offset by depreciation and amortisation charge of $1,362.7 million.

Review of Total Liabilities

- Total liabilities increased by 2.4 per cent to $13,410.7 million largely due to higher revenue received in advance and increased other financial liabilities driven by the maturity of hedge contracts and movements in fuel prices and foreign exchange rates during the year.

Review of Total Equity

- Issued capital increased by $99.0 million reflecting participation in the Dividend Reinvestment Plan (DRP) for the 2006 final dividend. Reserves decreased by $181.1 million mainly due to a decrease in the hedge reserve caused by movements in the fair value of fuel and foreign exchange derivatives.

Gearing

- Qantas Group gearing (including off Balance Sheet debt) at 30 June 2007 was 39:61 compared to 45:55 at 30 June 2006. The gearing ratio has decreased due to higher cash balances and a decrease in borrowings as a result of repayments and revaluations.
- Gearing is the ratio of the book value of the Qantas Group's net debt (short and long-term plus non-cancellable operating leases less the fair value of hedges relating to debt and cash and cash equivalents) to the book value of total equity.

Discussion and Analysis of the Cash Flow Statement

For the purposes of the Cash Flow Statement, 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.

Review of Cash Flows From Operating Activities

- Cash flows provided from operating activities increased by 16.2 per cent to $2,353.4 million, reflecting revenue growth during the year and strong advance bookings reflected as cash in revenue received in advance.

Review of Cash Flows From Investing Activities

- Cash flows used in investing activities increased by $330.6 million to $1,220.2 million.
- Total capital expenditure decreased by $291.2 million to $1,235.9 million reflecting lower aircraft progress and delivery payments, combined with lower reconfiguration costs, engine modifications and spares.
- Proceeds from financing of non-current assets in the prior year of $627.8 million relates to the sale and operating leaseback of nine B737-800 aircraft and seven Jetstar A320 aircraft.
- Net payments for investments of $32.1 million reflected investments in DPEX Transport Group, Kilda Express and the remaining interest in Jet Turbine Services, offset by the disposal of Thai Air Cargo.

Review Of Cash Flows From Financing Activities

- Cash flows used in financing activities increased by $534.1 million to $672.3 million reflecting higher dividend and net borrowing payments in the current year.

The Qantas Group held cash of $3,362.9 million and had access to additional funding of $1,170.0 million as at 30 June 2007. This comprised a $500.0 million stand-by facility and a $670.0 million revolving facility under a syndicated loan.

Financial Report

Financial Report and Sustainability Information

for the year ended 30 June 2007

Contents

Directors' Report

for the year ended 30 June 2007

The Directors of Qantas Airways Limited (Qantas) present their Report together with the Financial Statements of the consolidated entity, being Qantas and its controlled entities (Qantas Group), for the year ended 30 June 2007 and the Independent Audit Report thereon.

Directors

The Directors of Qantas at any time during or since the end of the year are:

Margaret Jackson, AC
Geoff Dixon
Peter Gregg
Paul Anderson
Leigh Clifford
(appointed 9 August 2007)
Mike Codd, AC

Peter Cosgrove, AC, MC
Patricia Cross
Garry Hounsell
James Packer
John Schubert
James Strong, AO
(appointed 1 July 2006)

Details of Directors, their qualifications, experience and any special responsibilities, including Qantas Committee Memberships, are set out on pages 40 to 43.

Principal Activities

The principal activities of the Qantas Group during the course of the year were the operation of international and domestic air transportation services, the provision of time definite freight services, the sale of international and domestic holiday tours and associated support activities including flight training, catering, passenger and ground handling and engineering and maintenance. The launch of Jetstar International was the only significant change in the nature of the activities of the Qantas Group during the year.

Dividends

The Directors declared a final dividend of $297.7 million (final dividend of 15 cents per share) for the year ended 30 June 2007 (2006: final dividend of 11.0 cents per share). The final dividend will be fully franked and follows a fully franked special interim dividend of $297.7 million (15.0 cents per share), which was paid during the year.

Review of Operations and State of Affairs

A review of, and information about, the Qantas Group's operations, including the results of those operations and changes in the state of affairs of the Qantas Group during the year together with information about the financial position of the Qantas Group appears on pages 10 to 39. In the opinion of the Directors, there were no other significant changes in the state of affairs of the Qantas Group that occurred during the year under review.

Events Subsequent to Balance Date

On 2 July 2007, Qantas acquired 67.27 per cent of the equity of DPEX Transport Group Pte Ltd (DPEX) as described in Note 32. Qantas holds an option over the remaining 32.73 per cent of DPEX and intends to exercise this option on 31 August 2007.

On 9 July 2007, Qantas announced it would purchase 20 additional B787 Dreamliners taking total firm orders to 65. This takes total capital expenditure commitments entered into post 30 June 2007 to $3.5 billion.

Qantas acquired 18.0 per cent of Pacific Airlines Joint Stock Aviation Company (Pacific Airlines), a low cost carrier in Vietnam on 31 July 2007 for US$30 million. Qantas will equity account for Pacific Airlines as an associate from 31 July 2007. Qantas has the ability to acquire up to 30.0 per cent of the equity of Pacific Airlines in the period through to March 2010.

As a result of oil and jet fuel price increases over recent months, Qantas announced on 1 August 2007 that it would increase international fuel surcharges for tickets issued on or after 9 August 2007. Should fuel prices drop in future, Qantas will reduce the surcharges as on previous occasions.

On 16 August 2007, Qantas announced its intention to undertake an on-market buy-back of Qantas shares as described in Note 32.

Contingent liability information is disclosed in Note 22.

There has not arisen since the end of the year and the date of this Directors' Report any other matter or circumstance that has significantly affected or may significantly affect the Qantas Group's operations, results of those operations or state of affairs in future years.

Likely Developments

Further information about the likely developments in the operations of the Qantas Group in future years and the expected results of those operations has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the Qantas Group. Further information about the Qantas Group's business strategies and its prospects for future years has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the Qantas Group.

Directors' Meetings

The number of Directors' Meetings attended and held during the year are as follows:

	Qantas Board													
	Scheduled Meetings		Unscheduled Meetings[1]		Sub-Committee[1]		Audit Committee		Safety, Environment & Security Committee		Remuneration Committee		Nominations Committee	
Directors	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]
Margaret Jackson	9	9	12	15	4	4	3[3]	4	3[3]	4	7[4]	7	1	1
Geoff Dixon	9	9	15	15	4	4	2[3]	4	4	4	4[3]	7	–	–
Peter Gregg	9	9	15	15	3	4	4[3]	4	–	–	–	–	–	–
Paul Anderson	9	9	15	15	2	4	–	–	–	–	7	7	–	–
Mike Codd	9	9	14	15	4	4	4	4	4	4	–	–	–	–
Peter Cosgrove	9	9	12	15	2	4	–	–	4	4	1[3]	7	–	–
Patricia Cross	9	9	15	15	4	4	3	4	–	–	7	7	–	–
Garry Hounsell	9	9	14	15	4	4	4	4	2[3]	4	1[3]	7	–	–
James Packer	9	9	15	15	4	4	–	–	–	–	–	–	–	–
John Schubert	9	9	15	15	1	4	–	–	4	4	–	–	1	1
James Strong	9	9	15	15	4	4	–	–	–	–	7[4]	7	–	–

1 Meetings held in connection with the Airline Partners Australia Offer.

2 Reflects the number of Meetings held during the time that the Director held office during the year.

3 Attended Meetings in an ex-officio capacity.

4 James Strong was appointed Chairman of the Remuneration Committee on 19 July 2006. Mr Strong attended one Meeting in an ex-officio capacity and the remainder as Committee Chairman. Margaret Jackson attended one Meeting as Committee Chairman and the remainder in an ex-officio capacity.

Directorships of Listed Companies Held by the Members of the Board – 1 July 2004 to 30 June 2007

Margaret Jackson

Qantas Airways Limited	– current, appointed 1 July 1992
Australia and New Zealand Banking Group Limited	– current, appointed 22 March 1994
Billabong International Limited	– current, appointed 4 July 2000
Flexigroup Limited	– current, appointed 20 November 2006
John Fairfax Holdings Limited	– ceased, appointed 1 March 2003 and ceased 31 August 2004
Southcorp Limited	– ceased, appointed 23 August 2004 and ceased 26 May 2005

Geoff Dixon

Qantas Airways Limited	– current, appointed 1 August 2000
Leighton Holdings Limited	– ceased, appointed 19 August 1999 and ceased 31 May 2006
Publishing and Broadcasting Limited	– current, appointed 31 May 2006

Peter Gregg

Qantas Airways Limited	– current, appointed 13 September 2000
Leighton Holdings Limited	– current, appointed 4 July 2006

Paul Anderson

Qantas Airways Limited	– current, appointed 2 September 2002
BHP Billiton Limited	– current, appointed 6 June 2006

Mike Codd

Qantas Airways Limited	– current, appointed 16 January 1992

Peter Cosgrove

Qantas Airways Limited	– current, appointed 6 July 2005
Cardno Limited	– current, appointed 27 March 2007

Patricia Cross

Qantas Airways Limited	– current, appointed 1 January 2004
National Australia Bank Limited	– current, appointed 1 December 2005
Wesfarmers Limited	– current, appointed 11 February 2003

Garry Hounsell

Qantas Airways Limited	– current, appointed 1 January 2005
Mitchell Communication Group Limited	– current, appointed 1 September 2006
Nufarm Limited	– current, appointed 1 October 2004
Orica Limited	– current, appointed 21 September 2004

James Packer

Qantas Airways Limited	– current, appointed 1 March 2004
Challenger Financial Services Group Limited	– current, appointed 6 November 2003
Crown Limited[1]	– current, appointed 22 July 1999
Publishing and Broadcasting Limited	– current, appointed 28 April 1992
SEEK Limited	– current, appointed 31 October 2004
Sunland Group Limited	– current, appointed 20 July 2006

John Schubert

Qantas Airways Limited	– current, appointed 23 October 2000
BHP Billiton Limited	– current, appointed 1 June 2000
Commonwealth Bank of Australia	– current, appointed 8 October 1991
Worley Parsons Limited	– ceased, appointed 11 October 2002 and ceased 28 February 2005

James Strong

Qantas Airways Limited	– current, appointed 1 July 2006
IAG Finance (New Zealand) Limited	– current, appointed 9 November 2004
Insurance Australia Group Limited	– current, appointed 2 August 2001
Woolworths Limited	– current, appointed 10 March 2000

1 Delisted in the relevant period.

Qualifications and Experience of each person who is a Company Secretary of the Company

Cassandra Hamlin – Company Secretary, Bachelor of Commerce, CA.

- joined Qantas in January 1996;
- responsible for the management of all public company issues arising within the Qantas Group;
- 1996 to 2001 – various Qantas financial reporting roles, including Financial Reporting Manager;
- 2001 to 2005 – Head of Qantas Investor Relations;
- admitted as a Chartered Accountant with The Institute of Chartered Accountants in Australia in 1997; and
- completed Chartered Secretaries Australia's Graduate Diploma in Applied Corporate Governance in July 2007.

Brett Johnson resigned as Company Secretary on 10 May 2007. Mr Johnson continues in the role of General Counsel of Qantas.

Directors' Interests and Benefits

Particulars of Directors' interests in the issued capital of Qantas at the date of this Report are as follows:

	Shares	
Director	**2007 Number**	2006 Number
Margaret Jackson	**122,997**	122,997
Geoff Dixon	**1,032,746**	846,017
Peter Gregg	**294,996**	405,029
Paul Anderson	**25,000**	25,000
Leigh Clifford	**–**	n/a
Mike Codd	**13,408**	12,990
Peter Cosgrove	**2,124**	2,057
Patricia Cross	**2,163**	2,163
Garry Hounsell	**33,811**	32,756
James Packer	**53,101**	51,444
John Schubert	**34,753**	34,753
James Strong	**28,158**	27,280

In addition to the interests shown above, indirect interests in Qantas shares held on behalf of Mr Dixon and Mr Gregg are as follows:

Geoff Dixon	**Number**	Number
Deferred Shares held in trust under:		
– 2004 Executive Director Performance Share & Performance Rights Plan	**150,000**	150,000
– 2005 Executive Director Performance Share & Performance Rights Plan	**150,000**	150,000
– 2006 Executive Director Performance Share & Performance Rights Plan[1]	**449,500**	142,500
– 2007 Executive Director Performance Share & Performance Rights Plan (15 August 2007)	**258,000**	–
	1,007,500	442,500
Rights granted under:		
– 2003 Executive Director Deferred Share & Performance Rights Plan	**–**	125,000
– 2004 Executive Director Performance Share & Performance Rights Plan	**450,000[2]**	450,000
– 2006 Executive Director Performance Share & Performance Rights Plan	**300,000**	–
– 2007 Executive Director Performance Share & Performance Rights Plan (15 August 2007)	**300,000**	–
	1,050,000	575,000
Entitlements awarded under the Qantas Long-Term Executive Incentive Plan[3]	**–**	483,688

1 Includes pre-tax sacrifice of cash incentive in respect of the 2005/06 year into 307,000 deferred shares.

2 While these Rights vest on the tenth anniversary of the date of award, Mr Dixon may call for 187,650 of these Rights to be converted to Qantas shares. To the extent performance hurdles are achieved upon testing over the next two years the remaining balance may be called for.

3 These Entitlements converted to 61,729 shares on 20 August 2007 (2006: 1,255,005 Entitlements converted into 173,266 shares).

Directors' Interests and Benefits continued

Peter Gregg	2007 Number	2006 Number
Deferred Shares held in trust under:		
– 2004 Executive Director Performance Share & Performance Rights Plan	**45,000**	45,000
– 2005 Executive Director Performance Share & Performance Rights Plan	**90,000**	90,000
– 2006 Executive Director Performance Share & Performance Rights Plan	**85,500**	85,500
– 2006 Retention Plan	**400,000**	–
– 2007 Executive Director Performance Share & Performance Rights Plan (15 August 2007)	**86,000**	–
	706,500	220,500
Rights granted under:		
– 2003 Executive Director Deferred Share & Performance Rights Plan	**–**	80,000
– 2004 Executive Director Performance Share & Performance Rights Plan	**90,000**[1]	90,000
– 2005 Executive Director Performance Share & Performance Rights Plan	**90,000**	90,000
– 2006 Executive Director Performance Share & Performance Rights Plan	**100,000**	–
– 2007 Executive Director Performance Share & Performance Rights Plan (15 August 2007)	**100,000**	–
	380,000	260,000
Entitlements awarded under the Qantas Long-Term Executive Incentive Plan[2]	**–**	78,100

1 While these Rights vest on the tenth anniversary of the date of award, Mr Gregg may call for 37,530 of these Rights to be converted to Qantas shares. To the extent performance hurdles are achieved upon testing over the next two years the remaining balance may be called for.

2 These Entitlements converted to 9,967 shares on 20 August 2007 (2006: 627,503 Entitlements converted into 86,633 shares).

Share Entitlements

In previous years, Entitlements over unissued shares in Qantas were awarded to Executive Directors and Senior Executives under the Qantas Long-Term Executive Incentive Plan as detailed on page 63.

During the year, the following movements in Entitlements took place:

Qantas Long-Term Executive Incentive Plan (Legacy Plan)	Number	Number
Entitlements available for vesting at 1 July	**175,000**	4,348,319
Entitlements lapsed	**(175,000)**	(3,998,319)
Entitlements vested	**–**	(175,000)
Entitlements available for vesting at 30 June	**–**	175,000

The following Entitlements were outstanding at 30 June 2007:

			Number of Entitlements[1]					
Expiry Date	Exercise Price	Value at Grant Date[2]	Net Vested 2007[3]	Unvested 2007	Total 2007	Net Vested 2006	Unvested 2006	Total 2006
17 November 07	$4.99	$1.13	**2,109,606**	**–**	**2,109,606**	3,525,143	–	3,525,143
24 November 08	$3.44	$0.82	**658,879**	**–**	**658,879**	3,065,525	–	3,065,525
20 February 09	$3.62	$0.77	**–**	**–**	**–**	83,668	–	83,668
6 December 09	$3.25	$1.14	**–**	**–**	**–**	–	175,000	175,000
			2,768,485	**–**	**2,768,485**	6,674,336	175,000	6,849,336

1 The Entitlements do not allow the holder to participate in any pro rata or bonus share issue of Qantas. No dividends are payable on Entitlements.

2 The estimated value per Entitlement at grant date disclosed above is calculated using the Black-Scholes Option Valuation Methodology.

3 2,728,952 Entitlements converted into 516,085 shares on 20 August 2007.

Rights

Performance Rights Plan	2007 Number	2006 Number
Rights outstanding as at 1 July	**4,590,000**	3,476,500
Rights granted	**2,044,300**	1,662,000
Rights lapsed	**(279,000)**	(548,500)
Rights vested	**(1,316,500)**	–
Rights outstanding as at 30 June	**5,038,800**	4,590,000

The following Rights were outstanding at 30 June 2007:

			Number of Rights[1]					
Testing Period	Grant Date	Value at Grant Date	Net Vested 2007	Unvested 2007	Total 2007	Net Vested 2006	Unvested 2006	Total 2006
30 Jun 06	15 Oct 03	$3.09[5]	**–**	**–**	**–**	–	155,000	155,000
30 Jun 06	16 Oct 03	$3.04[5]	**–**	**–**	**–**	–	205,000	205,000
30 Jun 06	10 Dec 03	$2.86[5]	**–**	**–**	**–**	–	60,000	60,000
30 Jun 06	27 Feb 04	$3.24[5]	**–**	**–**	**–**	–	896,500	896,500
30 Jun 06	8 Jul 04	$3.10[5]	**–**	**–**	**–**	–	35,000	35,000
30 Jun 07 – 30 Jun 09[2]	18 Aug 04	$2.25[6]	**–**	**255,000**	**255,000**	–	280,000	280,000
30 Jun 07 – 30 Jun 09[2]	21 Oct 04	$2.28[6]	**–**	**540,000**	**540,000**	–	540,000	540,000
30 Jun 07 – 30 Jun 09[2]	13 Jan 05	$2.47[6]	**–**	**820,500**	**820,500**	–	889,500	889,500
30 Jun 07 – 30 Jun 09[2]	20 Jun 05	$1.88[6]	**–**	**5,000**	**5,000**	–	5,000	5,000
30 Jun 08 – 30 Jun 10[3]	17 Aug 05	$1.98[6]	**–**	**395,000**	**395,000**	–	415,000	415,000
30 Jun 08 – 30 Jun 10[3]	22 Nov 05	$2.67[6]	**–**	**975,000**	**975,000**	–	1,076,000	1,076,000
30 Jun 08 – 30 Jun 10[3]	28 Mar 06	$2.28[6]	**–**	**33,000**	**33,000**	–	33,000	33,000
30 Jun 09 – 30 Jun 11[4]	22 Aug 06	$2.39[6]	**–**	**345,000**	**345,000**	–	–	–
30 Jun 09 – 30 Jun 11[4]	4 Oct 06	$2.95[6]	**–**	**1,245,300**	**1,245,300**	–	–	–
30 Jun 09 – 30 Jun 11[4]	19 Oct 06	$3.17[6]	**–**	**400,000**	**400,000**	–	–	–
30 Jun 09 – 30 Jun 11[4]	12 Apr 07	$4.50[6]	**–**	**25,000**	**25,000**	–	–	–
			–	**5,038,800**	**5,038,800**	–	4,590,000	4,590,000

1 The Rights do not allow the holder to participate in any share issue of Qantas. No dividends are payable on Rights.

2 While these Rights vest on the tenth anniversary of the date of award, Executives may call for the Rights to be converted to Qantas shares to the extent performance hurdles have been achieved upon testing, which commenced 30 June 2007.

3 While these Rights vest on the tenth anniversary of the date of award, Executives may call for the Rights to be converted to Qantas shares to the extent performance hurdles have been achieved upon testing, which is to commence 30 June 2008.

4 While these Rights vest on the tenth anniversary of the date of award, Executives may call for the Rights to be converted to Qantas shares to the extent performance hurdles have been achieved upon testing, which is to commence 30 June 2009.

5 The estimated value of Rights granted under Plans before 1 July 2004 is calculated at the date of grant using the Black-Scholes Option Valuation Methodology.

6 The fair value of Rights granted under Plans post 1 July 2004 is calculated at the date of grant using a Monte-Carlo Valuation Methodology.

On 15 August 2007, 505,000 Rights were approved for allocation to Executive General Managers.

Remuneration Report (Audited)

Details of the nature and amount of Executive and Non-Executive Director remuneration and reference to where they have been incorporated into the Qantas Annual Report is set out below:

Requirement	Included in the Qantas Annual Report
Corporations Act	
– Remuneration Policy	Refer below
– Remuneration disclosures for Directors and each of the five highest remunerated Executives for the year	Refer below
Australian Accounting Standards Board 2 Share-based Payment and AASB 124 Related Party Disclosures	
– Key Management Personnel (KMP) remuneration disclosures	Refer below
– Key Management Personnel equity benefit disclosures	Note 24 to the Financial Statements
ASX Corporate Governance Council: Corporate Governance Principle 9	
– Remunerate fairly and responsibly	Refer below
– 2006/07 Executive Remuneration Philosophy and Objectives	Refer below

2006/07 Executive Remuneration Philosphy and Objectives

Qantas needs to be able to attract, retain and appropriately reward a capable Executive team to meet the unique challenges it faces as a major international airline based in Australia.

Qantas' philosophy for the remuneration of its Executives is to align their earnings with their duties and responsibilities and to pay for performance.

These objectives are achieved via a reward program that involves a combination of:

- Fixed Annual Remuneration (FAR);
- the Performance Plan, comprising:
  1. the Performance Cash Plan (PCP) – a short-term cash incentive;
  2. the Performance Equity Plan – comprising a medium-term incentive, the Performance Share Plan (PSP) and a long-term incentive, the Performance Rights Plan (PRP); and
  3. the Retention Plan (RP), involving awards of deferred shares or cash to a small number of selected Executives whose retention is considered vital to the Qantas Group; and
- concessionary travel entitlements, targeted key milestone bonus arrangements and other discretionary benefits considered appropriate from time to time.

The Remuneration Committee (a committee of the Board) has the role of reviewing and making recommendations on the Qantas Executive Remuneration Policy.

In doing so, the Remuneration Committee seeks advice from a range of independent external specialists. The guiding principles applied by the Remuneration Committee in managing remuneration for Executives are that:

- appropriate market benchmarks are reviewed in setting all elements of reward;
- differentiation to recognise performance is involved in all pay increases, both fixed and 'at risk';
- 'at risk' pay decisions are based on a formal performance management system; and
- longer-term rewards align the interests of Executives with shareholders and support a culture of employee share ownership.

Overall, the mix of the remuneration program reflects market practice but is tailored to the specific circumstances of Qantas.

The importance of a stable and talented senior Executive team has always been a priority for Qantas. This has been highlighted over recent years with many major issues needing to be addressed with the aviation industry and within Qantas, including succession within the Executive ranks. To ensure the continuity of a successful team, Qantas has made awards under the Retention Plan.

Reward Framework

<table>
<tr><td colspan="4">Fixed Annual Remuneration</td><td colspan="4">Set with reference to role, market and experience</td></tr>
<tr><td rowspan="5">Performance Plan</td><td colspan="2">Performance Cash Plan</td><td>Short-term</td><td colspan="4">Group Financial Target</td></tr>
<tr><td rowspan="3">Performance Equity Plan</td><td rowspan="2">Performance Share Plan</td><td rowspan="2">Medium-term</td><td colspan="4">Balanced Scorecard Target</td></tr>
<tr><td>Customer</td><td>Operational</td><td>People</td><td>Financial</td></tr>
<tr><td>Performance Rights Plan</td><td>Long-term</td><td colspan="4">Total Shareholder Return</td></tr>
<tr><td colspan="3">Retention Plan</td><td colspan="4">Targeted incentives and retention arrangements for a small number of key Executives, based on the Board's assessment of market conditions and the commercial needs of Qantas.</td></tr>
<tr><td colspan="4">Other benefits, such as concessionary travel and salary sacrifice arrangements (e.g. for motor vehicles and superannuation)</td><td colspan="4">Reflect industry and market practice</td></tr>
</table>

Remuneration Report (Audited) continued
2006/07 Executive Remuneration Philosophy and Objectives continued

Fixed Annual Remuneration

Salary decisions are based on FAR, which involves a guaranteed salary level from which superannuation and certain other benefits, such as a maintained motor vehicle, can be deducted at the election of the employee on a salary sacrifice basis.

FAR is set with reference to market data, reflecting the scope of the role, the unique value of the role and the performance of the person in the role. FAR is reviewed annually and reflects a middle-of-the-market approach, as compared to similar comparative roles within Australia, with particular reference to large public companies for the most senior roles.

Cash FAR, as disclosed in the remuneration tables, is the FAR remaining after salary sacrifice components such as motor vehicles and superannuation have been deducted.

Performance Plan

Cash and equity incentives are delivered through the Performance Plan.

Performance Cash Plan

Purpose

The PCP is a cash incentive paid to Executives when the Qantas Group's key financial target is achieved over the year.

Approach

A cash pool for PCP awards to Executives is triggered if a threshold level of performance against the Qantas Group financial target is met. This means the Qantas Group financial result for the year is the first hurdle required to be satisfied.

For each participating Executive, the target reward under the PCP is set as a percentage of FAR. This percentage varies according to the Executive's level of responsibility. There is differentiated distribution of the bonus payment pool to Executives based on individual performance.

Performance measures and rationale

Determining Payment Pool

For 2006/07, the financial target was profit before related income tax expense (PBT) adjusted for approved restructuring costs, changes in accounting policy and the profit impact of A-IFRS ineffective derivatives.

The selection of PBT reflects the use of this measure as a key budget and financial measure both at Group and segment level within the Qantas Group. This single measure applies to all Executives and results in no payment when profitability hurdles are not achieved.

The target is set annually as part of the budgeting process and approved by the Board. At the conclusion of the year, the adjusted PBT result is provided to the Board. The Board approves the size of the pool based on these results.

The 'at target' pool, i.e. the amount that would deliver the full PCP award to all participating Executives, is available when the target approved by the Board is met.

The threshold for payment is 75 per cent of target PBT. At the threshold, half of the PCP pool is available for distribution.

In the six years that the PCP has been in place, the full 'at target' payment has been achieved on two occasions and exceeded twice, with partial payment on one occasion and one year of nil payment.

Determining Individual Payments

Differentiation of payments among Executives based on individual performance is an important part of the approach to performance management at Qantas. The performance of each individual is assessed against their KPIs for the year, and an Individual Performance Factor (IPF) assigned at year end. At the beginning of each year, performance objectives are set in the areas of customer service, operational performance, people achievements and financial performance. At the end of the year each Executive's contribution is assessed against these criteria. Their contribution is also considered relative to other Executives in determining their IPF.

An Executive's actual reward is calculated by multiplying their 'at target' payment by their IPF. IPFs are generally in the range of 0.8 to 1.2 but can be down to 0 or up to 2.0. Across the group, IPFs are targeted to an average of 1, ensuring that differentiation occurs, but without increasing the cost of the bonus pool.

For example, if the Qantas Group PBT target is achieved and the Board award 100 per cent of the PCP pool, the reward under this plan for a Manager on FAR of $120,000 with an 'at target' PCP opportunity of 10 per cent and an IPF 0.9 would be:

$120,000 (FAR)

x 10 per cent ('at target' opportunity)

x 100 per cent (PCP pool if Group target is met)

x 0.9 (IPF based on differentiated assessment)

= $10,800.

Performance Equity Plan

The Performance Equity Plan comprises the PSP (a medium-term incentive) and the PRP (a long-term incentive). Both elements are designed to strengthen the alignment of the interests of Executives with those of shareholders.

The equity benefits under the Performance Equity Plan are delivered under the Terms & Conditions and various rules of the Qantas Deferred Share Plan (DSP). The DSP Terms & Conditions were initially approved by shareholders at the 2002 AGM. At the 2006 AGM, shareholders again approved the DSP as the vehicle for the provision of equity benefits by Qantas.

At its July 2006 Meeting, the Board resolved to amend the definition of Eligible Employee in the DSP Terms & Conditions to read "employees (including Directors) of the Group whom the Board determines to be eligible for an offer."

There have been no other changes to the DSP Terms & Conditions during the year.

Performance Share Plan

Purpose

The PSP is a medium-term deferred share incentive designed to reward Executives when a Balanced Scorecard of key Qantas Group measures (detailed below) is achieved over the year and to encourage retention through a two year deferral period.

Approach

For each participating Executive, the target reward under the plan is set as a percentage of FAR. This percentage varies according to the Executive's level of responsibility.

On an annual basis, the Board approves awards under the PSP based on the achievement by the Qantas Group against the Balanced Scorecard of Customer, Operational, People and Financial measures. Each measure is assessed separately for performance against target and threshold.

Remuneration Report (Audited) continued
2006/07 Executive Remuneration Philosophy and Objectives continued

There is differentiated distribution of the pool to Executives based on the IPF.

Shares are purchased on-market or issued and are held subject to a holding lock for 10 years. However, Executives can call for the deferred shares prior to the expiration of the holding lock, but not before the end of one year from the completion of the performance period for up to half of the deferred shares and the end of two years in relation to the remaining deferred shares. Any dividends paid on the deferred shares during the holding lock period will be distributed to the relevant Executive.

Generally, any deferred shares which remain subject to the holding lock will be forfeited if the relevant Executive ceases employment with the Qantas Group.

Performance measures and rationale

For 2006/07, the PSP target was a Balanced Scorecard of Customer, Operational, People and Financial measures. Customer satisfaction is measured by reference to an external Skytrax survey. The operational performance (punctuality) measure relates to the metrics published monthly by the government. People performance is focused on occupational health and safety using Australian standards for calculating Lost Time Injury Frequency Rate (LTIFR). Financial performance uses an internal unit cost measure.

The Balanced Scorecard performance criteria aims to align Executive remuneration with the key value drivers for the Qantas Group and complements the short-term financial targets which are the focus of the PCP.

The targets are set by the Board annually at the start of the year. Readily available external measures are used where appropriate. Internal measures are used in relation to key focus areas (Safety and Unit Costs). The mandatory minimum holding lock, of between one and two years, provides this Plan with its medium-term focus on share price.

At the conclusion of the year the Balanced Scorecard results are provided to the Board so it can make an assessment as to whether the targets have been met and whether the deferred shares are subsequently granted.

Determining Payment Pool

The 'at target' pool, i.e. the amount that would deliver the full PSP award to all participating Executives, is available when the Balanced Scorecard targets approved by the Board are met.

Determining Individual Payments

Each individual's 'at target' payment is determined by Qantas Group performance and the pool awarded as described above. An Executive's actual reward is calculated by multiplying their 'at target' PSP award by their IPF.

The grant date and number of deferred shares awarded to Key Management Personnel are outlined on page 108.

Performance Rights Plan

Purpose

The PRP is the long-term element of the Performance Equity Plan. It has been implemented as a reward program that aligns the interests of participating Executives with the longer term interests of shareholders. It also helps to retain participating Executives.

Approach

Annual grants of performance rights are awarded to selected individuals. Subject to achievement against the three year performance hurdle relating to each grant, the Rights may be converted (on a one-for-one basis) to Qantas shares. Shares are purchased on-market or issued.

Performance measures and rationale

2003/04 Awards

Vesting for the 2003/04 award was based on the achievement of the three year average annual Return on Total Gross Assets (RoTGA) targets over the three years ended 30 June 2006. The performance condition of target RoTGA was chosen in 2003/04 on the basis that it measures financial performance that reflects a Board approved return on capital. Due to reasons of commercial confidentiality, the targets were not disclosed in advance. Following feedback from stakeholder groups that transparency of hurdles should be a key design feature for the PRP, Qantas discontinued the use of this RoTGA based approach for future awards of Rights from 2004/05.

The RoTGA target was achieved for the three year performance period and the Rights granted under the 2003/04 award vested in full and were converted on a one-for-one basis to Qantas shares.

2004/05, 2005/06 and 2006/07 Awards

The performance hurdle set by the Board for these awards is the Total Shareholder Return (TSR) of Qantas over the performance period in comparison to:

- companies with ordinary shares included in the S&P/ASX 100 Index at the date of each respective grant (excluding Qantas) in relation to half of the Rights; and
- a basket of global listed airlines comprising Air France-KLM, Air New Zealand, AMR Corporation (American Airlines), British Airways, Cathay Pacific, Delta Airlines[1], Japan Airlines, Lufthansa, Ryanair, Singapore Airlines, Southwest Airlines and Virgin Blue in relation to the other half of the Rights.

The S&P/ASX 100 Index represents the broader Australian market, while the basket of global airlines represents a mix of Qantas' competitors.

TSR testing for the 2004/05 award is being performed quarterly over the two years from 30 June 2007 until 30 June 2009, or until the tests indicate that full vesting has been achieved. This reflects the Plan conditions outlined to shareholders when approval was obtained for awards to the Executive Directors in October 2004.

Similarly TSR testing for the 2005/06 and 2006/07 awards occurs during the period between three and five years from award, in accordance with the conditions of the awards approved by shareholders.

Testing over these timeframes recognises that Qantas is exposed to a high degree of business and share price volatility compared to many other major Australian companies. As the award date remains the base point for comparison, it ensures that there is no reduction in the rigour of the performance requirement.

The performance hurdle will be considered satisfied in accordance with the following table:

Qantas TSR Performance Compared to the Relevant Peer Group	Satisfaction of the Performance Hurdle relating to each half of the Rights
0 to 49th percentile	Nil
50th to 74th percentile	50% – 99%
75th to 100th percentile	100%

The Board resolved at its October 2005 Meeting that it will not exercise its discretion in relation to the performance hurdle for the 25th to 49th percentile.

A progressive vesting scale prevents payment for below median performance and does not deliver full reward until 75th percentile performance is achieved.

1 Delta Airlines is excluded from the airline basket for the 2006/07 award as in September 2005 Delta Airlines filed voluntary petitions for reorganisation under Chapter 11 of the US Bankruptcy Code.

Remuneration Report (Audited) continued
2006/07 Executive Remuneration Philosophy and Objectives continued

Any Rights which have not vested will lapse if the relevant Executive ceases employment with the Qantas Group, except in exceptional circumstances which is subject to CEO approval. Rights will also lapse if the Executive is guilty of gross misconduct.

The grant dates and number of Rights awarded to Key Management Personnel is outlined on page 109.

Retention Plan

The Board regularly reviews market conditions and Qantas' own talent needs for achieving its long-term business and change objectives. It has implemented a Retention Plan with a required service period of up to three years. The RP is focused on a small number of Executives whose roles and contribution are identified as critical to the continued success of the Qantas Group.

The award to any individual under the RP can be delivered either in deferred shares or by way of a deferred cash award.

Any award made under this plan will be forfeited if the retention period for service is not met due to termination by the Executive.

Satisfactory performance, which involves achievement of personal key performance indicators set during the period, is a further requirement under this plan.

An initial tranche of deferred shares under the RP, with vesting commencing from 30 June 2009, was made to the Chief Financial Officer and certain other senior Executives during 2006/07.

The grant dates and number of shares awarded to Key Management Personnel are outlined on page 108.

In May 2007, the Board of Qantas offered a further program of retention awards. This will involve certain senior Executives being awarded additional tranche(s) of deferred shares and is aimed at providing management continuity and to assist Qantas in pursuing its strategic growth agenda.

Employee Share Ownership Plan

To encourage greater share ownership, an Employee Share Ownership Plan was approved by the Board at its July 2006 Meeting. Directors and employees will be able to purchase shares at no discount to market price on a salary sacrifice basis. After an initial offering in 2006/07, this plan was suspended in December 2006 as a result of the offer to shareholders by Airline Partners Australia. This Plan has been re-launched in August 2007 for Non-Executive Directors and it is the Board's intention that this Plan will be reinstated for other employees.

The Employee Share Ownership Plan operates under the Terms & Conditions of the DSP.

Termination Payments

Qantas will honour the contractual and statutory entitlements of its Executives on termination. Additional payments to terminating Executives may be made to a reasonable level where legal or other considerations make it appropriate to do so. In all cases, an appropriate release agreement must be signed.

Operation of Incentive Plans

Under all the Executive Incentive Plans operating within Qantas, the CEO may recommend changes to the Board. The Board has discretion to amend the operation of the plan as appropriate, given changes in business circumstances or to recognise a particular degree of difficulty or the effects of events external to management, in any year. It is the Board's intention that any such change and its outcome for reward would be disclosed in the relevant Qantas Annual Report.

The Board has instituted a cap on the PCP pool of 200 per cent.

Total Reward Mix

Consistent with market practice, the proportion of remuneration attributable to each component of the Performance Plan is dependent on the level of responsibility of the Executive. The Board obtains independent advice on market practice and relevant benchmarking data from its external advisers in setting target reward amounts and mix.

Remuneration Report (Audited) continued
2006/07 Executive Remuneration Philosophy and Objectives continued

The total reward mix on average is as follows:

	% of Total Reward Opportunity (at Target)		
	FAR %	Performance Cash Plan %	Performance Equity Plan (PSP and PRP) %
Chief Executive Officer	50	30	20
Chief Financial Officer / Executive General Manager Qantas	55	25	20
Other Executive General Managers	60	25	15
Other Executives depending on level of responsibility	70 to 90	5 to 15	5 to 15

The above table is used to determine the allocation of performance-based remuneration and is based on the Executive's FAR at the date of the allocation.

This target reward mix is based on the value of equity grants, assuming vesting conditions are met and does not necessarily reflect the actual remuneration received by the Executive in the current year.

For those Executives selected to participate in the PRP, the 'at target' component of the Performance Equity Plan is presumed to be delivered in equal proportions via the PSP and the PRP.

The reward mix excludes any awards under the RP, which are made on an individual basis, and separately from the fixed versus variable considerations made in relation to each of the Executive levels.

Legacy Plans

Senior Manager Long-Term Incentive Plan[1]

Certain Executives were awarded a number of deferred shares subject to a four year holding lock provided the Executive remained employed by the Qantas Group. These shares were held on behalf of each Executive by the Trustee until the expiry of the holding lock period. Any dividends paid on the shares were distributed to the relevant Executive. All deferred shares awarded under this plan have now vested.

The grant date and number of shares awarded to Key Management Personnel is outlined on page 110.

This was an interim plan following the suspension of the Qantas Long-Term Executive Incentive Plan (QLTEIP). No awards have been made since April 2003.

Qantas Long-Term Executive Incentive Plan

Under QLTEIP, certain Executives were granted Entitlements to unissued shares in Qantas in the years ended 30 June 2000, 2001 and 2002. Vesting is based on Qantas relative TSR compared to ASX 200 Industrials Index and a basket of global airlines. Entitlements may vest between three and five years following award date and are generally conditional on the Executive remaining employed. To the extent that Entitlements vest, they may be converted into shares within eight years of the award date in proportion to the gain in share price. Entitlements will lapse on the eighth anniversary of the date of award.

The first index is determined as the percentile performance of Qantas (based on average relative TSR) within a modified S&P/ASX 200 Industrials Index. The index excludes Banks, Infrastructure and Utilities, Insurance, Investments and Financial Services, Media, Property Trusts and Telecommunications. At grant date it included 86 stocks.

At grant date, the basket of global airlines included Air Canada, Air New Zealand, AMR Corporation (American Airlines), British Airways, Cathay Pacific, Delta Airlines, Japan Airlines, KLM Royal Dutch Airlines (data no longer applicable), Lufthansa, Northwest Airlines, Singapore Airlines and UAL Corporation (United Airlines).

This performance condition aligns remuneration and growth in shareholder value. The plan was suspended in July 2002.

For further details of the QLTEIP, see page 110.

Concessionary Travel Entitlements

Travel concessions are provided to all permanent Qantas employees, consistent with practice in the airline industry. Travel at concessionary prices is on a sub-load basis, i.e. subject to considerable restrictions and limits on availability. It includes specified direct family members or parties. There is also a post-retirement element of this entitlement for staff who qualify through retirement or redundancy.

In addition to this and consistent with practice in the airline industry, a small number of Director and senior Executives and their specified direct family members or parties are entitled to a number of free trips for personal purposes. The present value of these entitlements is accrued over the expected service of the individual. Eligibility for new participants is generally restricted to members of the Qantas Executive Team.

Service Payments

For Executives appointed to senior roles, fixed-term contracts of up to five years were, until 2004, agreed on appointment. This could also involve eligibility for a service payment, provided that a period of five years service was completed under the fixed-term contract.

Where the service period has been completed and a new ongoing contract signed, the Executive may request settlement of the service payment.

The approach adopted since 2006 has been to have ongoing contracts of employment for all Executives with no end of contract payments.

Continuous Improvement

Qantas regularly reviews all elements of its Executive remuneration philosophy and objectives to ensure they are appropriate from the perspective of governance, disclosure, reward and market conditions.

1 The relevant plan for the Executive Directors is the 2002 Executive Director Long-Term Incentive Plan.

Remuneration Report (Audited) continued
Director and Executive Remuneration Disclosures

Summary of eligibility
Set out below is a summary of each of the elements of remuneration provided to Key Management Personnel:

		Key Management Personnel		
	Elements of Remuneration	Non-Executive Directors	Executive Directors	Executives
Fixed remuneration	Fixed Annual Remuneration	✓	✓	✓
	Superannuation contributions	✓	✓	✓
	Travel entitlements	✓	✓	✓
	Other benefits	✓	✓	✓
Short-term incentives	Performance Cash Plan	–	✓	✓
Medium-term incentives	Performance Share Plan	–	✓	✓
Long-term incentives	Performance Rights Plan	–	✓	✓
	Retention Plan	–	✓	✓
Legacy plans	2002 Executive Director Long-Term Incentive Plan/ Senior Manager Long-Term Incentive Plan	–	✓	✓
	Qantas Long-Term Executive Incentive Plan	–	✓	✓
Post employment	End of service payments (discontinued)	–	–	✓
	Travel entitlements	✓	✓	✓

Other Benefits
Non-cash benefits outlined in the remuneration tables include salary sacrifice components such as motor vehicles, memberships of appropriate professional associations, taxation and financial advice and travel entitlements. Industry-standard travel entitlements are in addition to FAR.

Statutory, salary sacrifice or defined benefit superannuation payments are made on behalf of Executives.

Other long-term benefits include the accrual of statutory long service leave for Executives.

Non-Executive Directors (NEDs)
Non-Executive Director FAR is determined within an aggregate Directors' fee pool limit. An annual total pool of $2.5 million was approved by shareholders at the 2004 AGM. FAR comprises Directors' fees, Committee fees and superannuation.

FAR and payments to NEDs reflect the demands and responsibilities which are made of NEDs and reflect the advice of independent remuneration consultants to ensure NED FAR and salary sacrifice payments are appropriate. The level of NED FAR is reviewed annually.

Remuneration Report (Audited) continued
Director and Executive Remuneration Disclosures continued

Set out in the following tables are the remuneration for the KMP during the year ended 30 June 2007:

Remuneration of Directors for the Year Ended 30 June 2007

		Short-Term Employee Benefits				Post Employment Benefits				Other Long-Term Benefits	Share-Based Payment[1]	Total
Directors	Year	Cash FAR $	Cash Incentives $	Non-Cash Benefits $	Total $	End of Service $	Super-annuation $	Travel $	Total $	$	$	$
Margaret Jackson, Chairman	**2007**	**453,388[2]**	**–**	**110,911**	**564,299**	**–**	**12,686**	**15,700**	**28,386**	**–**	**–**	**592,685**
	2006	447,617	–	59,591	507,208	–	12,139	15,400	27,539	–	–	534,747
Paul Anderson, Non-Executive Director	**2007**	**154,800**	**–**	**1,688**	**156,488**	**–**	**–**	**7,350**	**7,350**	**–**	**–**	**163,838**
	2006	146,400	–	10,634	157,034	–	–	7,200	7,200	–	–	164,234
Mike Codd, Non-Executive Director	**2007**	**101,287[2]**	**–**	**34,201**	**135,488**	**–**	**105,113**	**7,350**	**112,463**	**–**	**–**	**247,951**
	2006	94,613	–	42,426	137,039	–	100,587	7,200	107,787	–	–	244,826
Peter Cosgrove,[3] Non-Executive Director	**2007**	**83,957[2]**	**–**	**51,485**	**135,442**	**–**	**96,643**	**7,350**	**103,993**	**–**	**–**	**239,435**
	2006	146,970	–	37,243	184,213	–	11,878	7,200	19,078	–	–	203,291
Patricia Cross, Non-Executive Director	**2007**	**80,343[2]**	**–**	**155,251**	**235,594**	**–**	**42,385**	**7,350**	**49,735**	**–**	**–**	**285,329**
	2006	64,757	–	153,544	218,301	–	25,000	7,200	32,200	–	–	250,501
Garry Hounsell,[4] Non-Executive Director	**2007**	**217,914**	**–**	**78,965**	**296,879**	**–**	**12,686**	**7,350**	**20,036**	**–**	**–**	**316,915**
	2006	134,312	–	34,071	168,383	–	12,088	7,200	19,288	–	–	187,671
James Packer, Non-Executive Director	**2007**	**118,349**	**–**	**–**	**118,349**	**–**	**10,651**	**7,350**	**18,001**	**–**	**–**	**136,350**
	2006	111,927	–	–	111,927	–	10,073	7,200	17,273	–	–	129,200
John Schubert, Non-Executive Director	**2007**	**167,914**	**–**	**6,589**	**174,503**	**–**	**12,686**	**7,350**	**20,036**	**–**	**–**	**194,539**
	2006	158,661	–	9,678	168,339	–	12,139	7,200	19,339	–	–	187,678
James Strong, Non-Executive Director	**2007**	**167,914**	**–**	**31,138**	**199,052**	**–**	**12,686**	**7,350**	**20,036**	**–**	**–**	**219,088**
	2006	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Geoff Dixon, Chief Executive Officer	**2007**	**2,180,168[5]**	**2,915,000**	**259,217**	**5,354,385**	**–**	**67,058**	**32,400**	**99,458**	**98,065**	**1,155,343**	**6,707,251**
	2006	2,018,514	1,011,780	289,247	3,319,541	465,000	100,587	31,800	597,387	100,644	1,253,903	5,271,475
Peter Gregg, Chief Financial Officer and EGM Strategy	**2007**	**1,251,010[5]**	**1,494,000[6]**	**213,587**	**2,958,597**	**–**	**36,000**	**32,400**	**68,400**	**99,039**	**1,031,024**	**4,157,060**
	2006	1,185,836	501,875	211,161	1,898,872	867,000	48,953	31,800	947,753	87,167	726,538	3,660,330
Total remuneration for Directors	**2007**	**4,977,044**	**4,409,000**	**943,032**	**10,329,076**	**–**	**408,594**	**139,300**	**547,894**	**197,104**	**2,186,367**	**13,260,441**
	2006	4,509,607	1,513,655	847,595	6,870,857	1,332,000	333,444	129,400	1,794,844	187,811	1,980,441	10,833,953
Jim Kennedy, Non-Executive Director (1 Jul 05 - 30 Jun 06)	**2007**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
	2006	195,200	–	16,325	211,525	–	–	7,200	7,200	–	–	218,725
Total remuneration for Directors	**2007**	**4,977,044[7]**	**4,409,000**	**943,032**	**10,329,076**	**–**	**408,594**	**139,300**	**547,894**	**197,104**	**2,186,367**	**13,260,441**
	2006	4,704,807	1,513,655	863,920	7,082,382	1,332,000	333,444	136,600	1,802,044	187,811	1,980,441	11,052,678

1 Refer to page 66 for details of Share-Based Payments.

2 Cash FAR for the Non-Executive Directors is stated after deducting statory superannuation contribtions and the following additional salary sacrificed amounts: $49,926 (2006: $28,244) for Ms Jackson, $92,427 (2006: $88,448) for Mr Codd, $86,342 (2006: $69,555) for Mrs Cross and $83,957 (2006: nil) for General Cosgrove.

3 General Cosgrove receives payments for services rendered as a Director of Qantas Superannuation Limited.

4 Mr Hounsell was paid an additional fee of $50,000 for chairing the Target Statement Committee during the Airline Partner Australia Offer.

5 Mr Dixon's FAR for the year was $2,310,000 from 1 July 2006 to 31 December 2006 and $2,430,000 from 1 January 2007 to 30 June 2007 (2006: $2,235,000) less salary sacrificed components of $189,832 (2006: $216,486). Mr Gregg's FAR for the year was $1,375,000 from 1 July 2006 to 31 December 2006 and $1,450,000 from 1 January 2007 to 30 June 2007 (2006: $1,342,500) less salary sacrificed components of $161,490 (2006: $156,664).

6 Mr Gregg was paid an additional cash incentive of $44,000 during the year.

7 Total NED Cash FAR paid inclusive of additional salary sacrificed elements was $1,858,518 (2006: $1,686,704). Effective 1 July 2006, each Director was paid an annual base fee inclusive of superannuation of $129,000 (2006: $122,000), and the Chairman $516,000 (2006: $488,000) which includes Committee fees. Committee fees for other NEDs were $25,800 (2006: $24,400) per Committee Membership and $51,600 (2006: $48,800) per Committee Chairmanship.

Remuneration Report (Audited) continued
Director and Executive Remuneration Disclosures continued

Remuneration of Directors for the Year Ended 30 June 2007 continued

1 Share-Based Payment	Year	Equity Settled PSP $	PRP $	Exec Director LTI $	RP $	Total $
Geoff Dixon	**2007**	**532,843**	**622,500**	**–**	**–**	**1,155,343**
	2006	572,805	491,625	189,473	–	1,253,903
Peter Gregg	**2007**	**319,706**	**219,094**	**27,174**	**465,050**	**1,031,024**
	2006	334,233	197,762	194,543	–	726,538
Total	**2007**	**852,549**	**841,594**	**27,174**	**465,050**	**2,186,367**
	2006	907,038	689,387	384,016	–	1,980,441

Directors' and Officers' liability insurance has not been included in the above figures since it is not possible to determine an appropriate allocation basis.

Non-Executive Directors do not receive any performance related remuneration.

Remuneration of Key Management Executives for the Year Ended 30 June 2007

Key Management and Highest Remunerated Executives	Year	Short-Term Employee Benefits Cash FAR $	Cash Incentives $	Non-Cash Benefits $	Total $	Post Employment Benefits End of Service $	Super-annuation $	Travel $	Total $	Other Long-Term Benefits $	Share-Based Payment[1] $	Termin-ation Benefits $	Total $
John Borghetti,	**2007**	**1,119,474**	**1,380,000**	**183,720**	**2,683,194**	**196,500**	**159,389**	**15,700**	**371,589**	**90,812**	**936,328**	**–**	**4,081,923**
EGM Qantas	2006	982,003	478,000	192,762	1,652,765	643,500	122,922	15,400	781,822	352,325	435,547	–	3,222,459
Kevin Brown,	**2007**	**673,573**	**625,000**	**186,114**	**1,484,687**	**53,333**	**42,385**	**15,700**	**111,418**	**20,000**	**653,945**	**–**	**2,270,050**
EGM People	2006	645,228	234,000	198,222	1,077,450	211,334	40,560	15,400	267,294	26,458	286,021	–	1,657,223
David Cox,	**2007**	**607,076**	**505,000**	**102,211**	**1,214,287**	**–**	**42,385**	**15,700**	**58,085**	**17,000**	**605,502**	**–**	**1,894,874**
EGM Engineering	2006	599,785	199,000	38,496	837,281	105,000	12,139	15,400	132,539	67,918	222,556	–	1,260,294
Grant Fenn,	**2007**	**680,113**	**625,000**	**210,506**	**1,515,619**	**–**	**42,385**	**15,700**	**58,085**	**20,000**	**657,915**	**–**	**2,251,619**
EGM Freight Enterprises	2006	693,037	234,000	180,099	1,107,136	70,000	12,139	15,400	97,539	39,916	294,204	–	1,538,795
Alan Joyce,	**2007**	**778,646**	**775,000**	**105,592**	**1,659,238**	**250,000**	**42,385**	**15,700**	**308,085**	**58,068**	**638,571**	**–**	**2,663,962**
CEO Jetstar	2006	608,066	210,000	70,275	888,341	156,667	40,560	15,400	212,627	25,719	296,843	–	1,423,530
Total remuneration Key Management Executives	**2007**	**3,858,882**	**3,910,000**	**788,143**	**8,557,025**	**499,833**	**328,929**	**78,500**	**907,262**	**205,880**	**3,492,261**	**–**	**13,162,428**
	2006	3,528,119	1,355,000	679,854	5,562,973	1,186,501	228,320	77,000	1,491,821	512,336	1,535,171	–	9,102,301
Denis Adams,	**2007**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
EGM Associated Businesses (1 Jul 05 - 31 Dec 05)	2006	357,743	–	48,375	406,118	45,000	6,070	15,400	66,470	16,177	140,380	1,358,024	1,987,169
Total remuneration Key Management Executives	**2007**	**3,858,882**	**3,910,000**	**788,143**	**8,557,025**	**499,833**	**328,929**	**78,500**	**907,262**	**205,880**	**3,492,261**	**–**	**13,162,428**
	2006	3,885,862	1,355,000	728,229	5,969,091	1,231,501	234,390	92,400	1,558,291	528,513	1,675,551	1,358,024	11,089,470

1 Refer to page 67 for details of Share-Based Payments.

Remuneration Report (Audited) continued
Director and Executive Remuneration Disclosures continued

Remuneration of Key Management Executives for the Year Ended 30 June 2007 continued

1 Share-Based Payment	Year	Equity Settled PSP $	PRP $	Sen Mgr LTI $	RP $	Total $
John Borghetti	**2007**	**288,858**	**170,353**	**46,800**	**430,317**	**936,328**
	2006	217,715	125,032	92,800	–	435,547
Kevin Brown	**2007**	**136,950**	**105,368**	**35,100**	**376,527**	**653,945**
	2006	130,256	86,165	69,600	–	286,021
David Cox	**2007**	**115,868**	**95,321**	**17,786**	**376,527**	**605,502**
	2006	111,647	75,636	35,273	–	222,556
Grant Fenn	**2007**	**136,950**	**109,338**	**35,100**	**376,527**	**657,915**
	2006	130,256	94,348	69,600	–	294,204
Alan Joyce	**2007**	**142,861**	**101,397**	**17,786**	**376,527**	**638,571**
	2006	188,052	73,518	35,273	–	296,843
Total	**2007**	**821,487**	**581,777**	**152,572**	**1,936,425**	**3,492,261**
	2006	777,926	454,699	302,546	–	1,535,171

Directors' and Officers' liability insurance has not been included in the above figures since it is not possible to determine an appropriate allocation basis.

Executives are assumed to use their annual leave benefit in any year and any leave not taken at termination will be reflected in their termination benefit.

Remuneration Components as a Proportion of Total Remuneration	Performance Related Remuneration – Cash-Based PCP	Equity-Based PSP, RP & Sen Mgr LTI[2]	PRP	Total	FAR & Other[1]	Total
Geoff Dixon	43%	8%	9%	60%	40%	**100%**
Peter Gregg	36%	20%	5%	61%	39%	**100%**
John Borghetti	34%	19%	4%	57%	43%	**100%**
Kevin Brown	28%	24%	5%	57%	43%	**100%**
David Cox	27%	27%	5%	59%	41%	**100%**
Grant Fenn	28%	24%	5%	57%	43%	**100%**
Alan Joyce	29%	21%	4%	54%	46%	**100%**

1 Other Remuneration consists of travel entitlements, the annual accrual of end of service payments and other benefits.
2 In the case of Mr Dixon and Mr Gregg, this was the 2002 Executive Director Long-Term Incentive Plan.

The total percentages are derived from the remuneration tables on pages 65 to 66. As the remuneration table is prepared on an accrual basis and the equity benefit is valued at grant date in accordance with Accounting Standards, the percentages disclosed do not reflect the annual allocation of performance related remuneration. To understand the target annual reward mixes of each of the Executives, refer to page 63.

In accordance with the Corporations Regulations 2M.3.03 and Schedule 5B the following information is provided:

	Cash Plan Incentive Awarded	Cash Plan Incentive Forfeited	Share-Based Payment Awarded	Share-Based Payment Forfeited	Performance Remuneration Affecting Future Periods[1] 2008	2009	2010
Geoff Dixon	200%	–	86%	14%	1,899,586	1,080,005	356,914
Peter Gregg	200%	–	86%	14%	1,400,670	967,577	118,971
John Borghetti	200%	–	86%	14%	2,644,580	1,270,752	391,060
Kevin Brown	195%	–	84%	16%	1,964,297	964,914	302,857
David Cox	186%	–	80%	20%	1,918,605	940,800	292,150
Grant Fenn	195%	–	84%	16%	1,964,297	964,914	302,857
Alan Joyce	200%	–	86%	14%	2,183,475	1,053,431	337,829

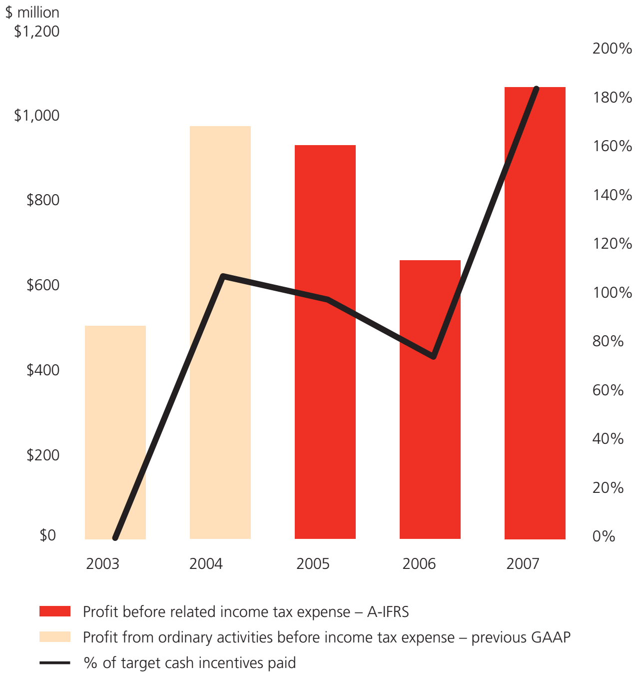
1 Performance remuneration granted under the Performance Equity Plan for the 2006/07 year provides remuneration in future years. The maximum value has been determined at grant date based on anticipated performance hurdles and amortised in accordance with the accounting standard. The minimum value of the grant is nil should performance conditions not be satisfied. Performance remuneration granted in prior years has been included in the above disclosure. This disclosure includes the 2007 final dividend payable on 26 September 2007 (and any related distributions payable by the Qantas Deferred Share Plan Trustee) but does not include future dividends yet to be declared.

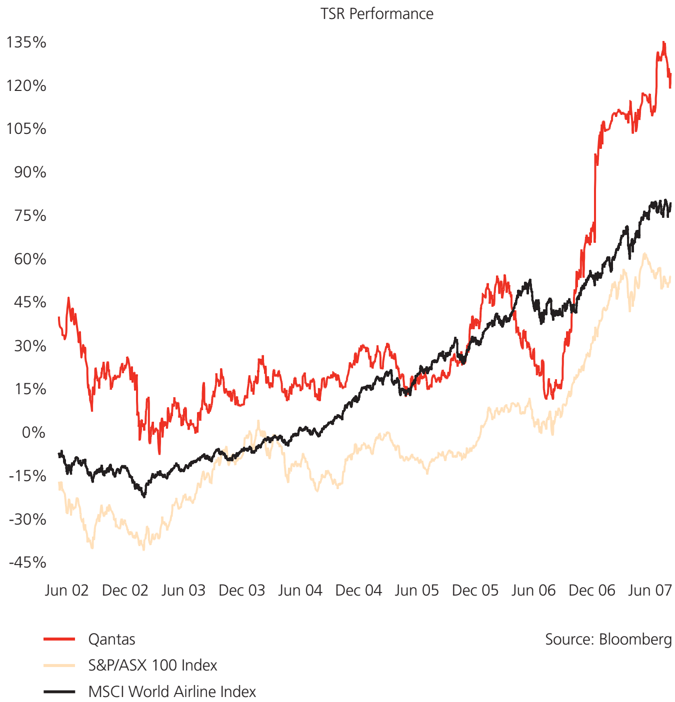
Remuneration Report (Audited) continued
Director and Executive Remuneration Disclosures continued

Summary of Performance Conditions

Link between Remuneration Policy and Qantas' performance

The graph on the left below shows Qantas' full-year profit before related income tax expense and the percentage of target cash incentives that were paid to Executives over the past five financial years. The graph on the right below shows Qantas' TSR performance compared to the S&P/ASX 100 Index and the MSCI World Airline Index over the past five years.





In line with the Executive Remuneration Philosophy and Objectives, FAR is set with reference to market data and is not related to Qantas' performance in a specific year. The outcomes for the PCP (short-term incentive plan) are related to Qantas' financial results. The PSP outcomes are driven by performance against the achievement of a Balanced Scorecard relating to Customer, Operational, People and Financial performance (medium-term incentive plan). TSR (including dividends, changes in the Qantas share price and return of capital if applicable) is used for the PRP (long-term incentive plan).

Relationship Between Cash Incentives and Qantas' Performance

As indicated in the graph above, cash incentives were paid in four out of the past five years. In line with Qantas' achievement against its financial targets in these years, cash incentives were:

- not paid for 2002/03;
- paid at 110 per cent of target for 2003/04;
- paid at 100 per cent of target for 2004/05; and
- paid at 73 per cent of target for 2005/06.

The 2006/07 cash incentives were paid, having been approved for payment on 15 August 2007, at 186 per cent of 'at target' opportunity.

For 2002/03 and again for 2005/06 and 2006/07, a PBT target determined the pool of money available for payment and in 2003/04 and 2004/05 the pool of money available was subject to the achievement of a RoTGA target for members of the Executive Team and a target of earnings before depreciation, rentals, interest and tax for other Executives. For 2002/03 to 2004/05, these targets were calculated under previous GAAP.

Relationship Between Employee Equity and Qantas' Performance

Allocations under the 2006/07 PSP are dependent on the corporate performance of Qantas against a Balanced Scorecard. One hundred per cent of the target level of performance shares were awarded to Executives in 2003/04 and 2004/05 and 95 per cent of the target level of performance shares were awarded to Executives in 2005/06. For 2006/07, the Board assessed 80 per cent achievement on the Balanced Scorecard and awarded 80 per cent of the target level of performance shares to Executives.

Reward outcomes under the 2004/05, 2005/06 and 2006/07 PRP are linked to Qantas' performance because the vesting of these Rights is dependent on Qantas' performance against the S&P/ASX 100 Index and a basket of international airlines. This performance hurdle rewards Qantas' Executives for Qantas' TSR growth in comparison to the TSR growth rates of its two peer groups over the three to five year performance period.

Remuneration Report (Audited) continued
Director and Executive Remuneration Disclosures continued

Summary of Key Contract Terms

Non-Executive Directors

In addition to FAR and the associated superannuation contributions, all Non-Executive Directors and eligible beneficiaries receive travel entitlements. The Chairman is entitled to four international trips and 12 domestic trips per calendar year and all other Non-Executive Directors are entitled to two international trips and six domestic trips each calendar year. These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement relates. Post employment, the Chairman is entitled to two international trips and six domestic trips per year of service and all other Non-Executive Directors are entitled to one international trip and three domestic trips per year of service.

Executive Directors

The key contract and other terms of the Executive Directors are set out below:

Contract details	Geoff Dixon	Peter Gregg
Length of existing contract	Ongoing	Ongoing
Fixed Annual Remuneration	$2,310,000 (1 Jul 2006 – 31 Dec 2006) $2,430,000 (from 1 Jan 2007)	$1,375,000 (1 Jul 2006 – 31 Dec 2006) $1,450,000 (from 1 Jan 2007)
	FAR can be taken as cash or non-cash components such as motor vehicles and superannuation contributions.	
End of service payments	As disclosed in the 2006 Remuneration Report, end of service payments under Mr Dixon's previous employment contract were cancelled and the preserved entitlements of 37.2 months FAR plus $500,000 under that contract were not paid.	As disclosed in the 2006 Remuneration Report, end of service payments under Mr Gregg's previous employment contract were cancelled and the entitlements of 36 months FAR plus $395,000 under that contract were not paid.
Payment on signing new contract	As announced at the time, on signing his current contract of employment on 8 August 2006, Mr Dixon received a benefit totalling $7,660,000 paid as a superannuation contribution. Mr Dixon's new employment contract does not contain any retirement entitlements other than the notice provisions of six months by Mr Dixon and 12 months by Qantas.	As announced at the time, on signing his current contract of employment on 8 August 2006, Mr Gregg received a cash payment of $4,520,000. Mr Gregg's new employment contract does not contain any retirement entitlements other than the notice provisions of six months by Mr Gregg and 12 months by Qantas.
Termination of employment	Termination without notice: employment can be terminated immediately without notice (or payment in lieu of notice) if, in the opinion of the CEO (or the Board in the case of the CEO), the Executive is or has been engaged in serious misconduct, becomes bankrupt or makes an arrangement or composition with creditors or wilfully and persistently breaches their employment contract.	
	Termination with notice: employment can be terminated during the contract period with 12 months written notice.	
	Voluntary termination: voluntary termination requires written notice of six months.	
Equity Awards	Equity awards are issued on the same basis as awards to other Qantas Executives, and are governed by the Terms and Conditions of the Deferred Share Plan and the Rules approved for each grant. Generally, any Rights which have not vested lapse on cessation of employment. Mr Dixon's employment agreement provides that, at termination, unvested Rights awarded under the PRP will remain in force (as if the CEO was remaining in employment), subject to both of the following conditions: • if termination is initiated by Qantas, there will be a pro rata continuation of awards at termination for the parts of the performance period served under each award; and • any awards where less than 18 months of the performance period relating to that award has been served will lapse. This approach reflects practice for Chief Executive Officers in certain S&P/ASX 50 companies. No vesting is allowed on long-term equity awards where less than 18 months of the performance period has been served.	
Travel entitlements	Available to the Executive and eligible beneficiaries: Each calendar year whilst employed and post employment: • four international trips • 12 domestic trips	• four international trips • 12 domestic trips
Performance Cash Plan	Target of 60% of FAR	Target of 50% of FAR
	Actual PCP may be greater than or less than the target amount as determined by the Board to reflect achievement of personal key performance indicators. Following reward benchmarking, for the 2007/08 performance year, the Board has approved an increase to the target cash incentive for Mr Dixon to 75 per cent of FAR and for Mr Gregg to 65 per cent of FAR.	

Remuneration Report (Audited) continued
Director and Executive Remuneration Disclosures continued

Summary of Key Contract Terms continued
Key Management Executives

Contract details	John Borghetti	Kevin Brown	David Cox	Grant Fenn	Alan Joyce
Existing contract end date	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Fixed Annual Remuneration	$1,310,000 (from 1 Jul 2006 - 31 Dec 2006) $1,380,000 (from 1 Jan 2007)	$800,000	$680,000	$800,000	$720,000 (from 1 Jul 2006 - 31 Dec 2006) $970,000 (from 1 Jan 2007)
	FAR can be taken as cash or non-cash components such as motor vehicles and superannuation contributions.				
End of service payments	Expressed as number of months FAR if completed at least five years service under a fixed contract. Paid at conclusion of employment with Qantas or at the request of the Executive.				
	n/a	12 months	n/a	12 months	12 months
Termination of employment	Termination without notice: employment can be terminated immediately without notice (or payment in lieu of notice) if, in the opinion of the CEO, the Executive is or has been engaged in serious misconduct, becomes bankrupt or makes an arrangement or composition with creditors, or wilfully and persistently breaches their employment contract.				
	Termination with notice: employment can be terminated during the contract period with 12 months written notice or payment in lieu.				
	Voluntary termination: voluntary termination requires written notice. The contract notice periods are between three and six months, however Qantas may choose to make payment in lieu.				
	Mr Brown is entitled to six months FAR if his employment is not required by an incoming CEO or he is offered a position which is significantly diminished in terms of responsibility.				
Travel entitlements	Key Management Executives and eligible beneficiaries are entitled to between two and four international and six and 12 domestic trips per annum, at no cost to the individual. Post employment the entitlements are two international and six domestic trips.				
Performance Cash Plan	Target of 50% of FAR	Target of 40% of FAR	Target of 40% of FAR	Target of 40% of FAR	Target of 40% of FAR
	Actual PCP may be greater than or less than the target amount, as determined by the Remuneration Committee, to reflect achievement of personal key performance indicators. For the 2007/08 performance year, the Board has approved an increase to target cash incentive for Mr Borghetti from 50 per cent to 65 per cent of FAR and for other executives in the Key Management Personnel group from 40 per cent to 55 per cent of FAR.				

Environmental Obligations (Unaudited)
The Qantas Group's operations are subject to a range of Commonwealth, State, Territory and international environmental legislation. The Qantas Group is committed to a high standard of environmental performance and the Board places particular focus on the environmental aspects of its operations through the SESC, which is responsible for monitoring compliance with these regulations and reporting to the Board.

The Directors are satisfied that adequate systems are in place for the management of the Qantas Group's environmental exposures and environmental performance. The Directors are also satisfied that all relevant licences and permits are held and that appropriate monitoring procedures are in place to ensure compliance with those licences and permits. Any significant environmental incidents are reported to the Board.

The Directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the year which are material in nature.

Indemnities and Insurance (Unaudited)
Under the Qantas Constitution, Qantas indemnifies, to the extent permitted by law, each Director and Secretary of Qantas against any liability incurred by that person as an officer of Qantas.

The Directors listed on pages 40 to 43 and the Secretary of Qantas, being Cassandra Hamlin, have the benefit of the indemnity in the Qantas Constitution. Members of the Qantas Executive Team listed on page 43 have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board of Directors. In respect of non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2006/07 or to the date of this report.

Qantas has insured against amounts which it may be liable to pay on behalf of Directors and Officers or which it otherwise agrees to pay by way of indemnity.

During the year, Qantas paid a premium for Directors' and Officers' liability insurance policies, which cover all Directors and Officers of the Qantas Group. Details of the nature of the liabilities covered, and the amount of the premium paid in respect of, the Directors' and Officers' insurance policies are not disclosed, as such disclosure is prohibited under the terms of the contracts.

Non-Audit Services

During the year, KPMG, Qantas' auditor, has performed certain other services in addition to its statutory duties.

The Directors are satisfied that:

a. the non-audit services provided during the 2006/07 financial year by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and

b. any non-audit services provided during the 2006/07 financial year by KPMG as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

   i. KPMG services have not involved partners or staff acting in a managerial or decision making capacity within the Qantas Group or being involved in the processing or originating of transactions;

   ii. KPMG non-audit services have only been provided where Qantas is satisfied that the related function or process will not have a material bearing on the audit procedures;

   iii. KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes;

   iv. a description of all non-audit services undertaken by KPMG and the related fees have been reported to the Board to ensure complete transparency in relation to the services provided; and

   v. the declaration required by section 307C of the Corporations Act confirming independence has been received from KPMG.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included below.

Details of the amounts paid to the auditor of Qantas, KPMG, for audit and non-audit services provided during the year are set out in Note 5 to the Financial Statements.

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 audit for the financial year ended 30 June 2007, there have been:

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

KPMG

Martin Sheppard
Partner

Sydney, 27 August 2007

Rounding

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

Signed pursuant to a Resolution of the Directors:

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

27 August 2007

Income Statements

for the year ended 30 June 2007

		Qantas Group		Qantas	
Sales and Other Income	**Notes**	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Net passenger revenue		**11,911.9**	10,504.0	**10,122.3**	8,982.7
Net freight revenue		**902.5**	887.8	**902.0**	887.2
Tours and travel revenue		**767.5**	719.4	**–**	–
Contract work revenue		**434.3**	469.0	**348.6**	359.4
Other		**1,149.5**	1,080.4	**1,317.7**	1,096.4
Sales and other income	2, 30	**15,165.7**	13,660.6	**12,690.6**	11,325.7
Expenditure					
Manpower and staff related		**3,334.7**	3,321.7	**2,715.2**	2,681.1
Aircraft operating variable		**2,616.4**	2,525.3	**2,373.2**	2,229.0
Fuel		**3,336.8**	2,802.3	**2,927.0**	2,434.8
Selling and marketing		**503.4**	469.6	**488.5**	457.4
Property		**350.5**	320.1	**309.0**	277.3
Computer and communication		**527.0**	487.5	**461.5**	420.7
Tours and travel		**641.7**	591.2	**–**	–
Capacity hire		**303.2**	369.6	**290.2**	341.8
Ineffective derivatives – closed positions		**67.6**	71.3	**67.6**	71.3
Other		**651.8**	436.8	**573.8**	344.4
Depreciation and amortisation	30	**1,362.7**	1,249.8	**1,266.8**	1,110.0
Non-cancellable operating lease rentals		**415.3**	355.7	**442.9**	345.0
Share of net profit of associates and jointly controlled entities	27	**(46.5)**	(38.9)	**–**	–
Expenditure		**14,064.6**	12,962.0	**11,915.7**	10,712.8
Operating result		**1,101.1**	698.6	**774.9**	612.9
Ineffective derivatives – open positions		**(54.1)**	27.2	**(54.1)**	27.2
Profit before related income tax expense and net finance costs	30	**1,047.0**	725.8	**720.8**	640.1
Finance income	2	**244.0**	163.3	**226.6**	146.6
Finance costs	3	**(258.9)**	(217.9)	**(272.3)**	(227.6)
Net finance costs		**(14.9)**	(54.6)	**(45.7)**	(81.0)
Profit before related income tax expense	30	**1,032.1**	671.2	**675.1**	559.1
Income tax expense	4	**(312.5)**	(191.2)	**(216.5)**	(167.1)
Profit for the year	30	**719.6**	480.0	**458.6**	392.0
Attributable to:					
Members of Qantas		**719.4**	479.5	**458.6**	392.0
Minority interest		**0.2**	0.5	**–**	–
Profit for the year	30	**719.6**	480.0	**458.6**	392.0
Earnings per share attributable to members of Qantas:					
Basic earnings per share (cents)	31	**36.4**	24.9		
Diluted earnings per share (cents)	31	**36.4**	24.8		
Dividend per share (cents)	29	**30.0**	22.0		

Balance Sheets

as at 30 June 2007

		Qantas Group		Qantas	
Current Assets	Notes	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Cash and cash equivalents	6	**3,362.9**	2,902.0	**3,409.3**	2,979.1
Receivables	7	**1,376.8**	1,124.3	**1,214.0**	1,194.2
Other financial assets		**604.8**	476.7	**605.8**	473.5
Inventories	8	**180.3**	334.8	**124.1**	297.3
Assets classified as held for sale	9	**5.4**	24.2	**1.8**	14.7
Other		**103.8**	86.4	**91.8**	69.1
Total current assets		**5,634.0**	4,948.4	**5,446.8**	5,027.9
Non-current Assets					
Receivables	7	**372.7**	342.0	**1,155.9**	1,155.2
Other financial assets		**537.7**	766.8	**537.7**	766.8
Investments accounted for using the equity method	27	**372.6**	372.9	**–**	–
Other investments	10	**3.1**	53.7	**580.0**	555.9
Property, plant and equipment	11	**12,308.3**	12,375.0	**10,970.1**	11,087.5
Intangible assets	12	**365.9**	311.7	**233.1**	199.7
Deferred tax assets	13	**0.3**	2.9	**–**	–
Other		**11.1**	9.9	**10.8**	8.2
Total non-current assets		**13,971.7**	14,234.9	**13,487.6**	13,773.3
Total assets	30	**19,605.7**	19,183.3	**18,934.4**	18,801.2
Current Liabilities					
Payables	14	**2,005.7**	1,985.3	**1,938.3**	1,799.5
Interest-bearing liabilities	15	**863.7**	440.8	**1,187.9**	723.8
Other financial liabilities		**383.7**	139.2	**381.8**	158.5
Provisions	16	**534.4**	469.0	**470.0**	410.0
Current tax liabilities		**153.6**	72.4	**151.6**	70.9
Revenue received in advance		**2,533.6**	2,282.8	**2,267.4**	2,107.5
Deferred lease benefits/income		**29.3**	37.5	**25.5**	33.6
Total current liabilities		**6,504.0**	5,427.0	**6,422.5**	5,303.8
Non-current Liabilities					
Interest-bearing liabilities	15	**4,210.9**	5,334.8	**4,648.4**	5,818.8
Other financial liabilities		**767.8**	352.2	**767.8**	352.2
Provisions	16	**481.9**	479.7	**439.8**	439.9
Deferred tax liabilities	13	**675.6**	701.2	**680.6**	705.5
Revenue received in advance		**701.5**	708.5	**701.5**	708.5
Deferred lease benefits/income		**69.0**	98.8	**60.4**	86.0
Total non-current liabilities		**6,906.7**	7,675.2	**7,298.5**	8,110.9
Total liabilities	30	**13,410.7**	13,102.2	**13,721.0**	13,414.7
Net assets		**6,195.0**	6,081.1	**5,213.4**	5,386.5
Equity					
Issued capital	17	**4,481.2**	4,382.2	**4,481.2**	4,382.2
Treasury shares		**(32.6)**	(23.8)	**(32.6)**	(23.8)
Reserves	18	**148.2**	329.3	**148.6**	355.9
Retained earnings		**1,592.3**	1,388.5	**616.2**	672.2
Equity attributable to members of Qantas		**6,189.1**	6,076.2	**5,213.4**	5,386.5
Minority interest		**5.9**	4.9	**–**	–
Total equity		**6,195.0**	6,081.1	**5,213.4**	5,386.5

Statements of Changes in Equity

for the year ended 30 June 2007

Qantas Group	Issued Capital $M	Treasury Shares $M	Employee Compensation Reserve $M	Hedge Reserve $M	Fair Value Reserve $M	Asset Revaluation Reserve $M	Foreign Currency Translation Reserve $M	Retained Earnings $M	Minority Interest $M	Total Equity $M
Balance as at 1 July 2005	4,192.3	(17.8)	13.7	379.0	(28.8)	4.4	(3.5)	1,311.4	4.2	5,854.9
Profit for the year	–	–	–	–	–	–	–	479.5	0.5	480.0
Own shares acquired	–	(9.8)	–	–	–	–	–	–	–	(9.8)
Shares vested to employees	–	3.8	(3.8)	–	–	–	–	–	–	–
Share-based payments	–	–	13.8	–	–	–	–	–	–	13.8
Transfer of hedge reserve to the Income Statement	–	–	–	(351.6)	–	–	–	–	–	(351.6)
Recognition of effective cash flow hedges on capitalised assets	–	–	–	48.9	–	–	–	–	–	48.9
Effective portion of changes in fair value of cash flow hedges	–	–	–	257.0	–	–	–	–	–	257.0
Share of movement in jointly controlled entity's hedge reserve	–	–	–	(1.1)	–	–	–	–	–	(1.1)
Change in fair value of assets available for sale	–	–	–	–	(6.6)	–	–	–	–	(6.6)
Recognition of deferred tax liability on revalued assets	–	–	–	–	–	(0.4)	–	–	–	(0.4)
Foreign currency translation of controlled entities	–	–	–	–	–	–	8.3	–	0.2	8.5
Dividends declared	189.9	–	–	–	–	–	–	(402.4)	–	(212.5)
Balance as at 30 June 2006	4,382.2	(23.8)	23.7	332.2	(35.4)	4.0	4.8	1,388.5	4.9	6,081.1
Profit for the year	–	–	–	–	–	–	–	719.4	0.2	719.6
Own shares acquired	–	(24.5)	–	–	–	–	–	–	–	(24.5)
Shares vested to employees	–	15.7	(13.9)	–	–	–	–	(1.8)	–	–
Share-based payments	–	–	17.2	–	–	–	–	–	–	17.2
Transfer of hedge reserve to the Income Statement	–	–	–	9.7	–	–	–	–	–	9.7
Recognition of effective cash flow hedges on capitalised assets	–	–	–	41.2	–	–	–	–	–	41.2
Effective portion of changes in fair value of cash flow hedges	–	–	–	(263.1)	–	–	–	–	–	(263.1)
Change in fair value of assets available for sale	–	–	–	–	36.9	–	–	–	–	36.9
Foreign exchange impact of fair value reserve transferred to foreign currency translation reserve	–	–	–	–	(1.5)	–	1.5	–	–	–
Foreign currency translation of controlled entities	–	–	–	–	–	–	(9.1)	–	(0.4)	(9.5)
Acquisition of controlled entity	–	–	–	–	–	–	–	–	1.2	1.2
Dividends declared	99.0	–	–	–	–	–	–	(513.8)	–	(414.8)
Balance as at 30 June 2007	4,481.2	(32.6)	27.0	120.0	–	4.0	(2.8)	1,592.3	5.9	6,195.0

Statements of Changes in Equity continued

for the year ended 30 June 2007

Qantas	Issued Capital $M	Treasury Shares $M	Employee Compensation Reserve $M	Hedge Reserve $M	Retained Earnings $M	Total Equity $M
Balance as at 1 July 2005	4,192.3	(17.8)	13.7	377.9	682.3	5,248.4
Profit for the year	–	–	–	–	392.0	392.0
Own shares acquired	–	(9.8)	–	–	–	(9.8)
Shares vested to employees	–	3.8	(3.8)	–	–	–
Share-based payments	–	–	13.8	–	–	13.8
Transfer of hedge reserve to the Income Statement	–	–	–	(351.6)	–	(351.6)
Recognition of effective cash flow hedges on capitalised assets	–	–	–	48.9	–	48.9
Effective portion of changes in fair value of cash flow hedges	–	–	–	257.0	–	257.0
Dividends declared	189.9	–	–	–	(402.1)	(212.2)
Balance as at 30 June 2006	4,382.2	(23.8)	23.7	332.2	672.2	5,386.5
Profit for the year	**–**	**–**	**–**	**–**	**458.6**	**458.6**
Own shares acquired	**–**	**(24.5)**	**–**	**–**	**–**	**(24.5)**
Shares vested to employees	**–**	**15.7**	**(13.9)**	**–**	**(1.8)**	**–**
Share-based payments	**–**	**–**	**17.2**	**–**	**–**	**17.2**
Transfer of hedge reserve to the Income Statement	**–**	**–**	**–**	**9.7**	**–**	**9.7**
Recognition of effective cash flow hedges on capitalised assets	**–**	**–**	**–**	**41.2**	**–**	**41.2**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**–**	**(261.5)**	**–**	**(261.5)**
Dividends declared	**99.0**	**–**	**–**	**–**	**(512.8)**	**(413.8)**
Balance as at 30 June 2007	**4,481.2**	**(32.6)**	**27.0**	**121.6**	**616.2**	**5,213.4**

Cash Flow Statements

for the year ended 30 June 2007

Cash Flows from Operating Activities	Notes	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Cash receipts in the course of operations		**15,707.3**	14,396.1	**13,521.1**	11,554.7
Cash payments in the course of operations		**(13,027.0)**	(12,086.8)	**(11,000.5)**	(9,699.2)
Interest received		**230.2**	165.3	**212.5**	148.2
Interest paid		**(425.1)**	(322.9)	**(353.6)**	(332.4)
Dividends received		**34.4**	37.0	**16.5**	19.7
Income taxes paid		**(166.4)**	(162.7)	**(70.4)**	(110.1)
Net cash from operating activities	33	**2,353.4**	2,026.0	**2,325.6**	1,580.9
Cash Flows from Investing Activities					
Payments for property, plant and equipment and intangible assets[1]		**(1,235.9)**	(1,527.1)	**(1,193.9)**	(1,132.9)
Proceeds from disposal of property, plant and equipment		**47.3**	47.4	**29.6**	40.8
Proceeds from financing of non-current assets[2]		**–**	627.8	**–**	627.8
Proceeds from disposal of investment		**3.2**	–	**–**	–
Payment for controlled entities, net of cash acquired	33	**(32.1)**	–	**(37.6)**	–
Payments for investments		**(2.2)**	(37.3)	**–**	(37.2)
Advances of investment loans		**(0.5)**	(0.4)	**–**	–
Net cash used in investing activities		**(1,220.2)**	(889.6)	**(1,201.9)**	(501.5)
Cash Flows from Financing Activities					
Repayment of borrowings		**(356.2)**	(563.3)	**(363.6)**	(563.6)
Proceeds from borrowings/swaps		**96.2**	632.2	**74.0**	624.4
Receipts from aircraft security deposits		**2.4**	5.0	**9.8**	5.0
Dividends paid[3]		**(414.7)**	(212.1)	**(413.7)**	(211.8)
Net cash used in financing activities		**(672.3)**	(138.2)	**(693.5)**	(146.0)
Net increase in cash and cash equivalents held		**460.9**	998.2	**430.2**	933.4
Cash and cash equivalents held at the beginning of the year		**2,902.0**	1,903.8	**2,979.1**	2,045.7
Cash and cash equivalents at the end of the year	6	**3,362.9**	2,902.0	**3,409.3**	2,979.1

1 As a consequence of the assignment of purchase rights prior to aircraft delivery, contractual payments to manufacturers of nil (2006: $631.1 million) were settled by aircraft lessors.

2 Included in the proceeds from financing of non-current assets was nil (2006: $412.2 million) in relation to nil (2006: 19) aircraft. The rights to these aircraft were sold prior to delivery of the aircraft to a lessor and leased back via operating lease.

3 The DRP was suspended after the payment of the 2006 final dividend. During the year, 28,991,867 (2006: 55,333,681) shares were issued under the DRP. Dividends settled in shares rather than cash during the year totalled $99.0 million (2006: $189.9 million).

Notes to the Financial Statements

for the year ended 30 June 2007

1. Statement of Significant Accounting Policies

Qantas Airways Limited (Qantas) is a company limited by shares incorporated in Australia whose shares are publicly traded on the ASX and which is subject to the operation of the Qantas Sale Act as described in the Corporate Governance Statement.

The consolidated Financial Report of Qantas for the year ended 30 June 2007 comprises Qantas and its controlled entities (together referred to as the Qantas Group) and the Qantas Group's interest in associates and jointly controlled entities.

The Financial Report of Qantas for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 27 August 2007.

(A) Statement of Compliance

The Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB) adopted by the Australian Accounting Standards Board and the Corporations Act. International Financial Reporting Standards (IFRS) form the basis of AASBs adopted by the Australian Accounting Standards Board and for the purpose of this report are called Australian equivalents to IFRS (A-IFRS). The Financial Reports and Notes of the Qantas Group also comply with IFRS and interpretations adopted by the International Accounting Standards Board. The Qantas Financial Report and Notes do not comply with IFRS, as Qantas has elected to apply the relief provided to Parent entities by AASB 132 Financial Instruments: Presentation and Disclosure in respect of certain disclosure requirements.

(B) Basis of Preparation

The Financial Report is presented in Australian dollars and 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. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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

The accounting policies set out below have been consistently applied to all periods presented in the consolidated Financial Report.

Qantas has elected to early adopt all Australian Accounting Standards, Amendments and Interpretations that had been issued by the Australian Accounting Standards Board as of 30 June 2007, except as noted below. No standards adopted early had a material impact on the financial statements.

The following AASB Amendments and Interpretations were not adopted early:

- Interpretation 11 AASB 2 Group and Treasury Share Transactions (Interpretation 11) and the consequential amendments in AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11 (AASB 2007-1);
- AASB 108 Operating Segments (AASB 108) and the consequential amendments in AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (AASB 2007-3); and
- AASB 7 Financial Instruments: Disclosures (applicable for annual reporting periods beginning on or after 1 January 2007) (AASB 7) and the consequential amendments in AASB 2005-10 Amendments to Australian Accounting Standards (various standards) (AASB 2005-10).

Interpretation 11 and AASB 2007-1 are not expected to have an impact on the Financial Statements of the Qantas Group. Qantas is currently undertaking an analysis to determine the potential impact on the individual financial statements of the parent entity.

AASB 108 and AASB 2007-3 will have an impact on the disclosure of operating segments within the Financial Report. Owing to ongoing restructuring of the Qantas Group, it is not considered appropriate to early adopt the standard and its consequential amendments.

Qantas reported in the Financial Report for the year ended 30 June 2006 that AASB 7 and AASB 2005-10 would be adopted in the Annual Report for the year ended 30 June 2007. These standards have not been adopted this year owing to continued international debate over the disclosures required by these standards.

(C) Critical Accounting Estimates and Judgements

The preparation of a Financial Report conforming with AASB requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of AASB that have a significant effect on the Financial Report and estimates with a significant risk of material adjustment in the next year are highlighted in the specific accounting policies detailed below.

(D) Principles of Consolidation

Controlled Entities

Controlled entities are entities controlled by Qantas. Control exists when Qantas has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of controlled entities are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

Investments in controlled entities are carried at their cost of acquisition, less any charge for impairment, in the Financial Statements of Qantas.

1. Statement of Significant Accounting Policies continued

(D) Principles of Consolidation continued

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated Financial Statements.

Minority interests in the results of controlled entities are shown as a separate item in the Qantas Group Financial Statements.

Associates

Associates are those entities in which the Qantas Group has significant influence, but not control, over the financial and operating policies.

In the consolidated Financial Statements, investments in associates are accounted for using equity accounting principles and are carried at the lower of the equity accounted amount and the recoverable amount.

The consolidated Financial Statements include the Qantas Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

The Qantas Group's share of post-acquisition movements in reserves is recognised in reserves in the consolidated Financial Statements. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. Dividends declared by associates are recognised in Qantas' Income Statement, while in the consolidated Financial Statements they reduce the carrying amount of the investment.

When the Qantas Group's share of losses exceeds its interest in an associate, the Qantas Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Qantas Group has incurred legal or constructive obligations or made payments on behalf of an associate.

In the Financial Statements of Qantas, investments in associates are carried at cost less any charge for impairment.

Jointly Controlled Entities

Jointly controlled entities are those entities over whose activities the Qantas Group has joint control, established by contractual agreement.

In the consolidated Financial Statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles and are carried at the lower of the equity accounted amount and the recoverable amount.

The share of the jointly controlled entity's net profit or loss is recognised in the consolidated Income Statement from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in equity. Dividends and distributions declared by jointly controlled entities are recognised in Qantas' Income Statement, while in the consolidated Financial Statements they reduce the carrying amount of the investment.

When the Qantas Group's share of losses exceeds the carrying value of its investment in a jointly controlled entity, the Qantas Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Qantas Group has incurred legal or constructive obligations or made payments on behalf of a jointly controlled entity.

In the Financial Statements of Qantas, investments in jointly controlled entities are carried at cost less any charge for impairment.

(E) Foreign Currency Transactions

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange prevailing at the date of each transaction except where hedge accounting is applied. At balance date, amounts receivable and payable in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting exchange differences are brought to account as exchange gains or losses in the Income Statement in the year in which the exchange rates change. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates prevailing 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 prevailing at balance date. The Income Statements of foreign controlled entities are translated to Australian dollars at rates approximating the foreign exchange rates prevailing 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 foreign controlled entity that is disposed of, or partially disposed of, is recognised in the Income Statement in the year of disposal.

(F) Derivative Financial Instruments

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

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 hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or 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. Changes in underlying market conditions or hedging strategies could result in recognition in the Income Statement of changes in fair value of derivative financial instruments designated as hedges.

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.

1. Statement of Significant Accounting Policies continued

(F) Derivative Financial Instruments continued

Fair Value Hedges
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 Hedges
The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are 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 (i.e. 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 Qantas 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 with respect to 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 as either Ineffective derivatives – closed positions or Ineffective derivatives – open positions.

Amounts shown in Ineffective derivatives – closed positions reflect changes in fair value of any derivative instruments, or part of a derivative instrument, that does not qualify for hedge accounting and the underlying exposure to which the derivative related was recognised in the current financial period.

Ineffective derivatives – open positions reflects changes in fair value of any derivative instrument, or part of any derivative instrument, that does not qualify for hedge accounting and the underlying exposure to which the derivative relates will be recognised in future reporting periods.

Fair Value Calculations
The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market are estimated 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.

Financial Guarantee Contracts
Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or payables of controlled entities or associates and jointly controlled entities are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

This policy was adopted for the first time this year following changes to AASB 139 Financial Instruments: Recognition and Measurement. The new policy has no material impact to this year's financial results or comparatives and as such, a restatement was not required.

(G) Revenue Recognition

Passenger, Freight and Tours and Travel Revenue
Passenger, freight and tours and travel 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. Other sales commissions paid by Qantas are included in expenditure. 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. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends. Changes in these estimation methods could have a material impact on the financial statements of Qantas. Refer also to the Frequent Flyer accounting policy in Note 1(T).

Contract Work Revenue
Revenue from the rendering of services associated with contracts is included in contract work revenue.

Where services performed are in accordance with contractually agreed terms over a short period and are task specific, revenue is recognised when the service has been performed or when the resulting goods' ownership pass to the customer.

Revenue on long-term contracts to provide goods or services is recognised in proportion to the stage of completion of the contract when the stage of contract completion can be reliably measured and otherwise on completion of the contract.

Other Income
Income resulting from claims for liquidated damages is recognised as other income when a contractual entitlement exists, it can be reliably measured (including the impact of the receipt, if any, of the underlying assets' carrying value) and receipt is virtually certain.

Additionally, 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 other miscellaneous income is recognised as other income at the time service is provided.

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

1. Statement of Significant Accounting Policies continued

(G) Revenue Recognition continued

Asset Disposals

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 performing, significant activities, management determines there are no significant limitations on use of the underlying asset and the possibility of reimbursement is considered 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, with the unamoritised balance being held as a deferred lease benefit.

Dividend Revenue

Dividends/distributions from controlled entities are recognised as revenue by Qantas when dividends are declared by the controlled entities. Dividends/distributions from associates, jointly controlled entities and other investments are recognised when dividends are declared.

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

(H) Goods and Services Tax

Revenues, expenses and assets are recognised net 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 Cash Flow Statement 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.

(I) Maintenance and Overhaul Costs

Accounting for the cost of providing major airframe and certain engine maintenance checks for owned aircraft is described in the accounting policy for property, plant and equipment (Note 1(Q)). With respect to operating lease agreements, where the Qantas Group is required to return the aircraft with adherence to certain maintenance conditions, provision is made during the lease term. This provision is based on the present value of the expected future cost of meeting the maintenance return condition having regard to the current fleet plan and long-term maintenance schedules. The present value of non-maintenance return conditions are provided for at the inception of the lease.

All other maintenance costs are expensed as incurred, except engine overhaul costs covered by third party maintenance agreements, which are expensed on the basis of hours flown as there is a transfer of risk and legal obligation to the third party maintenance provider. Modifications that enhance the operating performance or extend the useful lives of airframes or engines are capitalised and depreciated over the remaining estimated useful life of the asset.

(J) Income Tax

Income tax on the Income Statement for the years 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 balance date and any adjustment to tax payable with respect to 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: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in controlled entities 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 substantially enacted at balance date.

A deferred tax asset is recognised only to the extent that management considers 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 provides for income tax in both Australia and overseas jurisdictions where a liability exists.

(K) Tax Consolidation

Qantas is the head entity in the tax consolidated group comprising Qantas and all of its Australian wholly-owned entities and partnerships.[1] 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.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses assumed by the head entity from the controlled entities 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 controlled entities within the tax consolidated group 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 with respect to tax amounts.

1 The tax consolidated group also includes the partnership between Qantas and AAL Aviation Limited and between Qantas Flight Catering Limited and AAL Aviation Limited.

1. Statement of Significant Accounting Policies continued

(K) Tax Consolidation continued

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 tax consolidated group in the case of default by Qantas.

(L) Receivables

Current receivables are recognised and carried at original invoice amount less impairment losses. Bad debts are written off as incurred. Non-current receivables are carried at the present value of future net cash inflows expected to be received.

(M) Contract Work in Progress

Contract work in progress is stated at cost plus profit recognised to date, in accordance with accounting policy Note 1(G), less an allowance for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Qantas Group's contract activities based on normal operating capacity.

Contract work in progress is presented as part of trade and other receivables in the Balance Sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the Balance Sheet.

(N) Inventories

Engineering expendables, consumable stores and work in progress are valued at weighted average cost, less any applicable allowance for obsolescence.

(O) Impairment

The carrying amounts of assets (other than inventories and deferred tax assets) are reviewed at each balance date to determine whether there is any indication of impairment. If any such conditions exists, the assets' recoverable amount is estimated. 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 (CGU) basis inclusive of related infrastructure and intangible assets and compared to net cash flows for the unit. Estimated net cash flows used in determining recoverable amounts have been discounted to their net present value, using a rate as described in Note 12.

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 the Income Statement. The amount of the cumulative loss that is recognised in the Income Statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement.

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 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 with respect to goodwill is not reversed.

(P) Investments

The investment in Air New Zealand Limited (Air New Zealand) was classified as being available for sale and was stated at fair value in the prior year, with any resultant gain or loss recognised directly in equity, except for impairment losses. This investment was sold in June 2007 and the cumulative gain previously recognised directly in equity was included in the Income Statement.

(Q) Property, Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. 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 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 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 A-IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

An element of the cost of an acquired aircraft is attributed on acquisition to its service potential reflecting the maintenance condition of its engines and airframe. This cost is depreciated over the shorter of the period to the next major inspection event or the remaining life of the asset.

The standard cost of subsequent major airframe and engine maintenance checks is capitalised and depreciated over the shorter of the scheduled usage period to the next major inspection event or the remaining life of the aircraft. 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.

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.

1. Statement of Significant Accounting Policies continued

(Q) Property, Plant and Equipment continued

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 which are not depreciated or amortised. The depreciation and amortisation rates of owned assets are calculated so as to allocate the cost 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, with respect to internally constructed assets, from the time an asset is completed and available 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.

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

	Years	Residual Value (%)
Buildings and leasehold improvements	10 - 50	0
Plant and equipment	3 - 40	0
Aircraft and engines	2.5 - 20	0 - 20
Aircraft spare parts	15 - 20	0 - 20

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 and the long-term fleet plan.

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 and guaranteed residual value are recorded at the inception of the lease. Any gains and losses arising under sale and leaseback arrangements are deferred and amortised over the lease term where the sale is not at fair value. 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 the interest element. The interest element is charged to the Income Statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

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.

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

Operating Leases

Rental payments under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

With respect to 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.

Manufacturers' Credits

The Qantas Group receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are recorded as a reduction to the cost of the related aircraft and engines. Where the aircraft are held under operating leases, the credits are deferred and reduced from the operating lease rentals on a straight-line basis over the period of the related lease as deferred credits.

Capital Projects

Capital projects are stated at cost. When the asset is ready for its intended use, it is capitalised and depreciated.

(R) Intangible Assets

Goodwill

All business combinations since transition to A-IFRS 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 acquired before transition to A-IFRS is carried at deemed cost utilising transition relief available.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is tested annually for impairment. With respect to associates and jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the investment in the associate or the jointly controlled entity.

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

Airport Landing Slots

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

Software

Software is stated at cost less accumulated amortisation and impairment losses. Software development expenditure, including the cost of materials, direct labour and other direct costs, is only recognised as an asset when the Qantas Group controls future economic benefits as a result of the costs incurred, 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.

(S) Payables

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

(T) Frequent Flyer

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 net of points which it considers will not be redeemed (breakage) and recognised in the Income Statement as net passenger revenue when the points are redeemed and passengers uplifted. Revenue in relation to points which it is considered will not be redeemed are recognised as net passenger revenue on the sale of the points.

1. Statement of Significant Accounting Policies continued

(T) Frequent Flyer continued

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 expire. The provision is based on the present value of the expected incremental direct cost (being the cost of meals and passenger expenses) of providing the travel rewards based on the estimated weighted average cost of the reward mix i.e. redemptions on Qantas services and on non-airline or other member airlines. The provision is reduced to the extent surcharges and recoveries are made and as members redeem awards or their entitlements expire. The unwinding of the discount is treated as a finance charge. Changes in cost estimates, breakage assumptions and passenger recoveries could have a material impact on the financial statements of Qantas.

On 28 June 2007, the International Financial Reporting Interpretations Committee (IFRIC) released IFRIC Interpretation 13 – Customer Loyalty Programmes (IFRIC 13). IFRIC 13 was adopted by the Australian Accounting Standards Board on 2 August 2007 and is effective from 1 July 2008. It requires comparatives to be restated.

IFRIC 13 fundamentally changes the way that Qantas is required to account for the Frequent Flyer Program. On adoption of IFRIC 13, revenue received in relation to a flight eligible to earn points will be split, based on fair value, between the flight and the value of the points awarded. The value attributable to the eligible flight will be recognised on passenger uplift whilst the value attributed to the awarded points will be deferred as a liability until the points are ultimately utilised.

Qantas has early adopted IFRIC 13 from 1 July 2007 with initial adoption on 1 July 2006 resulting in a reduction in opening retained earnings of approximately $297 million assuming the following:

- revenue associated with breakage is recognised when the points are awarded;
- the fair value of points awarded is the weighted average value of points sold to third parties; and
- the liability for awarded points is not discounted.

(U) Employee Benefits

Wages, 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, superannuation and payroll tax.

Employee Share Plans

The fair value of equity-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 estimated at grant date and spread over the period during which the employees become unconditionally entitled to the equity instrument. 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 plans. Contributions to these plans are recognised as an expense in the Income Statement as incurred.

Defined Benefit Superannuation Plans

Qantas' net obligation with respect to defined benefit superannuation plans is calculated separately for each plan. The Qantas Superannuation Plan has been split based on the divisions which relate to accumulation members and defined benefit members. Only defined benefit members are included in Qantas' net obligation calculations. Accumulations members' obligations are accrued for as per the above accounting policy. 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.

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. With respect to actuarial gains and losses that arise subsequent to 1 July 2004 in calculating Qantas' obligation with respect to 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).

Various actuarial assumptions underpin the determination of Qantas' defined benefit obligation and are discussed in Note 23.

1. Statement of Significant Accounting Policies continued

(U) Employee Benefits continued

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.

(V) 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 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.

Dividends

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

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 discounted using government bond rates that have maturity dates approximating the terms of Qantas' obligations. Workers' compensation for all remaining employees is commercially insured.

(W) 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 year (refer Note 31).

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 (refer Note 31).

(X) Cash and Cash Equivalents

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

(Y) Net Finance Costs

Net finance 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. Finance income is recognised in the Income Statement as it accrues, using the effective interest method. 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 be made 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 7.4 per cent (2006: 7.2 per cent) in the current year. During the year, borrowing costs totalling $83.3 million (2006: $68.4 million) were capitalised into the cost of qualifying assets.

(Z) Interest-bearing Liabilities

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities 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. Interest-bearing liabilities that are designated as hedged items are subject to measurement under the hedge accounting requirements.

(AA) Assets Classified as Held for Sale

Immediately before classification as held for sale, the measurement of the assets is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, assets 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 the Income Statement, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

(AB) Share Capital

Ordinary Shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any related income tax benefit.

Repurchase of Share Capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity.

In Qantas' Financial Report, the transactions of the Qantas sponsored employee share plan trust are treated as being executed directly by Qantas (as the trust acts as Qantas' agent). Accordingly, repurchased shares held by the trust are recognised as treasury shares and deducted from equity.

(AC) Comparatives

Various comparative balances have been reclassified to align with current year presentation. These amendments have no material impact on the Financial Statements.

2. Income

Sales and Other Income	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Dividend revenue				
– associates and jointly controlled entities	**–**	–	**16.5**	18.4
– other parties	**6.0**	3.3	**–**	1.3
Liquidated damages	**97.7**	104.4	**97.5**	104.4
Net gain on disposal of investment	**30.6**	–	**–**	–
Net gain on disposal of intangible asset[1]	**3.2**	–	**3.2**	–
Net gain on disposal of property, plant and equipment	**12.9**	10.8	**13.3**	7.7
Government grants	**3.8**	6.0	**1.7**	1.7
Related parties				
– controlled entities	**–**	–	**461.0**	233.1
– associates and jointly controlled entities	**183.3**	183.6	**32.2**	44.5
Other	**14,828.2**	13,352.5	**12,065.2**	10,914.6
	15,165.7	13,660.6	**12,690.6**	11,325.7

Finance income				
Related parties				
– associates and jointly controlled entities	**10.3**	10.3	**10.3**	10.3
Unwinding of discount on receivables	**16.5**	–	**16.5**	–
Other parties	**217.2**	153.0	**199.8**	136.3
	244.0	163.3	**226.6**	146.6

1 This asset was classified held for sale at 30 June 2006.

3. Expenditure

	$M	$M	$M	$M
Finance costs				
Related parties				
– controlled entities	**–**	–	**83.0**	80.3
Other parties				
– finance leases	**37.4**	39.7	**38.8**	37.9
– other finance costs	**273.9**	229.8	**202.9**	161.0
Capitalised interest	**(83.3)**	(68.4)	**(83.3)**	(68.4)
Unwinding of discount on provisions	**30.9**	16.8	**30.9**	16.8
Total finance costs	**258.9**	217.9	**272.3**	227.6
Other				
Net foreign currency loss /(gain)	**89.0**	(57.8)	**84.0**	(57.3)
Bad and doubtful debts	**3.7**	1.9	**3.7**	1.6
Restructuring				
– redundancy costs	**147.4**	108.6	**147.3**	104.6
– other	**87.7**	72.9	**87.7**	72.9
Cancellable operating leases	**170.7**	163.2	**157.6**	149.0
Change in accounting estimates				
– Frequent Flyer deferred revenue	**(41.9)**	(49.1)	**(41.9)**	(49.1)
– long service leave provisions	**–**	47.7	**–**	47.7

4. Income Tax

	Qantas Group		Qantas	
Recognised in the Income Statement	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Current income tax expense				
Current year	**319.1**	190.9	**226.5**	129.4
Adjustments for prior years	**(2.0)**	(1.2)	**(8.4)**	(1.8)
	317.1	189.7	**218.1**	127.6
Deferred income tax expense				
Origination and reversal of temporary differences	**65.3**	22.6	**65.2**	62.6
Entities acquired	**1.8**	–	**–**	–
Adjustments for prior years	**(75.1)**	(21.9)	**(70.2)**	(23.9)
Benefit of tax losses recognised	**3.4**	0.8	**3.4**	0.8
	(4.6)	1.5	**(1.6)**	39.5
Total income tax expense in the Income Statement	**312.5**	191.2	**216.5**	167.1
Comprising:				
Australian income tax expense	**310.4**	189.6	**216.5**	167.1
Overseas income tax expense	**2.1**	1.6	**–**	–
	312.5	191.2	**216.5**	167.1

Reconciliation between income tax expense and profit before related income tax expense

	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Profit before related income tax expense	**1,032.1**	671.2	**675.1**	559.1
Income tax using the domestic corporate tax rate of 30 per cent	**309.6**	201.4	**202.5**	167.8
Add/(less) adjustments for:				
Non-assessable income				
– tax offset for franked dividends received	**(6.6)**	(8.9)	**(3.1)**	(4.3)
– non-taxable dividends	**(2.3)**	(1.4)	**(1.4)**	(1.2)
– share of associates' and jointly controlled entities' net profit	**(5.2)**	(1.5)	**–**	–
– utilisation of previously unrecognised losses	**(10.3)**	(14.5)	**(3.4)**	(14.5)
Non-deductible expenditure				
– amortisation of lease residual values	**–**	1.0	**–**	2.1
– writedown of investments	**1.3**	6.3	**3.1**	6.9
– provisions for insurance, legal and other	**14.2**	–	**14.2**	–
Other items	**13.8**	10.0	**13.0**	12.1
Over provision in prior years	**(2.0)**	(1.2)	**(8.4)**	(1.8)
Income tax expense	**312.5**	191.2	**216.5**	167.1

Income tax recognised directly in equity

	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Current income tax expense				
Other net financial assets/liabilities and interest-bearing liabilities	**3.2**	(11.4)	**3.2**	(11.4)
Deferred income tax expense				
Relating to revaluation of property, plant and equipment	**–**	0.8	**–**	–
Other net financial assets/liabilities and interest-bearing liabilities	**(93.5)**	(8.2)	**(93.5)**	(8.2)
	(90.3)	(18.8)	**(90.3)**	(19.6)

5. Auditors' Remuneration

	Qantas Group		Qantas	
	2007 $000	2006 $000	**2007 $000**	2006 $000
Audit services				
Auditors of Qantas – KPMG Australia				
audit and review of Financial Reports	**2,740**	2,585	**2,033**	1,848
other regulatory audit services	**35**	80	**2**	39
Overseas KPMG firms				
audit and review of Financial Reports	**227**	–	**–**	–
	3,002	2,665	**2,035**	1,887
Other services				
Auditors of Qantas – KPMG Australia				
other assurance services	**479**	874	**457**	783
financial reporting assistance	**–**	95	**–**	95
due diligence services	**2,357**	–	**2,357**	–
taxation services	**304**	130	**304**	130
Overseas KPMG firms				
taxation services	**224**	239	**224**	239
	6,366	4,003	**5,377**	3,134

6. Cash and Cash Equivalents

	$M	$M	**$M**	$M
Cash on hand	**2.7**	3.3	**2.6**	3.1
Cash at bank	**46.1**	75.4	**29.0**	175.6
Cash at call	**32.1**	223.5	**95.7**	200.6
Short-term money market securities and term deposits	**3,282.0**	2,599.8	**3,282.0**	2,599.8
	3,362.9	2,902.0	**3,409.3**	2,979.1

Short-term money market securities of $198.0 million (2006: $126.0 million) held by the Qantas Group are pledged as collateral under the terms of certain financing facilities.

7. Receivables

	Qantas Group		Qantas	
Current	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Trade debtors				
Associates and jointly controlled entities	**11.7**	22.3	**0.1**	3.9
Other parties	**1,025.6**	952.4	**942.6**	919.4
Less: impairment losses	**6.5**	4.8	**5.4**	3.5
	1,030.8	969.9	**937.3**	919.8
Other loans				
Controlled entities				
– interest-bearing	**–**	–	**42.6**	41.0
– non interest-bearing	**–**	–	**50.4**	102.9
Aircraft security deposits	**109.8**	51.5	**100.1**	48.4
Sundry debtors	**236.2**	102.9	**83.6**	82.1
	1,376.8	1,124.3	**1,214.0**	1,194.2
Non-current				
Controlled entities				
– interest-bearing	**–**	–	**797.6**	827.7
Associates and jointly controlled entities				
– interest-bearing	**128.2**	128.2	**128.2**	128.2
Other parties	**14.0**	13.9	**–**	–
Aircraft security deposits	**14.6**	78.1	**14.6**	78.1
Sundry debtors	**215.9**	121.8	**215.5**	121.2
	372.7	342.0	**1,155.9**	1,155.2

Current and non-current aircraft security deposits have been pledged as security to providers of aircraft finance.

Current sundry debtors for the Qantas Group includes $106.2 million receivable on the disposal of the Qantas Group's investment in Air New Zealand. The cash was received on 2 July 2007.

Non-current sundry debtors of the Qantas Group also includes the present value of liquidated damages recognised as income during the year of $97.7 million (2006: $104.4 million) resulting from the delay in delivery of aircraft.

8. Inventories

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
At fair value				
Engineering expendables	**121.0**	282.1	**87.8**	258.7
Consumable stores	**37.1**	37.6	**29.6**	29.0
Work in progress	**22.2**	15.1	**6.7**	9.6
	180.3	334.8	**124.1**	297.3

9. Assets Classified as Held for Sale

	$M	$M	**$M**	$M
Investments accounted for using the equity method[1]	**–**	3.2	**–**	–
Property, plant and equipment[2]	**5.4**	9.2	**1.8**	2.9
Intangible assets[3]	**–**	11.8	**–**	11.8
	5.4	24.2	**1.8**	14.7

1 The investment in Thai Air Cargo Company Limited was transferred to other shareholders at book value in August 2006.

2 Included in this amount were land and buildings which were placed on the market before 30 June 2006 with contracts exchanged in July 2006 on a delayed settlement basis. Settlement is expected to occur post 30 June 2007. Of the three aircraft held for sale at 30 June 2006, one aircraft was sold at book value, one returned to service and one remains classified as held for sale.

3 An aircraft landing slot was disposed of for $15.0 million in the year to 30 June 2007 resulting in a gain of $3.2 million.

10. Other Investments

	$M	$M	**$M**	$M
Controlled entities	**–**	–	**294.4**	240.4
Associates and jointly controlled entities at cost	**–**	–	**282.6**	311.0
Other corporations[1]	**3.1**	53.7	**3.0**	4.5
	3.1	53.7	**580.0**	555.9

1 Includes the investment in Air New Zealand which is carried at nil (2006: $49.2 million). In June 2007, the investment in Air New Zealand was sold for $106.2 million resulting in a gain of $30.6 million.

11. Property, Plant and Equipment

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Freehold land – owned				
At cost	**71.9**	65.6	**47.1**	47.1
	71.9	65.6	**47.1**	47.1
Leasehold land				
At cost	**–**	1.8	**–**	–
Less: accumulated amortisation	**–**	0.2	**–**	–
	–	1.6	**–**	–
Total land at net book value	**71.9**	67.2	**47.1**	47.1
Buildings – owned				
At cost	**280.9**	272.1	**235.6**	232.0
Less: accumulated depreciation	**85.7**	70.8	**67.1**	55.0
	195.2	201.3	**168.5**	177.0
Buildings – leased				
At cost	**58.4**	60.2	**29.0**	29.0
Less: accumulated amortisation	**45.7**	44.7	**20.5**	19.6
	12.7	15.5	**8.5**	9.4
Total buildings				
At cost	**339.3**	332.3	**264.6**	261.0
Less: accumulated depreciation and amortisation	**131.4**	115.5	**87.6**	74.6
Total buildings at net book value	**207.9**	216.8	**177.0**	186.4
Leasehold improvements				
At cost	**1,331.5**	1,252.3	**832.8**	759.9
Less: accumulated amortisation	**767.9**	703.9	**428.6**	388.7
Total leasehold improvements at net book value	**563.6**	548.4	**404.2**	371.2
Plant and equipment – owned				
At cost	**1,291.4**	1,220.7	**1,039.1**	1,006.1
Less: accumulated depreciation	**779.3**	709.2	**607.1**	550.3
	512.1	511.5	**432.0**	455.8
Plant and equipment – leased				
At cost	**6.7**	7.0	**–**	–
Less: accumulated amortisation	**6.7**	6.8	**–**	–
	–	0.2	**–**	–
Total plant and equipment				
At cost	**1,298.1**	1,227.7	**1,039.1**	1,006.1
Less: accumulated depreciation and amortisation	**786.0**	716.0	**607.1**	550.3
Total plant and equipment at net book value	**512.1**	511.7	**432.0**	455.8

11. Property, Plant and Equipment continued

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Aircraft and engines – owned[1]				
At cost	**10,671.1**	10,413.0	**7,521.2**	7,322.5
Less: accumulated depreciation	**4,293.8**	3,620.0	**3,517.2**	2,986.7
	6,377.3	6,793.0	**4,004.0**	4,335.8
Aircraft and engines – hire purchased				
At cost	**2,806.1**	2,685.6	**5,112.6**	4,971.7
Less: accumulated amortisation	**812.3**	633.6	**1,313.3**	1,021.8
	1,993.8	2,052.0	**3,799.3**	3,949.9
Aircraft and engines – leased				
At cost	**1,296.3**	1,391.0	**1,284.0**	1,370.7
Less: accumulated amortisation	**896.1**	896.3	**894.5**	880.4
	400.2	494.7	**389.5**	490.3
Aircraft and engines – maintenance				
At cost	**852.7**	826.6	**835.9**	804.7
Less: accumulated depreciation	**482.5**	396.6	**472.8**	386.0
	370.2	430.0	**363.1**	418.7
Total aircraft and engines				
At cost	**15,626.2**	15,316.2	**14,753.7**	14,469.6
Less: accumulated depreciation and amortisation	**6,484.7**	5,546.5	**6,197.8**	5,274.9
Total aircraft and engines at net book value	**9,141.5**	9,769.7	**8,555.9**	9,194.7
Aircraft spare parts – owned				
At cost	**724.3**	677.9	**578.2**	555.4
Less: accumulated depreciation	**336.3**	301.3	**293.6**	266.4
	388.0	376.6	**284.6**	289.0
Aircraft spare parts – leased				
At cost	**23.7**	25.6	**23.7**	25.6
Less: accumulated amortisation	**9.2**	7.8	**9.2**	7.8
	14.5	17.8	**14.5**	17.8
Total aircraft spare parts				
At cost	**748.0**	703.5	**601.9**	581.0
Less: accumulated depreciation and amortisation	**345.5**	309.1	**302.8**	274.2
Total aircraft spare parts at net book value	**402.5**	394.4	**299.1**	306.8
Aircraft deposits				
At cost	**1,408.8**	866.8	**1,054.8**	525.5
	1,408.8	866.8	**1,054.8**	525.5
Total property, plant and equipment				
At cost	**20,823.8**	19,766.2	**18,594.0**	17,650.2
Less: accumulated depreciation and amortisation	**8,515.5**	7,391.2	**7,623.9**	6,562.7
Total property, plant and equipment at net book value	**12,308.3**	12,375.0	**10,970.1**	11,087.5

1 Qantas leases out freighter aircraft under long-term operating leases as disclosed in Note 20. The value of leased assets at 30 June 2007 is $31.1 million (2006: nil).

Notes to the Financial Statements

for the year ended 30 June 2007

11. Property, Plant and Equipment continued

2007 $M **Qantas Group**	Opening Written Down Value	Additions	Entities Acquired	Disposals	Transfers	Transferred from/(to) Assets Classified as Held for Sale	Depreciation and Amortisation	Other[1]	Closing Written Down Value
Reconciliations									
Freehold land – owned	**65.6**	**–**	**6.3**	**–**	**–**	**–**	**–**	**–**	**71.9**
Leasehold land	**1.6**	**–**	**–**	**–**	**(1.6)**	**–**	**–**	**–**	**–**
Total land	**67.2**	**–**	**6.3**	**–**	**(1.6)**	**–**	**–**	**–**	**71.9**
Buildings – owned	**201.3**	**4.0**	**4.6**	**–**	**(0.2)**	**–**	**(14.7)**	**0.2**	**195.2**
Buildings – leased	**15.5**	**1.0**	**–**	**–**	**0.9**	**–**	**(2.2)**	**(2.5)**	**12.7**
Total buildings	**216.8**	**5.0**	**4.6**	**–**	**0.7**	**–**	**(16.9)**	**(2.3)**	**207.9**
Leasehold improvements	**548.4**	**76.4**	**0.3**	**(0.3)**	**(3.2)**	**–**	**(64.1)**	**6.1**	**563.6**
Plant and equipment – owned	**511.5**	**63.8**	**27.8**	**(9.5)**	**13.4**	**–**	**(97.0)**	**2.1**	**512.1**
Plant and equipment – leased	**0.2**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**–**	**–**
Total plant and equipment	**511.7**	**63.8**	**27.8**	**(9.5)**	**13.4**	**–**	**(97.2)**	**2.1**	**512.1**
Aircraft and engines – owned	**6,793.0**	**146.8**	**–**	**(8.7)**	**155.9**	**1.3**	**(724.2)**	**13.2**	**6,377.3**
Aircraft and engines – hire purchased	**2,052.0**	**12.7**	**–**	**–**	**30.2**	**–**	**(101.1)**	**–**	**1,993.8**
Aircraft and engines – leased	**494.7**	**–**	**–**	**(12.3)**	**(12.6)**	**–**	**(69.6)**	**–**	**400.2**
Aircraft and engines – maintenance	**430.0**	**123.9**	**–**	**–**	**12.5**	**–**	**(196.2)**	**–**	**370.2**
Total aircraft and engines	**9,769.7**	**283.4**	**–**	**(21.0)**	**186.0**	**1.3**	**(1,091.1)**	**13.2**	**9,141.5**
Aircraft spare parts – owned	**376.6**	**65.4**	**–**	**(3.6)**	**4.3**	**–**	**(51.5)**	**(3.2)**	**388.0**
Aircraft spare parts – leased	**17.8**	**–**	**–**	**–**	**–**	**–**	**–**	**(3.3)**	**14.5**
Total aircraft spare parts	**394.4**	**65.4**	**–**	**(3.6)**	**4.3**	**–**	**(51.5)**	**(6.5)**	**402.5**
Aircraft deposits	**866.8**	**672.8**	**–**	**–**	**(199.6)**	**–**	**–**	**68.8**	**1,408.8**
Total property, plant and equipment	**12,375.0**	**1,166.8**	**39.0**	**(34.4)**	**–**	**1.3**	**(1,320.8)**	**81.4**	**12,308.3**

1 Other includes transfers to inventories and capitalised interest.

2006 $M **Qantas Group**	Opening Written Down Value	Additions	Entities Acquired	Disposals	Transfers	Transferred from/(to) Assets Classified as Held for Sale	Depreciation and Amortisation	Other[1]	Closing Written Down Value
Reconciliations									
Freehold land – owned	68.0	–	–	(0.4)	–	(3.7)	–	1.7	65.6
Leasehold land	0.4	1.4	–	–	–	–	–	(0.2)	1.6
Total land	68.4	1.4	–	(0.4)	–	(3.7)	–	1.5	67.2
Buildings – owned	174.4	40.3	–	–	–	(0.4)	(11.7)	(1.3)	201.3
Buildings – leased	17.4	(0.5)	–	–	–	–	(1.4)	–	15.5
Total buildings	191.8	39.8	–	–	–	(0.4)	(13.1)	(1.3)	216.8
Leasehold improvements	597.8	61.0	–	(0.7)	–	(1.3)	(63.4)	(45.0)	548.4
Plant and equipment – owned	509.6	61.3	–	(13.3)		(1.2)	(87.7)	42.8	511.5
Plant and equipment – leased	0.5	–	–	–	–	–	(0.3)	–	0.2
Total plant and equipment	510.1	61.3	–	(13.3)	–	(1.2)	(88.0)	42.8	511.7
Aircraft and engines – owned	6,787.6	213.5	–	(284.7)	550.1	(2.6)	(527.5)	56.6	6,793.0
Aircraft and engines – hire purchased	2,240.8	–	–	(1.0)	–	–	(218.7)	30.9	2,052.0
Aircraft and engines – leased	634.1	1.0	–	(0.2)	–	–	(82.8)	(57.4)	494.7
Aircraft and engines – maintenance	398.1	194.4	–	–	–	–	(162.5)	–	430.0
Total aircraft and engines	10,060.6	408.9	–	(285.9)	550.1	(2.6)	(991.5)	30.1	9,769.7
Aircraft spare parts – owned	376.7	61.3	–	(5.0)	–	–	(48.1)	(8.3)	376.6
Aircraft spare parts – leased	16.1	4.8	–	–	–	–	(3.1)	–	17.8
Total aircraft spare parts	392.8	66.1	–	(5.0)	–	–	(51.2)	(8.3)	394.4
Aircraft deposits	863.0	843.3	–	(359.1)	(550.1)	–	–	69.7	866.8
Total property, plant and equipment	12,684.5	1,481.8	–	(664.4)	–	(9.2)	(1,207.2)	89.5	12,375.0

1 Other includes the transitional effects of derivatives, transfers to inventories and capitalised interest.

11. Property, Plant and Equipment continued

2007 $M Qantas	Opening Written Down Value	Additions	Disposals	Transfers	Transferred from/(to) Assets Classified as Held for Sale	Depreciation and Amortisation	Other[1]	Closing Written Down Value
Reconciliations								
Freehold land – owned	47.1	–	–	–	–	–	–	47.1
Total land	47.1	–	–	–	–	–	–	47.1
Buildings – owned	177.0	3.6	–	–	–	(12.1)	–	168.5
Buildings – leased	9.4	–	–	–	–	(1.4)	0.5	8.5
Total buildings	186.4	3.6	–	–	–	(13.5)	0.5	177.0
Leasehold improvements	371.2	74.1	(0.3)	(5.5)	–	(40.5)	5.2	404.2
Plant and equipment – owned	455.8	52.4	(8.3)	10.1	–	(81.4)	3.4	432.0
Total plant and equipment	455.8	52.4	(8.3)	10.1	–	(81.4)	3.4	432.0
Aircraft and engines – owned	4,335.8	138.2	(6.6)	98.8	–	(575.7)	13.5	4,004.0
Aircraft and engines – hire purchased	3,949.9	12.7	–	50.7	–	(214.0)	–	3,799.3
Aircraft and engines – leased	490.3	–	–	(37.3)	–	(63.5)	–	389.5
Aircraft and engines – maintenance	418.7	123.9	–	12.5	–	(192.0)	–	363.1
Total aircraft and engines	9,194.7	274.8	(6.6)	124.7	–	(1,045.2)	13.5	8,555.9
Aircraft spare parts – owned	289.0	47.1	(1.1)	–	–	(44.3)	(6.1)	284.6
Aircraft spare parts – leased	17.8	–	–	–	–	–	(3.3)	14.5
Total aircraft spare parts	306.8	47.1	(1.1)	–	–	(44.3)	(9.4)	299.1
Aircraft deposits	525.5	672.8	–	(212.3)	–	–	68.8	1,054.8
Total property, plant and equipment	11,087.5	1,124.8	(16.3)	(83.0)	–	(1,224.9)	82.0	10,970.1

1 Other includes tranfers to inventories and capitalised interest.

2006 $M Qantas	Opening Written Down Value	Additions	Disposals	Transfers	Transferred from/(to) Assets Classified as Held for Sale	Depreciation and Amortisation	Other[1]	Closing Written Down Value
Reconciliations								
Freehold land – owned	47.1	–	–	–	–	–	–	47.1
Total land	47.1	–	–	–	–	–	–	47.1
Buildings – owned	146.8	39.8	–	–	(0.4)	(9.2)	–	177.0
Buildings – leased	10.3	–	–	–	–	(0.9)	–	9.4
Total buildings	157.1	39.8	–	–	(0.4)	(10.1)	–	186.4
Leasehold improvements	398.3	60.1	(0.4)	–	(1.3)	(40.6)	(44.9)	371.2
Plant and equipment – owned	448.2	50.6	(12.6)	–	(1.2)	(73.3)	44.1	455.8
Total plant and equipment	448.2	50.6	(12.6)	–	(1.2)	(73.3)	44.1	455.8
Aircraft and engines – owned	4,136.5	203.3	(283.2)	727.4	–	(475.0)	26.8	4,335.8
Aircraft and engines – hire purchased	4,309.7	–	(1.0)	(140.9)	–	(218.5)	0.6	3,949.9
Aircraft and engines – leased	517.7	–	(0.2)	35.7	–	(63.2)	0.3	490.3
Aircraft and engines – maintenance	366.9	194.4	–	–	–	(142.6)	–	418.7
Total aircraft and engines	9,330.8	397.7	(284.4)	622.2	–	(899.3)	27.7	9,194.7
Aircraft spare parts – owned	299.2	43.6	(4.4)	–	–	(41.0)	(8.4)	289.0
Aircraft spare parts – leased	16.1	4.8	–	–	–	(3.1)	–	17.8
Total aircraft spare parts	315.3	48.4	(4.4)	–	–	(44.1)	(8.4)	306.8
Aircraft deposits	602.8	491.0	(359.1)	(278.9)	–	–	69.7	525.5
Total property, plant and equipment	11,299.6	1,087.6	(660.9)	343.3	(2.9)	(1,067.4)	88.2	11,087.5

1 Other includes the transitional effects of derivatives, transfers to inventories and capitalised interest.

Secured assets

Certain aircraft and engines act as security against related financings. Under the terms of certain financing facilities entered into by the Qantas Group, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters. The total carrying amount of assets under pledge was $4,304.9 million as at 30 June 2007 (2006: $4,983.9 million).

12. Intangible Assets

	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Goodwill				
At cost	**132.8**	112.0	**–**	–
	132.8	112.0	**–**	–
Airport landing slots				
At cost	**35.5**	35.5	**35.5**	35.5
	35.5	35.5	**35.5**	35.5
Software				
At cost	**404.8**	329.5	**404.8**	329.5
Less: accumulated amortisation	**207.2**	165.3	**207.2**	165.3
	197.6	164.2	**197.6**	164.2
Total intangible assets	**365.9**	311.7	**233.1**	199.7

Qantas Group

2007 $M	Opening Written Down Value	Additions	Entities Acquired	Transferred to Assets Classified as Held for Sale	Amortisation	Other	Closing Written Down Value
Goodwill	**112.0**	**–**	**20.8**	**–**	**–**	**–**	**132.8**
Airport landing slots	**35.5**	**–**	**–**	**–**	**–**	**–**	**35.5**
Software	**164.2**	**69.1**	**–**	**–**	**(41.9)**	**6.2**	**197.6**
Total intangible assets	**311.7**	**69.1**	**20.8**	**–**	**(41.9)**	**6.2**	**365.9**

2006 $M							
Goodwill	111.6	–	–	–	–	0.4	112.0
Airport landing slots	47.3	–	–	(11.8)	–	–	35.5
Software	160.0	45.3	–	–	(42.6)	1.5	164.2
Total intangible assets	318.9	45.3	–	(11.8)	(42.6)	1.9	311.7

Qantas

2007 $M							
Airport landing slots	**35.5**	**–**	**–**	**–**	**–**	**–**	**35.5**
Software	**164.2**	**69.1**	**–**	**–**	**(41.9)**	**6.2**	**197.6**
Total intangible assets	**199.7**	**69.1**	**–**	**–**	**(41.9)**	**6.2**	**233.1**

2006 $M							
Airport landing slots	47.3	–	–	(11.8)	–	–	35.5
Software	160.0	45.3	–	–	(42.6)	1.5	164.2
Total intangible assets	207.3	45.3	–	(11.8)	(42.6)	1.5	199.7

12. Intangible Assets continued

Impairment tests for CGUs containing goodwill and other intangible assets with indefinite useful lives

The following units have significant carrying amounts of goodwill and other intangible assets with indefinite useful lives:

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Goodwill				
Jetstar	**90.5**	90.5	**–**	–
Qantas Flight Catering	**18.2**	18.2	**–**	–
Qantas	**20.8**	–	**–**	–
QantasLink	**3.3**	3.3	**–**	–
	132.8	112.0	**–**	–
Airport landing slots				
Qantas	**35.5**	35.5	**35.5**	35.5

Jetstar

The recoverable amount of Jetstar CGU is based on value in use calculations. Those calculations use cash flow projections based on the three year plan approved by management and endorsed by the Board. Cash flows for a further six years have been extrapolated using an average 6.2 per cent per annum growth rate out to 2016. This growth rate reflects the planned expansion of Jetstar both domestically and internationally and is appropriate given the actual growth achieved since establishment and the Qantas Group's committed B787 order. For the further seven years, a 2.5 per cent per annum growth rate has been assumed, reflecting long-term inflation, when extrapolating cash flows. The three year plan, coupled with a 13 year extrapolation, is believed appropriate, as it represents the capital intensive long-term nature of the aviation industry and the estimated useful life of the assets employed in this CGU.

Qantas Flight Catering

The recoverable amount of Qantas Flight Catering CGU is based on value in use calculations. Those calculations use cash flow projections based on the three year business plan approved by management and endorsed by the Board. Cash flows for a further six years have been extrapolated using a 2.5 per cent per annum growth rate out to 2016. This growth rate reflects the mature nature of the airline catering industry and Qantas Flight Catering Group's current market share.

Qantas

The recoverable amount of Qantas CGU is based on value in use calculations. Those calculations use cash flow projections based on the three year plan approved by management and endorsed by the Board. Cash flows for a further six years have been extrapolated using an average 6.2 per cent per annum growth rate out to 2016. This growth rate reflects the planned expansion of Qantas as a result of the introduction into service of committed aircraft such as the A380 and B787. For the further 11 years, a 2.5 per cent per annum growth rate has been assumed, reflecting long-term inflation, when extrapolating cash flows. The three year plan, coupled with a 17 year extrapolation, is believed appropriate, as it represents the capital intensive long-term nature of the aviation industry and the estimated useful life of the assets employed in this CGU.

The key assumptions and the approach to determining their value in the current and prior year are:

Assumption	How determined
Discount rate	A pre-tax discount rate of 10.5 per cent per annum (2006: 10.5 per cent per annum) has been used in discounting the projected cash flows of all CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group. This discount would need to exceed 14.1 per cent per annum (2006: 13.2 per cent per annum) before the carrying amount of any of the CGUs of the Qantas Group would exceed their recoverable amount.
Market share	Qantas Group's domestic market share is expected to remain between 65 and 68 per cent and international market share between 30-35 per cent. These ranges were estimated having regard to Qantas committed fleet plans and those of its existing competitors.
Real market growth	Market growth, excluding the impacts of inflation, is estimated to be 3.7 per cent per annum (2006: 4.8 per cent per annum), reflecting the long-term average passenger growth experienced by Qantas. Market growth would need to fall by more than 5.5 per cent per annum (2006: 5.2 per cent per annum) before the carrying amount of the Jetstar and Qantas CGUs would exceed their recoverable amount.
Fuel	Fuel into-plane price is assumed to be between US$89 and US$100 (2006: US$85 and US$90) and was set with regard to the spot West Texas Intermediate crude oil price adjusted for historical average refining margins.
Currency	US$:A$ exchange rate is assumed to be 84.7 cents (2006: 75.3 cents), reflecting a 12 month average spot price.
Fleet age	Average fleet age is forecast to remain between 9 and 11 years and is estimated having regard to the existing contractually committed long-term fleet plan for the Qantas Group.
Inflation	Inflation of 2.5 per cent per annum represents the long-term average change in the consumer price index in Australia.

13. Deferred Tax Assets and Liabilities

	Asset		Liability		Net	
Qantas Group	**2007 $M**	2006 $M	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Inventories	**–**	–	**(50.3)**	(47.3)	**(50.3)**	(47.3)
Property, plant and equipment	**–**	–	**(1,340.7)**	(1,231.4)	**(1,340.7)**	(1,231.4)
Intangible assets	**–**	–	**(4.8)**	(9.9)	**(4.8)**	(9.9)
Payables	**–**	–	**106.3**	94.7	**106.3**	94.7
Interest-bearing liabilities	**–**	–	**(42.6)**	(2.1)	**(42.6)**	(2.1)
Other financial assets/liabilities	**–**	–	**89.0**	(84.6)	**89.0**	(84.6)
Provisions	**–**	–	**258.6**	239.8	**258.6**	239.8
Revenue received in advance	**–**	–	**383.7**	393.3	**383.7**	393.3
Other items	**0.3**	2.9	**(79.9)**	(62.2)	**(79.6)**	(59.3)
Tax value of loss carry-forwards recognised	**–**	–	**5.1**	8.5	**5.1**	8.5
Net tax assets/(liabilities)	**0.3**	2.9	**(675.6)**	(701.2)	**(675.3)**	(698.3)

	Liability		Net	
Qantas	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Inventories	**(50.3)**	(47.9)	**(50.3)**	(47.9)
Property, plant and equipment	**(1,229.9)**	(1,157.1)	**(1,229.9)**	(1,157.1)
Intangible assets	**(5.2)**	(10.3)	**(5.2)**	(10.3)
Payables	**99.6**	90.1	**99.6**	90.1
Interest-bearing liabilities	**(130.1)**	(57.2)	**(130.1)**	(57.2)
Other financial assets/liabilities	**89.0**	(84.5)	**89.0**	(84.5)
Provisions	**230.7**	211.7	**230.7**	211.7
Revenue received in advance	**383.7**	393.3	**383.7**	393.3
Other items	**(73.2)**	(52.1)	**(73.2)**	(52.1)
Tax value of loss carry-forwards recognised	**5.1**	8.5	**5.1**	8.5
Net tax liabilities	**(680.6)**	(705.5)	**(680.6)**	(705.5)

At 30 June 2007, there is no recognised or unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Qantas Group's controlled entities or associates and jointly controlled entities (2006: nil). This is due to the Qantas Group having no liability for additional taxation, should such amounts be remitted.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised with respect to the following items:

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Tax losses – New Zealand operations	**16.3**	13.7	**8.4**	11.6

Deferred tax assets have not been recognised with respect to these items because it is not probable that future taxable profit will be available against which the Qantas Group can utilise these benefits.

13. Deferred Tax Assets and Liabilities continued

Movement in temporary differences during the year

Qantas Group

2007 $M	Opening Balance	Recognised in Income	Recognised in Equity	Entities Acquired	Closing Balance
Inventories	**(47.3)**	**(3.0)**	**–**	**–**	**(50.3)**
Property, plant and equipment	**(1,231.4)**	**(107.5)**	**–**	**(1.8)**	**(1,340.7)**
Intangible assets	**(9.9)**	**5.1**	**–**	**–**	**(4.8)**
Payables	**94.7**	**11.6**	**–**	**–**	**106.3**
Interest-bearing liabilities	**(2.1)**	**(37.0)**	**(3.5)**	**–**	**(42.6)**
Other financial assets/liabilities	**(84.6)**	**76.6**	**97.0**	**–**	**89.0**
Provisions	**239.8**	**18.8**	**–**	**–**	**258.6**
Revenue received in advance	**393.3**	**(9.6)**	**–**	**–**	**383.7**
Other items	**(59.3)**	**(20.3)**	**–**	**–**	**(79.6)**
Tax value of loss carry-forwards recognised	**8.5**	**(3.4)**	**–**	**–**	**5.1**
	(698.3)	**(68.7)**	**93.5**	**(1.8)**	**(675.3)**

2006 $M	Opening Balance	Recognised in Income	Recognised in Equity	Entities Acquired	Closing Balance
Inventories	(5.1)	(42.2)	–	–	(47.3)
Property, plant and equipment	(1,224.2)	(6.4)	(0.8)	–	(1,231.4)
Intangible assets	–	(9.9)	–	–	(9.9)
Payables	–	94.7	–	–	94.7
Interest-bearing liabilities	36.4	(38.5)	–	–	(2.1)
Other financial assets/liabilities	(167.5)	74.7	8.2	–	(84.6)
Provisions	217.5	22.3	–	–	239.8
Revenue received in advance	374.1	19.2	–	–	393.3
Other items	77.2	(136.5)	–	–	(59.3)
Tax value of loss carry-forwards recognised	9.3	(0.8)	–	–	8.5
	(682.3)	(23.4)	7.4	–	(698.3)

Qantas

2007 $M	Opening Balance	Recognised in Income	Recognised in Equity	Entities Acquired	Closing Balance
Inventories	**(47.9)**	**(2.4)**	**–**	**–**	**(50.3)**
Property, plant and equipment	**(1,157.1)**	**(72.8)**	**–**	**–**	**(1,229.9)**
Intangible assets	**(10.3)**	**5.1**	**–**	**–**	**(5.2)**
Payables	**90.1**	**9.5**	**–**	**–**	**99.6**
Interest-bearing liabilities	**(57.2)**	**(69.4)**	**(3.5)**	**–**	**(130.1)**
Other financial assets/liabilities	**(84.5)**	**76.5**	**97.0**	**–**	**89.0**
Provisions	**211.7**	**19.0**	**–**	**–**	**230.7**
Revenue received in advance	**393.3**	**(9.6)**	**–**	**–**	**383.7**
Other items	**(52.1)**	**(21.1)**	**–**	**–**	**(73.2)**
Tax value of loss carry-forwards recognised	**8.5**	**(3.4)**	**–**	**–**	**5.1**
	(705.5)	**(68.6)**	**93.5**	**–**	**(680.6)**

2006 $M	Opening Balance	Recognised in Income	Recognised in Equity	Entities Acquired	Closing Balance
Inventories	(6.6)	(41.3)	–	–	(47.9)
Property, plant and equipment	(1,228.1)	71.0	–	–	(1,157.1)
Intangible assets	–	(10.3)	–	–	(10.3)
Payables	–	90.1	–	–	90.1
Interest-bearing liabilities	98.2	(155.4)	–	–	(57.2)
Other financial assets/liabilities	(167.5)	74.8	8.2	–	(84.5)
Provisions	191.5	20.2	–	–	211.7
Revenue received in advance	374.1	19.2	–	–	393.3
Other items	78.8	(130.9)	–	–	(52.1)
Tax value of loss carry-forwards recognised	9.3	(0.8)	–	–	8.5
	(650.3)	(63.4)	8.2	–	(705.5)

Notes to the Financial Statements

for the year ended 30 June 2007

14. Payables

	Qantas Group		Qantas	
Current	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Trade creditors				
Associates and jointly controlled entities	**1.8**	18.7	**1.4**	18.4
Other parties	**672.8**	578.0	**521.3**	464.6
	674.6	596.7	**522.7**	483.0
Other loans				
Controlled entities – non interest-bearing	**–**	–	**308.3**	138.5
Other creditors and accruals				
Other parties	**1,331.1**	1,388.6	**1,107.3**	1,178.0
	2,005.7	1,985.3	**1,938.3**	1,799.5

15. Interest-bearing Liabilities

Current	**$M**	$M	**$M**	$M
Bank loans				
– secured	**207.2**	205.7	**89.5**	89.7
Other loans – unsecured				
Related parties				
– controlled entities	**–**	–	**267.9**	258.9
– associates and jointly controlled entities	**6.5**	4.6	**6.5**	4.6
Other parties	**166.8**	95.8	**166.8**	95.8
Lease and hire purchase liabilities (refer Note 19)				
– controlled entities	**–**	–	**174.0**	171.2
– other parties	**483.2**	134.7	**483.2**	103.6
	863.7	440.8	**1,187.9**	723.8

Non-current				
Bank loans				
– secured	**1,769.3**	2,096.6	**787.6**	948.9
– unsecured	**627.7**	627.0	**627.7**	627.0
Other loans – unsecured				
Other parties	**1,238.6**	1,502.7	**1,238.4**	1,502.7
Lease and hire purchase liabilities (refer Note 19)				
– controlled entities	**–**	–	**1,419.4**	1,638.5
– other parties	**575.3**	1,108.5	**575.3**	1,101.7
	4,210.9	5,334.8	**4,648.4**	5,818.8

Certain current and non-current loans relate to specific financings of aircraft and engines and are secured by the aircraft to which they relate (refer Note 11).

16. Provisions

Current	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Dividends	**2.2**	2.1	**2.2**	2.1
Employee benefits				
– annual leave	**322.9**	325.5	**268.9**	281.2
– long service leave	**37.6**	40.7	**28.9**	30.9
– staff redundancy	**51.0**	21.2	**51.0**	21.2
Frequent Flyer	**33.7**	28.4	**33.7**	28.4
Onerous contracts	**9.3**	27.2	**8.7**	26.6
Insurance, legal and other	**77.7**	23.9	**76.6**	19.6
	534.4	469.0	**470.0**	410.0

Non-current	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Employee benefits				
– long service leave	**295.2**	312.1	**267.6**	285.9
– other	**–**	0.7	**–**	–
– superannuation	**–**	7.3	**–**	7.3
Frequent Flyer	**36.6**	38.9	**36.6**	38.9
Onerous contracts	**15.3**	2.7	**13.7**	1.1
Make good on leased assets	**33.7**	17.5	**26.6**	12.8
Insurance and other	**101.1**	100.5	**95.3**	93.9
	481.9	479.7	**439.8**	439.9

Reconciliations	Qantas Group 2007 $M	Qantas 2007 $M
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:		
Dividends		
Balance as at 1 July	**2.1**	**2.1**
Provisions made	**513.8**	**512.8**
Payments made	**(414.7)**	**(413.7)**
Dividends settled in shares under the DRP	**(99.0)**	**(99.0)**
Balance as at 30 June	**2.2**	**2.2**
Frequent Flyer		
Provision for the obligation to provide travel rewards to members for points accumulated from travelling on Qantas and partner airline services.		
Balance as at 1 July	**67.3**	**67.3**
Provisions made	**51.4**	**51.4**
Payments made	**(31.4)**	**(31.4)**
Discounting	**(17.0)**	**(17.0)**
Balance as at 30 June	**70.3**	**70.3**
Included in the Financial Statements as follows:		
Current	**33.7**	**33.7**
Non-current	**36.6**	**36.6**
	70.3	**70.3**

16. Provisions continued

Reconciliations continued	Qantas Group 2007 $M	Qantas 2007 $M
Onerous contracts		
An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received. The Qantas Group has raised this provision in respect of operating leases on premises and grounded aircraft.		
Balance as at 1 July	29.9	27.7
Provisions made	8.7	8.7
Payments made	(14.0)	(14.0)
Balance as at 30 June	24.6	22.4
Included in the Financial Statements as follows:		
Current	9.3	8.7
Non-current	15.3	13.7
	24.6	22.4
Insurance, legal and other		
Qantas self-insures for risks associated with workers' compensation. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims, discounted using a government bond rate with a maturity approximating the terms of the obligation. Legal provisions include estimates of the likely penalty to be incurred by Qantas Freight in relation to the US Department of Justice's investigation into alleged price fixing.		
Balance as at 1 July	124.4	113.5
Provisions made	79.1	76.2
Payments made	(24.7)	(17.8)
Balance as at 30 June	178.8	171.9
Included in the Financial Statements as follows:		
Current	77.7	76.6
Non-current	101.1	95.3
	178.8	171.9
Superannuation		
Qantas provides a defined benefit superannuation plan to some employees. This provision represents the present value of the Qantas Group's obligation for the related current service cost.		
Balance as at 1 July	7.3	7.3
Payments made	(7.3)	(7.3)
Balance as at 30 June	–	–
Make good on leased assets		
The Qantas Group has leases that require the asset to be returned to the lessor in certain conditions. A provision has been raised for the present value of the future expected cost at lease expiry.		
Balance as at 1 July	17.5	12.8
Provisions made	16.2	13.8
Balance as at 30 June	33.7	26.6

17. Issued Capital

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Issued and paid up capital: 1,984,990,348 (2006: 1,955,035,444) ordinary shares, fully paid as at 30 June	**4,481.2**	4,382.2	**4,481.2**	4,382.2

Movements in the share capital of Qantas during the current and prior year were as follows:

Date	Details	Number of Shares M	$M
1 July 2005	Balance	**1,897.6**	**4,192.3**
28 September 2005	DRP	**31.0**	**97.4**
15 February 2006	Issue of shares under the QLTEIP	**2.1**	**–**
5 April 2006	DRP	**24.3**	**92.5**
30 June 2006	Balance	**1,955.0**	**4,382.2**
4 October 2006	DRP	**29.0**	**99.0**
16 February 2007	Issue of shares under the QLTEIP	**1.0**	**–**
30 June 2007	Balance	**1,985.0**	**4,481.2**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of wind-up, Qantas ordinary shareholders rank after all creditors and are fully entitled to any residual proceeds on liquidation.

Treasury shares consist of shares held in trust for Qantas Executives in relation to equity compensation plans. At 30 June 2007, 9,335,407 (2006: 6,628,357) shares were held in trust and classified as treasury shares.

18. Reserves

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Employee compensation reserve	**27.0**	23.7	**27.0**	23.7
Hedge reserve	**120.0**	332.2	**121.6**	332.2
Fair value reserve	**–**	(35.4)	**–**	–
Asset revaluation reserve	**4.0**	4.0	**–**	–
Foreign currency translation reserve	**(2.8)**	4.8	**–**	–
	148.2	329.3	**148.6**	355.9

18. Reserves continued

Nature and purpose of reserves

Employee compensation reserve

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest in the employee. No gain or loss is recognised in the Qantas Group Income Statement on the purchase, sale, issue or cancellation of Qantas' own equity instruments.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised.

Asset revaluation reserve

The asset revaluation reserve relates to property, plant and equipment measured at fair value in accordance with applicable AASB.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign controlled entities where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that form part of the Qantas Group's net investment in a foreign controlled entity.

19. Finance Lease and Hire Purchase Commitments

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Included in the Financial Statements as finance lease and hire purchase liabilities are the present values of future rentals of the following:				
Aircraft and engines	**1,058.1**	1,243.0	**2,651.9**	3,015.0
Computer and communications equipment	**0.4**	0.2	**–**	–
	1,058.5	1,243.2	**2,651.9**	3,015.0
Payable				
Not later than one year	**458.2**	192.6	**710.6**	407.2
Later than one year but not later than five years	**375.4**	786.2	**1,474.1**	1,891.8
Later than five years	**400.8**	507.0	**983.6**	1,337.4
	1,234.4	1,485.8	**3,168.3**	3,636.4
Less: future lease and hire purchase finance charges	**175.9**	242.6	**516.4**	621.4
	1,058.5	1,243.2	**2,651.9**	3,015.0
Finance lease and hire purchase liabilities provided for in the Financial Statements				
Current liability (refer Note 15)				
– controlled entities	**–**	–	**174.0**	171.2
– other parties	**483.2**	134.7	**483.2**	103.6
Non-current liability (refer Note 15)				
– controlled entities	**–**	–	**1,419.4**	1,638.5
– other parties	**575.3**	1,108.5	**575.3**	1,101.7
	1,058.5	1,243.2	**2,651.9**	3,015.0

The Qantas Group leases aircraft and plant and equipment under finance leases with expiry dates between one and 17 years. Most finance leases contain purchase options exercisable at the end of the lease term. The Qantas Group has the right to negotiate extensions on most leases.

20. Operating Lease and Rental Commitments

	Qantas Group		Qantas	
As lessee	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Future net operating lease and rental commitments not provided for in the Financial Statements	**3,322.9**	2,792.1	**1,759.6**	1,673.4
Payable				
Not later than one year	**568.4**	534.9	**370.7**	355.4
Later than one year but not later than five years	**1,677.9**	1,309.2	**833.9**	777.3
Later than five years	**1,085.8**	951.5	**562.8**	542.6
	3,332.1	2,795.6	**1,767.4**	1,675.3
Less: provision for potential under recovery of rentals on unused premises available for sub-lease (included in onerous contract provision)	**9.2**	3.5	**7.8**	1.9
	3,322.9	2,792.1	**1,759.6**	1,673.4
Operating lease commitments represent:				
Cancellable operating leases	**991.8**	842.6	**974.0**	835.4
Non-cancellable operating leases:				
– Aircraft leases	**2,331.1**	1,949.5	**785.6**	838.0
	3,322.9	2,792.1	**1,759.6**	1,673.4
Non-cancellable operating lease commitments, excluding unguaranteed residual payments, not provided for in the Financial Statements:				
Payable				
Not later than one year	**391.0**	405.2	**200.5**	227.6
Later than one year but not later than five years	**1,287.0**	963.0	**453.3**	435.6
Later than five years	**653.1**	581.3	**131.8**	174.8
	2,331.1	1,949.5	**785.6**	838.0

The Qantas Group leases aircraft, buildings and plant and equipment under operating leases with expiry dates between one and 35 years. The Qantas Group has the right to negotiate extensions on most leases.

As lessor

Qantas leases out freighter aircraft under long-term operating leases with rentals received monthly.

Receivable				
Not later than one year	**10.7**	–	**4.7**	–
Later than one year but not later than five years	**46.8**	–	**18.7**	–
Later than five years	**76.5**	–	**28.6**	–
	134.0	–	**52.0**	–

21. Capital Expenditure Commitments

	$M	$M	**$M**	$M
Capital expenditure commitments contracted but not provided for in the Financial Statements:				
Aircraft	**11,233.5**	9,801.3	**11,226.6**	9,783.2
Building works	**48.6**	101.3	**48.3**	100.6
Other	**150.9**	98.7	**136.3**	81.7
	11,433.0	10,001.3	**11,411.2**	9,965.5
Payable				
Not later than one year	**916.3**	1,349.4	**899.2**	1,317.1
Later than one year but not later than five years	**8,511.4**	4,753.1	**8,506.7**	4,749.6
Later than five years	**2,005.3**	3,898.8	**2,005.3**	3,898.8
	11,433.0	10,001.3	**11,411.2**	9,965.5

The above amounts exclude uncommitted aircraft purchase payments that may be made if cancellable aircraft options are exercised.

22. Contingent Liabilities

Details of contingent liabilities, where the probability of future payments is considered remote, are set out below. The Directors are of the opinion that provisions are not required with respect to these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Performance guarantees and letters of comfort to support operating lease commitments and other arrangements entered into with other parties by controlled entities	**26.8**	24.7	**26.8**	24.7
Performance guarantees and letters of comfort to support leveraged and operating lease commitments to other parties on behalf of associates and jointly controlled entities	**0.3**	0.3	**0.3**	0.3
General guarantees in the normal course of business	**129.1**	119.9	**129.1**	119.9
Contingent liabilities relating to current and threatened litigation	**6.1**	9.5	**6.1**	9.3
	162.3	154.4	**162.3**	154.2

Aircraft financing

As part of the financing arrangements for the acquisition of aircraft, the Qantas Group has provided certain guarantees and indemnities to various lenders and equity participants in leveraged lease transactions. In certain circumstances, including the insolvency of major international banks and other AAA rated counterparties, the Qantas Group may be required to make payments under these guarantees.

Qantas and certain controlled entities have entered into asset value underwriting arrangements with lenders under certain aircraft secured financings. These arrangements protect the value of the aircraft security to the lenders to a pre-determined level. This is reflected by the balance of aircraft security deposits held with certain financial institutions.

The Qantas Group has provided standard tax indemnities to the equity investors in certain leveraged leases. The indemnities effectively guarantee the after-tax rate of return of the investors and the Qantas Group may be subject to additional financing costs on future lease payments if certain assumptions made at the time of entering the transactions, including assumptions as to the rate of income tax, subsequently become invalid.

Freight investigation

Qantas previously disclosed that it had been co-operating with regulators in the USA, Europe, Australia, New Zealand and other jurisdictions in their investigation into alleged price fixing in the air cargo market. These investigations revealed that the practice adopted by Qantas Freight and the cargo industry generally to fix and impose fuel surcharges was likely to have breached relevant competition laws. Qantas continues to co-operate fully with all regulators and will be providing them with all relevant information to permit them to undertake their investigations.

On 1 August 2007, the US Department of Justice announced that British Airways and Korean Air had agreed to plead guilty and each pay US$300 million criminal fines for their roles in conspiracies to fix prices of passenger and cargo flights. British Airways subsequently announced that US$200 million of its fine related to cargo.

Following these settlements, Qantas has provided $47.2 million (US$40 million) for a potential settlement in that jurisdiction. Qantas is continuing to co-operate with regulators in other jurisdictions including Australia, Europe and New Zealand. However, no provision has been raised for possible fines in these other jurisdictions or for possible liability to third parties under class actions, as they are not able to be reliably estimated. Qantas expects these amounts will be able to be estimated over the next two years.

Travel agent litigation

A number of travel agents have commenced proceedings against IATA and Qantas and other airlines as a result of travel agents not being paid commission on fuel surcharges. The claim amount has not yet been determined and Qantas is investigating the claim.

Tax investigation

The New Zealand Inland Revenue Department has issued the Qantas Group a Notice of Proposed Adjustment which seeks to disallow interest deductions relating to the acquisition of Qantas' former interest in Air New Zealand. Qantas has lodged an objection to the Adjustment and notes that any resultant tax liability would be funded via unbooked available tax losses.

23. Superannuation

Changes in the present value of the defined benefit obligation	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Opening defined benefit obligation	**2,041.8**	2,042.9	**2,041.8**	2,042.9
Current service cost	**176.2**	164.5	**176.2**	164.5
Interest cost	**108.3**	92.6	**108.3**	92.6
Actuarial gains	**(229.5)**	(112.2)	**(229.5)**	(112.2)
Exchange differences on foreign plans	**(13.4)**	8.3	**(13.4)**	8.3
Transfer of retirement aged members to accumulation fund	**(173.0)**	–	**(173.0)**	–
Benefits paid	**(219.4)**	(154.3)	**(219.4)**	(154.3)
Closing defined benefit obligation	**1,691.0**	2,041.8	**1,691.0**	2,041.8

Changes in the fair value of plan assets	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Opening fair value of plan assets	**2,411.0**	2,077.9	**2,411.0**	2,077.9
Expected return	**169.1**	136.9	**169.1**	136.9
Actuarial gains	**27.0**	179.7	**27.0**	179.7
Exchange differences on foreign plans	**(11.5)**	6.6	**(11.5)**	6.6
Contributions by employer	**123.5**	135.7	**123.5**	135.7
Contributions by plan participants	**26.6**	28.5	**26.6**	28.5
Transfer of retirement aged members to accumulation fund	**(173.0)**	–	**(173.0)**	–
Benefits paid	**(219.4)**	(154.3)	**(219.4)**	(154.3)
Closing fair value of plan assets	**2,353.3**	2,411.0	**2,353.3**	2,411.0

Expense recognised in the Income Statement	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Service cost	**158.8**	148.2	**158.8**	148.2
Interest cost	**108.3**	92.6	**108.3**	92.6
Contributions by plan participants	**(26.6)**	(28.5)	**(26.6)**	(28.5)
Expected return on plan assets	**(169.1)**	(136.9)	**(169.1)**	(136.9)
Actuarial (gains)/losses	**(11.4)**	0.1	**(11.4)**	0.1
Increase in allowance for contributions tax on net liability	**12.3**	12.9	**12.3**	12.9
Expenses	**5.1**	3.3	**5.1**	3.3
Total included in manpower and staff related	**77.4**	91.7	**77.4**	91.7

The major categories of plan assets as a percentage of total plan assets are as follows:	Qantas Group 2007 %	Qantas Group 2006 %	Qantas 2007 %	Qantas 2006 %
Equity instruments (Australian and overseas)	**55**	55	**55**	55
Fixed interest and cash (Australian and overseas)	**15**	16	**15**	16
Property (direct and listed)	**10**	9	**10**	9
Australian indexed bonds	**6**	5	**6**	5
Alternative assets	**14**	15	**14**	15

The Qantas Superannuation Plan (QSP) is a hybrid defined benefit/defined contribution fund within 13 separate divisions which commenced operation in June 1939. The total fund value as at 30 June 2007 is $6.6 billion (2006: $5.8 billion). In addition to the QSP, there are a number of small offshore defined benefit plans.

The Qantas Group makes contributions to defined benefit superannuation plans that provide defined benefit amounts for employees upon retirement. Under the plans, employees are entitled to retirement benefits determined, at least in part, by reference to a formula based on years of membership and salary levels. The total plan assets include financial instruments issued by Qantas with a fair value of $5.9 million (2006: $15.1 million). Plan assets also include an investment in a trust which owns a 50 per cent interest in property occupied by the Qantas Group. The value of this investment is $17.4 million (2006: $17.4 million).

23. Superannuation continued

Reconciliation to the Balance Sheet	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Fair value of plan assets	**2,353.3**	2,411.0	**2,353.3**	2,411.0
Present value of defined benefit obligation	**1,691.0**	2,041.8	**1,691.0**	2,041.8
Surplus	**662.3**	369.2	**662.3**	369.2
Unrecognised actuarial gains	**622.4**	376.5	**622.4**	376.5
Recognised prepayment/(liability) for defined benefit obligation	**39.9**	(7.3)	**39.9**	(7.3)

Historical amounts	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas Group 2005 $M	Qantas 2007 $M	Qantas 2006 $M	Qantas 2005 $M
Fair value of plan assets	**2,353.3**	**2,411.0**	**2,077.9**	**2,353.3**	2,411.0	2,077.9
Present value of defined benefit obligation	**1,691.0**	**2,041.8**	**2,042.9**	**1,691.0**	2,041.8	2,042.9
Surplus	**662.3**	**369.2**	**35.0**	**662.3**	369.2	35.0
Experience adjustments on plan assets	**27.0**	**179.7**	**180.1**	**27.0**	179.7	180.1
Experience adjustments on plan liabilities	**112.1**	**3.9**	**(63.6)**	**112.1**	3.9	(63.6)

Principal actuarial assumptions at balance date (expressed as weighted averages per annum)	Qantas Group 2007 %	Qantas Group 2006 %	Qantas 2007 %	Qantas 2006 %
Discount rate	**6.3**	5.8	**6.3**	5.8
Expected return on plan assets	**7.7**	7.0	**7.7**	7.0
Future salary increases	**3.0**	3.2	**3.0**	3.2

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Net financial position

In accordance with AAS 25 Financial Reporting by Superannuation Plans, the Plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. The net surplus determined in the Plan's most recent actuarial assessment (30 June 2005) was $139.0 million.

Defined contribution fund

The Qantas Group results include a $144.1 million (2006: $120.8 million) expense in relation to the defined contribution fund.

24. Key Management Personnel and Executive Equity Benefits

Details of Key Management Personnel

The Key Management Personnel (KMP) of the Qantas Group during the year were:
Margaret Jackson, AC, Chairman
Geoff Dixon, Chief Executive Officer
Peter Gregg, Chief Financial Officer and EGM Strategy
Paul Anderson, Non-Executive Director
Mike Codd, AC, Non-Executive Director
Peter Cosgrove, AC, MC, Non-Executive Director
Patricia Cross, Non-Executive Director
Garry Hounsell, Non-Executive Director
James Packer, Non-Executive Director
John Schubert, Non-Executive Director
James Strong, AO, Non-Executive Director (appointed 1 July 2006)
John Borghetti, EGM Qantas Airlines
Kevin Brown, EGM People
David Cox, EGM Engineering
Grant Fenn, EGM Freight Enterprises
Alan Joyce, Chief Executive Officer Jetstar

Leigh Clifford was appointed as a Non-Executive Director effective 9 August 2007.

Key Management Personnel remuneration

The aggregate remuneration of the KMP of the Qantas Group and Qantas is set out below:

	Qantas Group		Qantas	
	2007 $	2006 $	**2007 $**	2006 $
Short-term employee benefits	**18,886,101**	13,051,473	**17,226,863**	12,163,132
Post employment benefits	**1,455,156**	3,360,335	**1,147,071**	3,147,708
Other long-term benefits	**402,984**	716,324	**344,916**	690,605
Termination benefits	**–**	1,358,024	**–**	1,358,024
Share-based payment	**5,678,628**	3,655,992	**5,040,057**	3,359,149
	26,422,869	22,142,148	**23,758,907**	20,718,618

Equity instruments

Set out in the following tables are the holdings of equity instruments granted as remuneration to the KMP by Qantas. Non-Executive Directors do not receive any remuneration in the form of share-based payments. No other KMP or related party directly, indirectly or beneficially held any other shares, options or rights in the Qantas Group other than as set out below. Other than share-based payment compensation, all equity instrument transactions between the KMP, including their related parties, and Qantas during the year have been on an arms length basis.

24. Key Management Personnel and Executive Equity Benefits continued

Performance Share Plan (PSP)

Details of entitlements over shares in Qantas provided as remuneration during the year to each Executive Director and Key Management Executive are set out below. For more information on the operation of the PSP, see page 60.

Key Management Personnel	Grant Date	Value as at Grant Date	Balance as at 30 June 2006	Number of Performance Shares Granted during the Year	Number of Performance Shares Vested and Transferred during the Year	Balance as at 30 June 2007	Not Available to Call	Available to Call
Geoff Dixon	22 Aug 06	$3.30	–	142,500	–	142,500	71,250	71,250
	17 Aug 05	$3.29	150,000	–	–	150,000	–	150,000
	21 Oct 04	$3.34	150,000	–	–	150,000	–	150,000
			300,000	142,500	–	442,500	71,250	371,250
Peter Gregg	22 Aug 06	$3.30	–	85,500	–	85,500	42,750	42,750
	17 Aug 05	$3.29	90,000	–	–	90,000	–	90,000
	21 Oct 04	$3.34	45,000	–	–	45,000	–	45,000
			135,000	85,500	–	220,500	42,750	177,750
John Borghetti	22 Aug 06	$3.30	–	85,500	–	85,500[1]	85,500	–
	17 Aug 05	$3.29	60,000	–	(30,000)	30,000	30,000[2]	–
	18 Aug 04	$3.32	55,000	–	(55,000)	–	–	–
			115,000	85,500	(85,000)	115,500	115,500	–
Kevin Brown	22 Aug 06	$3.30	–	38,000	–	38,000[1]	38,000	–
	17 Aug 05	$3.29	35,000	–	(17,500)	17,500	17,500[2]	–
	18 Aug 04	$3.32	35,000	–	(35,000)	–	–	–
			70,000	38,000	(52,500)	55,500	55,500	–
David Cox	22 Aug 06	$3.30	–	32,000	–	32,000[1]	32,000	–
	17 Aug 05	$3.29	30,000	–	–	30,000	15,000[2]	15,000
	18 Aug 04	$3.32	30,000	–	–	30,000	–	30,000
			60,000	32,000	–	92,000	47,000	45,000
Grant Fenn	22 Aug 06	$3.30	–	38,000	–	38,000[1]	38,000	–
	17 Aug 05	$3.29	35,000	–	(17,500)	17,500	17,500[2]	–
	18 Aug 04	$3.32	35,000	–	(35,000)	–	–	–
			70,000	38,000	(52,500)	55,500	55,500	–
Alan Joyce	22 Aug 06	$3.30	–	34,000	–	34,000[1]	34,000	–
	17 Aug 05	$3.29	35,000	–	–	35,000	17,500[2]	17,500
	18 May 05	$3.18	25,000	–	–	25,000	–	25,000
	18 Aug 04	$3.32	30,000	–	–	30,000	–	30,000
			90,000	34,000	–	124,000	51,500	72,500

1 Up to one-half of these deferred shares may be called for from 1 July 2007.
2 These deferred shares may be called for from 1 July 2007.

No amount has been paid, or is payable, by the Executive in relation to these deferred shares.

Retention Plan (RP)

Details of entitlements over shares in Qantas provided as remuneration during the year to an Executive Director and each Key Management Executive are set out below. For more information on the operation of the RP, see page 62.

Key Management Personnel	Grant Date	Value as at Grant Date	Balance as at 30 June 2006	Number of Retention Shares Granted during the Year	Balance as at 30 June 2007	Not Available to Call	Available to Call
Peter Gregg	19 Oct 06	$4.05	–	400,000	400,000	400,000	–
John Borghetti	16 Aug 06	$3.09	–	400,000	400,000	400,000	–
Kevin Brown	16 Aug 06	$3.09	–	350,000	350,000	350,000	–
David Cox	16 Aug 06	$3.09	–	350,000	350,000	350,000	–
Grant Fenn	16 Aug 06	$3.09	–	350,000	350,000	350,000	–
Alan Joyce	16 Aug 06	$3.09	–	350,000	350,000	350,000	–

No amount has been paid, or is payable, by the Executive in relation to these deferred shares.

24. Key Management Personnel and Executive Equity Benefits continued

Performance Rights Plan (PRP)

Details of Rights over Qantas shares and vesting criteria for each Executive Director and Key Management Executive are set out below. For more information on the operation of the PRP, including DSP Terms & Conditions, expiry dates and a summary of the performance criteria to be met prior to vesting, see page 61.

Key Management Personnel	Grant Date	Fair Value as at Grant Date	Balance as at 30 June 2006	Number of Performance Rights Granted during the Year	Number of Performance Rights Vested and Transferred during the Year	Balance as at 30 June 2007
Geoff Dixon	19 Oct 06	$3.17[1]	–	300,000	–	300,000
	21 Oct 04	$2.28[1]	450,000	–	–	450,000[3]
	16 Oct 03	$3.04[2]	125,000	–	(125,000)	–
			575,000	300,000	(125,000)	750,000
Peter Gregg	19 Oct 06	$3.17[1]	–	100,000	–	100,000
	17 Aug 05	$1.98[1]	90,000	–	–	90,000
	21 Oct 04	$2.28[1]	90,000	–	–	90,000[3]
	16 Oct 03	$3.04[2]	80,000	–	(80,000)	–
			260,000	100,000	(80,000)	280,000
John Borghetti	22 Aug 06	$2.39[1]	–	100,000	–	100,000
	17 Aug 05	$1.98[1]	75,000	–	–	75,000
	18 Aug 04	$2.25[1]	60,000	–	–	60,000[3]
	15 Oct 03	$3.09[2]	40,000	–	(40,000)	–
			175,000	100,000	(40,000)	235,000
Kevin Brown	22 Aug 06	$2.39[1]	–	55,000	–	55,000
	17 Aug 05	$1.98[1]	50,000	–	–	50,000
	18 Aug 04	$2.25[1]	40,000	–	–	40,000[3]
	15 Oct 03	$3.09[2]	30,000	–	(30,000)	–
			120,000	55,000	(30,000)	145,000
David Cox	22 Aug 06	$2.39[1]	–	45,000	–	45,000
	17 Aug 05	$1.98[1]	40,000	–	–	40,000
	18 Aug 04	$2.25[1]	45,000	–	–	45,000[3]
	10 Dec 03	$2.86[2]	20,000	–	(20,000)	–
			105,000	45,000	(20,000)	130,000
Grant Fenn	22 Aug 06	$2.39[1]	–	55,000	–	55,000
	17 Aug 05	$1.98[1]	50,000	–	–	50,000
	18 Aug 04	$2.25[1]	45,000	–	–	45,000[3]
	15 Oct 03	$3.09[2]	35,000	–	(35,000)	–
			130,000	55,000	(35,000)	150,000
Alan Joyce	22 Aug 06	$2.39[1]	–	55,000	–	55,000
	17 Aug 05	$1.98[1]	50,000	–	–	50,000
	18 Aug 04	$2.25[1]	35,000	–	–	35,000[3]
	10 Dec 03	$2.86[2]	20,000	–	(20,000)	–
			105,000	55,000	(20,000)	140,000

1 The fair value of Rights granted under Plans post 1 July 2004 is calculated at the date of grant using a Monte-Carlo Valuation Methodology.

2 The estimated value of Rights granted under Plans before 1 July 2004 is calculated at the date of grant using the Black-Scholes Option Valuation Methodology. The total value reflects a 75 per cent probability of achievement.

3 While these Rights vest on the tenth anniversary of the date of award, Executives may call for the Rights to be converted to Qantas shares to the extent Performance Hurdles have been achieved upon testing, which commenced 30 June 2007.

All Rights were granted with a nil exercise price and subject to the achievement of the performance hurdle may be converted on a one-for-one basis to Qantas shares. No amount has been paid, or is payable by, the Executive in relation to these Rights. The Rights under the 2003/04 award were exercised during the year to 30 June 2007.

24. Key Management Personnel and Executive Equity Benefits continued

2002 Executive Director Long-Term Incentive Plan (Exec Director LTI) and Senior Manager Long-Term Incentive Plan (Sen Mgr LTI)

The number of Qantas shares provided as remuneration under the Exec Director LTI and Sen Mgr LTI to an Executive Director and each Key Management Executive is set out below. No deferred shares were granted under these Plans in the year ended 30 June 2007. For more information on the operation of the Exec Director LTI and Sen Mgr LTI, see page 63.

Key Management Personnel	Grant Date	Balance as at 30 June 2006	Number of Performance Shares Vested and Transferred during the Year	Balance as at 30 June 2007
Peter Gregg	17 Oct 02	150,000	(150,000)	–
John Borghetti	31 Dec 02	80,000	(80,000)	–
Kevin Brown	31 Dec 02	60,000	(60,000)	–
David Cox	10 Jan 03	30,000	(30,000)	–
Grant Fenn	31 Dec 02	60,000	(60,000)	–
Alan Joyce	10 Jan 03	30,000	(30,000)	–

No amounts have been paid, or are payable, by the Executives in relation to the deferred shares.

2002 Executive Director Long-Term Incentive Plan (Exec Director LTI)

The number of Qantas Rights provided as remuneration under the Exec Director LTI is set out below. No Rights were granted under this Plan in the year ended 30 June 2007. For more information on the operation of the Exec Director LTI, see page 63.

Key Management Personnel	Grant Date	Balance as at 30 June 2006	Number of Performance Rights Vested and Transferred during the Year	Balance as at 30 June 2007
Peter Gregg	17 Oct 02	16,666	(16,666)	–

All Rights were granted with a nil exercise price and were converted on a one-for-one basis to Qantas shares. No amounts have been paid, or are payable, by the Executive Director in relation to the Rights.

Qantas Long-Term Executive Incentive Plan (QLTEIP)

Details of entitlements over shares in Qantas provided as remuneration under the QLTEIP to each Executive Director and Key Management Executive are set out below. For more information on the operation of the QLTEIP, see page 63.

Key Management Personnel	Number of Entitlements Granted	Balance as at 30 June 2006	Lapsed	Exercised	Balance as at 30 June 2007	Number Vested as at 30 June 2007	Number Unvested as at 30 June 2007
Geoff Dixon	2,045,000	483,688	–	–	483,688	483,688	–
Peter Gregg	838,000	78,100	–	–	78,100	78,100	–
John Borghetti	518,000	78,100	–	–	78,100	78,100	–
Kevin Brown	350,000	175,000	(175,000)	–	–	–	–
David Cox	518,000	78,100	–	–	78,100	78,100	–
Grant Fenn	496,000	418,344	–	(418,344)	–	–	–
Alan Joyce	220,000	–	–	–	–	–	–

No further vesting occurred for Executives in the year to 30 June 2007. All vested Entitlements may be converted into Qantas shares, however, this is not on a one-for-one basis. At the time QLTEIP Entitlements lapsed, they were out-of-the-money.

24. Key Management Personnel and Executive Equity Benefits continued

Equity holdings and transactions

The movement during the year in the number of Qantas shares held directly, indirectly or beneficially, by KMP, including their related parties, is as follows:

Key Management Personnel	Interest in Shares as at 30 June 2006	Awarded as Remuneration[1]	Rights/Entitlements Converted to Shares	Other Change[2]	Interest in Shares as at 30 June 2007
Margaret Jackson	147,338	–	–	–	147,338
Geoff Dixon	1,168,321	142,500	125,000	307,000	1,742,821
Peter Gregg	523,363	485,500	96,666	(200,000)	905,529
Paul Anderson	25,000	–	–	–	25,000
Mike Codd	12,990	–	–	418	13,408
Peter Cosgrove	2,057	–	–	67	2,124
Patricia Cross	2,163	–	–	–	2,163
Garry Hounsell	32,756	–	–	1,055	33,811
James Packer	51,444	–	–	1,657	53,101
John Schubert	34,753	–	–	–	34,753
James Strong	39,775	–	–	1,281	41,056
John Borghetti	264,338	485,500	40,000	(272,092)	517,746
Kevin Brown	162,491	388,000	30,000	(157,491)	423,000
David Cox	145,241	382,000	20,000	(45,000)	502,241
Grant Fenn	149,700	388,000	168,183	(300,383)	405,500
Alan Joyce	137,383	384,000	20,000	–	541,383

1 See details of the PSP and RP on page 108 in this Note.

2 Other change includes shares acquired through the DRP, purchased, sold or lapsed.

Loans and other transactions with Key Management Personnel

Loans

No KMP or their related parties held any loans from the Qantas Group during or at the end of the year.

Other transactions with the Qantas Group

Related party disclosures

Roger Donazzan, a related party to Ms Jackson, is Chairman of Harmony Resorts Niseko Pty Ltd (HRN). During the year, no sponsorship was provided to Hanazano (2006: $6,400) or Mt Hotham which are related entities of HRN.

Paul Meadows, a related party to Mrs Cross, is a Partner of Allens Arthur Robinson. Mr Meadows performs no work for Qantas. Total legal fees paid to the Allens Arthur Robinson Group during the year were $5,141,000 (2006: nil). During the year, the Allens Arthur Robinson Group purchased air travel of $2,189,000 (2006: $1,621,000) from the Qantas Group. All transactions between the Qantas Group and the Allens Arthur Robinson Group are conducted on normal commercial arms length terms.

Toolangi Vineyards is a related entity to Mr Hounsell. During the year, the Qantas Group purchased wine totalling $106,000 (2006: nil) from Toolangi Vineyards, for use on Qantas International Business Class services. All transactions were conducted on normal commercial arms length terms.

Publishing and Broadcasting Limited (PBL) and its controlled entities, including Consolidated Press Holdings Limited, Nine Network, ACP Magazines, Crown Casino, Burswood Casino, Ticketek, Hoyts and Premier Media Group, is a related entity to Mr Packer. During the year, PBL purchased air travel of $15,226,000 (2006: $13,500,000) from the Qantas Group. The Qantas Group purchased directly or indirectly advertising services from PBL of $4,047,000 (2006: $2,500,000) during the year. In addition, Qantas and PBL have various contra arrangements in place for advertising and sponsorship. The value of these contra arrangements with Qantas was $139,000 (2006: $63,000) and nil (2006: $210,000) for other entities within the Qantas Group. During the year, Qantas spent $297,000 (2006: $1,000,000) with Crown Limited and $1,487,000 (2006: $1,600,000) with ACP Publishing Pty Ltd. All transactions were conducted on normal commercial arms length terms.

General Cosgrove became a Director of the Australian Rugby Union (ARU), which as such is a related entity to General Cosgrove, on 28 April 2007. During the year, Qantas purchased sponsorship and advertising rights of $226,000 from the ARU and the ARU purchased air travel of $1,111,000 from the Qantas Group. In addition, Qantas and the ARU have contra arrangements in place for sponsorship and advertising rights in return for air travel. The value of these contra arrangements with Qantas during the year was $3,164,000. All transactions were conducted on normal commercial arms length terms.

24. Key Management Personnel and Executive Equity Benefits continued

Share-based payment

The DSP Terms & Conditions were approved by shareholders at the 2002 AGM. The DSP governs the provision of equity benefits to Executives within Qantas. Any modifications to the DSP Terms & Conditions are outlined on page 60.

Performance Rights Plan

The PRP is specifically targeted to Senior Executives in key roles or other participants who have been identified as high potential Executives.

Rights granted under this Plan are subject to a performance hurdle, being TSR in comparison to a basket of listed global airlines and the largest Australian listed public companies as measured by the S&P/ASX 100 Index. TSR testing for each award commences three years after the Rights are granted and is performed quarterly over the following two years, or until the test indicates that full vesting has been achieved. If the target is not met, or the Executive ceases employment prior to vesting, all of the Rights granted will lapse. Vesting of the Rights granted under the 2003/04 award were subject to a performance hurdle based on the achievement of the three year average annual RoTGA targets for the three years to 30 June 2006.

All Rights are redeemable on a one-for-one basis for Qantas shares, subject to the achievement of the performance hurdle. Dividends are not payable on the Rights.

Performance Rights Reconciliation	2007 Number of Rights	2006 Number of Rights
Rights outstanding at 1 July	**4,590,000**	3,476,500
Rights granted	**2,044,300**	1,662,000
Rights forfeited	**(279,000)**	(548,500)
Rights exercised	**(1,316,500)**	–
Rights expired	**–**	–
Rights outstanding as at 30 June	**5,038,800**	4,590,000
Rights exercisable as at 30 June	**675,748**	1,351,500

All Rights were granted with a nil exercise price. No amount has been paid, or is payable by, the Executive in relation to these Rights. During the year, 1,316,500 Rights were exercised (2006: nil). Subject to confirmation of the achievement of the performance hurdle tested as at 30 June 2007, for the 2004/05 award, 675,748 Rights may vest after 15 August 2007. A further 944,752 Rights may vest, subject to achievement of the performance hurdle, which will be retested quarterly until the earlier of 30 June 2009 or until full vesting is achieved. For more information on the operation of the PRP, see page 61.

Fair value calculation

The estimated value of Rights granted under Plans before 1 July 2004 is calculated at the date of grant using the Black-Scholes Option Valuation Methodology. The estimated value of Rights granted under Plans post 1 July 2004 is calculated at the date of grant using a Monte-Carlo Valuation Methodology.

The weighted average fair value of Rights granted during the year was $2.92 (2006: $2.44).

	Monte-Carlo Valuation Methodology	
Inputs into the models	2007	2006
Weighted average share value	**$3.90**	$3.57
Expected volatility	**24%**	16-18%
Dividend yield	**6.0%**	5.5%
Risk-free interest rate	**5.7%**	5.2%

The expected volatility was determined having regard to the historical one to two year volatility of Qantas and the implied volatility on exchange traded options. The risk-free rate was the yield on a five year Australian Government bond. The expected life assumes immediate exercise after vesting.

24. Key Management Personnel and Executive Equity Benefits continued

Share-based payment continued

Performance Share Plan

The PSP delivers deferred shares to employees upon the achievement of a Balanced Scorecard relating to Customer, Operational, People and Financial performance. The actual incentive earned is based on a combination of Qantas' results and individual performance. Performance of the Qantas Group against the Balanced Scorecard determines the amount (if any) of the pool of shares available for payment.

Deferred shares awarded under this Plan are purchased on-market or issued and are held subject to a holding lock for 10 years. Participants may call for the deferred shares prior to the expiration of the holding lock, but not before the end of one year from the completion of the performance period for up to half of the deferred shares and the end of two years in relation to the remaining deferred shares. Generally, any shares held subject to the holding lock are forfeited on cessation of employment.

	2007		2006	
Shares Granted	**Number of Shares**	**Weighted Average Fair Value $**	Number of Shares	Weighted Average Fair Value $
Performance shares granted – 22 August 2006	**2,984,116**	**3.30**	–	–
Performance shares granted – 17 August 2005	**–**	**–**	3,055,257	3.29

Shares are valued based on the volume weighted average price of Qantas shares as traded on the ASX for the seven calendar days up to and including the date of allocation. Expected dividends are not taken into account when calculating the fair value. For further detail on the operation of the PSP, see page 60.

Retention Plan

Certain Executives were awarded a number of deferred shares subject to a three year holding lock provided the Executive remained employed by the Qantas Group and satisfied certain individual performance criteria.

	2007		2006	
Shares Granted	**Number of Shares**	**Weighted Average Fair Value $**	Number of Shares	Weighted Average Fair Value $
Retention shares granted – 6 December 2006	**200,000**	**5.07**	–	–
Retention shares granted – 19 October 2006	**400,000**	**4.05**	–	–
Retention shares granted – 16 August 2006	**2,400,000**	**3.09**	–	–

Shares are valued based on the volume weighted average price of Qantas shares as traded on the ASX for the seven calendar days up to and including the date of allocation. Expected dividends are not taken into account when calculating the fair value. For further detail on the operation of the RP, see page 62.

Senior Manager Long-Term Incentive Plan

Certain Executives were awarded a number of deferred shares subject to a four year holding lock provided the Executive remained employed by the Qantas Group. These shares were held on behalf of each Executive by the Trustee until the expiry of the holding lock period. All of these shares were transferred to the Executive during the year. No awards have been made under this plan since April 2003. Additional detail on this plan is available on page 63.

2002 Executive Director Long-Term Incentive Plan

In 2001/02, the CEO and CFO sacrificed part of their bonus into deferred shares subject to a holding lock until 31 December 2005 for the CEO and 20 August 2006 for the CFO. These shares were held on behalf of each Executive Director by the Trustee until the expiry of the holding lock period. Under a matching award, they were granted one Right for every nine Shares allocated. All of these shares have been transferred to the Executive. No awards have been made under this Plan since December 2002.

Qantas Long-Term Incentive Plan

Entitlements under the QLTEIP were granted before 7 November 2002. The recognition and measurement principles in AASB 2 have not been applied to these Entitlements in accordance with the transitional provisions in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.

Under QLTEIP, certain Executives were granted Entitlements to unissued shares in Qantas in the years ended 30 June 2000, 2001 and 2002. Vesting is based on Qantas relative TSR compared to the ASX 200 Industrials Index and a basket of global airlines. Entitlements may vest between three and five years following award date and are generally conditional on the Executive remaining employed by the Qantas Group. To the extent that Entitlements vest, they may be converted into shares within eight years of the award date in proportion to the gain in share price. Entitlements will lapse on the eighth anniversary of the date of award.

	Qantas Group		**Qantas**	
Equity benefit expenses	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Expenses arising from equity settled share-based payments	**17.2**	13.8	**17.2**	13.8

25. Particulars in Relation to Controlled Entities

	Ref	ABN/ACN	Country of Incorporation	Qantas Group Ownership Interest 2007 %	Qantas Group Ownership Interest 2006 %
738 Leasing 1 Pty Limited		33 099 119 641	Australia	**100**	100
738 Leasing 2 Pty Limited		71 099 119 801	Australia	**100**	100
AAL Aviation Limited	1	83 008 642 886	Australia	**100**	100
Star Handling Services Pty Limited	1, 2	32 010 434 296	Australia	**n/a**	100
Australian Airlines Express Courier Pty Limited	1, 2	010 435 202	Australia	**n/a**	100
AAFE Superannuation Pty Limited		064 186 214	Australia	**100**	100
TAA Superannuation Pty. Ltd.		065 318 461	Australia	**100**	100
Australian Regional Airlines Pty. Ltd.	1	25 006 783 633	Australia	**100**	100
Australian Wetleasing Operations Pty Limited	1, 2	15 094 477 077	Australia	**n/a**	100
Sunstate Airlines (Qld) Pty. Limited	1	82 009 734 703	Australia	**100**	100
Southern Australia Airlines Pty Ltd	1	38 006 604 217	Australia	**100**	100
Airlink Pty Limited	1	76 010 812 316	Australia	**100**	100
Australian Regional Airlines (Qld) Pty. Ltd.	1, 2	010 795 347	Australia	**n/a**	100
Air Queensland Pty. Ltd.	2	009 656 599	Australia	**n/a**	100
Eastern Australia Airlines Pty. Limited	1	77 001 599 024	Australia	**100**	100
ACN 000 199 468 Pty Limited	1, 2	000 199 468	Australia	**n/a**	100
Impulse Airlines Holdings Proprietary Limited	1	67 090 590 024	Australia	**100**	100
Impulse Airlines Australia Pty Ltd	1	17 090 379 285	Australia	**100**	100
Jetstar Airways Pty Limited	1	33 069 720 243	Australia	**100**	100
Jetstar Holidays Co. Ltd	3		Japan	**100**	n/a
Impulse Communications Pty Limited	1	64 003 901 353	Australia	**100**	100
First Brisbane Airport Proprietary Limited	1	60 006 912 116	Australia	**100**	100
Second Brisbane Airport Proprietary Limited	1	49 006 912 072	Australia	**100**	100
First Brisbane Airport Unit Trust			n/a	**100**	100
Second Brisbane Airport Unit Trust			n/a	**100**	100
TAA Aviation Pty. Ltd.	1	17 008 596 825	Australia	**100**	100
Nostam Pty. Limited	2	003 337 497	Australia	**n/a**	100
In Tours Airline Unit Trust No 1			n/a	**100**	100
Denmell Pty. Limited	1	24 008 636 093	Australia	**100**	100
Denmint Pty. Limited	1	22 008 636 084	Australia	**100**	100
Denmost Pty. Limited	1, 2	41 008 636 100	Australia	**n/a**	100
Denold Pty. Limited	1	64 008 636 262	Australia	**100**	100
Denpen Pty. Limited	1	66 008 636 271	Australia	**100**	100
Denpet Pty. Limited	1	60 008 636 244	Australia	**100**	100
Denpost Pty. Limited	1	58 008 636 235	Australia	**100**	100
Denrac Pty. Limited	1	56 008 636 226	Australia	**100**	100
Densale Pty. Limited	1, 2	45 008 636 182	Australia	**n/a**	100
Denseed Pty. Limited	1	39 008 636 155	Australia	**100**	100
Denshore Pty. Limited	1, 2	37 008 636 146	Australia	**n/a**	100
Densip Pty. Limited	1, 2	35 008 636 137	Australia	**n/a**	100
Densound Pty. Limited	1, 2	33 008 636 128	Australia	**n/a**	100
oneworld Handling Services Pty Limited	1, 2	30 008 606 960	Australia	**n/a**	100
Engine No. 9 Pty. Ltd.	1, 2	24 008 606 997	Australia	**n/a**	100
A.C.N. 009 864 546 Pty Limited	2	009 864 546	Australia	**n/a**	100
Airconnex Pty Limited	1, 2	23 095 093 011	Australia	**n/a**	100
Asia Pacific Distribution Limited	1, 2	70 003 696 973	Australia	**n/a**	100
Australian Airlines Limited	1	85 099 625 304	Australia	**100**	100
BD No 1 Limited			Cayman Islands	**100**	100
Express Freighters Australia (Operations) Pty Limited	1	119 093 999	Australia	**100**	100
Express Freighters Australia Pty Limited	1, 4	73 003 613 465	Australia	**100**	100
Express Ground Handling Pty Limited	1	19 107 638 326	Australia	**100**	100
Jetconnect Limited			New Zealand	**100**	100
Qantas Investments (NZ) Limited			New Zealand	**100**	100
Jetstar Asia Holdings Pty Limited		86 108 623 123	Australia	**100**	100
Jet Turbine Services Pty Limited	5	15 106 473 965	Australia	**100**	50

25. Particulars in Relation to Controlled Entities continued

	Ref	ABN/ACN	Country of Incorporation	Qantas Group Ownership Interest 2007 %	2006 %
Kurrajong Limited			Cayman Islands	**100**	100
Mitokal Pty. Limited	1, 2	98 008 658 722	Australia	**n/a**	100
QH Tours Ltd	1	81 001 262 433	Australia	**100**	100
Holiday Tours and Travel Pte Ltd			Singapore	**75**	75
Jetabout Holidays Pte Ltd			Singapore	**75**	75
Tour East Australia Pty Limited	6	106 526 096	Australia	**75**	n/a
Tour East Singapore (1996) Pte Ltd			Singapore	**75**	75
Tour East (Hong Kong) Limited			Hong Kong	**75**	75
PT Biro Perjalanan Wisata Tour East Indonesia			Indonesia	**60**	60
PT Pacto Holiday Tours			Indonesia	**52.5**	52.5
Holiday Tours and Travel Ltd			Taiwan	**75**	75
Holiday Tours and Travel Limited			Hong Kong	**75**	75
Hangda Consulting (Shanghai) Co. Ltd			China	**75**	75
Holiday Tours and Travel (Korea) Limited			Korea	**56.25**	56.25
QH International Co. Limited			Japan	**100**	100
Jetabout Japan Inc			Japan	**100**	100
QH Tours (UK) Limited			United Kingdom	**100**	100
Qantas Holidays Limited	1	24 003 836 459	Australia	**100**	100
Qantas Viva! Holidays Pty Limited	4	82 003 857 332	Australia	**100**	100
QH Cruises Pty. Limited	1	13 003 895 556	Australia	**100**	100
Qanfad Pty Limited	1	071 955 578	Australia	**100**	100
Qanlease Limited	1	78 064 157 839	Australia	**100**	100
Qantair Ltd	1, 7	44 000 090 639	Australia	**n/a**	100
Qantas Airline Systems and Research Limited	1, 2	28 055 910 962	Australia	**n/a**	100
Qantas Cabin Crew (UK) Limited			United Kingdom	**100**	100
Qantas Asia Investment Company Pty Limited	1, 8	125 048 044	Australia	**100**	n/a
Qantas Asia Investment Company (Singapore) Pte Ltd	9		Singapore	**–**	n/a
Qantas Defence Services Pty Limited	1	53 090 673 466	Australia	**100**	100
QDS Richmond Pty Ltd	1	58 092 691 140	Australia	**100**	100
Qantas Flight Catering Holdings Limited	1	34 003 836 440	Australia	**100**	100
Qantas Flight Catering Limited	1	35 003 530 685	Australia	**100**	100
Caterair Airport Services Pty. Limited	1	51 008 646 302	Australia	**100**	100
Caterair Airport Services (Sydney) Pty Limited		37 062 648 140	Australia	**100**	100
Airport Infrastructure Finance Pty. Limited		14 011 071 248	Australia	**100**	100
Qantas Freight Holdings Pty Limited	1, 10	125 573 113	Australia	**100**	n/a
Qantas Freight Asia Holdings Pte Limited	11		Singapore	**100**	n/a
Asia Express Holdings Pte Ltd	12		Singapore	**–**	n/a
DPEX Transport Group Pte Ltd	13		Singapore	**–**	n/a
DPEX Ventures Pte Ltd	13		Singapore	**–**	n/a
DPEX Worldwide Express Pte Ltd	13		Singapore	**–**	n/a
DPEX Worldwide Express Limited	13		Hong Kong	**–**	n/a
Document Parcel Express (HK) Ltd	13		Hong Kong	**–**	n/a
Qantas Information Technology Ltd	1	99 000 005 372	Australia	**100**	100
Qantas Superannuation Limited		47 003 806 960	Australia	**100**	100
QF 738 Leasing 5 Pty Limited		75 100 511 706	Australia	**100**	100
QF 738 Leasing 6 Pty Limited		83 100 511 742	Australia	**100**	100
QF 744 Leasing 1 Pty Limited	2	41 100 511 564	Australia	**n/a**	100
QF 744 Leasing 2 Pty Limited	2	54 100 511 617	Australia	**n/a**	100
QF 744 Leasing 3 Pty Limited		18 100 511 466	Australia	**100**	100
QF 744 Leasing 4 Pty Limited		24 100 511 493	Australia	**100**	100
QF 744 Leasing 5 Pty Limited	2	12 100 511 439	Australia	**n/a**	100
QF 744 Leasing 6 Pty Limited	2	16 100 511 457	Australia	**n/a**	100
QF A332 Leasing 1 Pty Limited		11 100 511 813	Australia	**100**	100
QF A332 Leasing 2 Pty Limited		13 100 511 886	Australia	**100**	100
QF A332 Leasing 3 Pty Limited		86 100 510 503	Australia	**100**	100

25. Particulars in Relation to Controlled Entities continued

	Ref	ABN/ACN	Country of Incorporation	Qantas Group Ownership Interest 2007 %	Qantas Group Ownership Interest 2006 %
QF A332 Leasing 4 Pty Limited		84 100 510 558	Australia	**100**	100
QF A332 Leasing 5 Pty Limited		22 100 510 674	Australia	**100**	100
QF A332 Leasing 6 Pty Limited		35 100 510 727	Australia	**100**	100
QF A333 Leasing 1 Pty Limited	2	49 100 510 790	Australia	**n/a**	100
QF A333 Leasing 2 Pty Limited	2	56 100 510 816	Australia	**n/a**	100
QF A333 Leasing 3 Pty Limited		50 100 510 352	Australia	**100**	100
QF A333 Leasing 4 Pty Limited		44 100 510 389	Australia	**100**	100
QF A388 Leasing 1 Pty Limited		62 100 510 843	Australia	**100**	100
QF A388 Leasing 2 Pty Limited		66 100 510 861	Australia	**100**	100
QF Dash 8 Leasing Pty Limited		86 107 164 750	Australia	**100**	100
Snap Fresh Pty Limited	1	55 092 536 475	Australia	**100**	100
Southern Cross Insurances Pte Limited			Singapore	**100**	100
Thai Air Cargo Holdings Pty Limited		19 112 083 584	Australia	**100**	100

1 Pursuant to ASIC Class Order 98/1418 (as amended), these entities are relieved from the Corporations Act requirements for preparation, audit and lodgement of Financial Reports and Directors' Reports.
2 On 11 May 2006, ASIC approved applications from these companies to be voluntarily deregistered pursuant to section 601AA of the Corporations Act. On 23 July 2006, these entities were deregistered.
3 Jetstar Holidays Co. Ltd was established on 26 February 2007.
4 On 31 May 2006, ASIC approved applications from these entities to convert to proprietary companies. On 20 July 2006, these entities converted to proprietary companies.
5 On 15 December 2006, the remaining 50 per cent interest in this entity was acquired by the Qantas Group. In the prior year, the company was equity accounted as a jointly controlled entity.
6 On 20 March 2007, a 75 per cent interest in this entity was acquired by the Qantas Group.
7 On 2 August 2006, ASIC approved an application from this entity to be voluntarily deregistered pursuant to section 601AA of the Corporations Act.
8 Qantas Asia Investment Company Pty Limited was incorporated on 23 April 2007 and became party to the Deed of Cross Guarantee on 29 June 2007.
9 Qantas Asia Investment Company (Singapore) Pte Ltd was incorporated on 23 May 2007. Although no equity is owned by Qantas at 30 June 2007, Qantas controlled the Board from 23 May 2007.
10 Qantas Freight Holdings Pty Limited was incorporated on 24 May 2007 and became party to the Deed of Cross Guaranteee on 29 June 2007.
11 Qantas Freight Asia Holdings Pte Limited was incorporated on 25 May 2007.
12 Qantas acquired 100 per cent of this entity on 2 July 2007, although it controlled the Board as of 31 May 2007.
13 Qantas acquired 67.27 per cent of this entity on 2 July 2007, although it controlled the Board as of 31 May 2007.

26. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended), the wholly-owned controlled entities identified in Note 25 are relieved from the Corporations Act requirements for preparation, audit and lodgement of Financial Reports and Directors' Reports.

It is a condition of the Class Order that Qantas and each of the controlled entities in the Class Order enter into a Deed of Cross Guarantee. The effect of the Deed is that Qantas guarantees to each creditor payment in full of any debt in the event of wind-up of any of the controlled entities under certain provisions of the Corporations Act. If a winding-up occurs under other provisions of the Act, Qantas will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that Qantas is wound up.

The Deed was first entered into by the controlled entities on 4 June 2001 and subsequently additional controlled entities became party to the Deed by way of Assumption Deeds on 17 June 2002, 26 June 2006 and 29 June 2007.

A consolidated Income Statement and consolidated Balance Sheet, comprising Qantas and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed, are set out below and on the next page respectively:

Income Statement	Consolidated 2007 $M	Consolidated 2006 $M
Profit before related income tax expense	**935.8**	671.1
Income tax expense	**(312.1)**	(183.8)
Profit for the year	**623.7**	487.3
Retained earnings as at 1 July	**1,322.2**	1,237.0
Shares vested to employees	**(1.8)**	–
Dividends declared	**(512.8)**	(402.1)
Retained earnings as at 30 June	**1,431.3**	1,322.2

26. Deed of Cross Guarantee continued

Balance Sheet	Consolidated 2007 $M	2006 $M
Current Assets		
Cash and cash equivalents	**3,363.4**	2,856.5
Receivables	**1,345.1**	1,245.3
Other financial assets	**607.0**	474.1
Inventories	**176.6**	335.8
Assets classified as held for sale	**5.4**	21.0
Other	**90.4**	78.8
Total current assets	**5,587.9**	5,011.5
Non-current Assets		
Receivables	**1,199.7**	1,227.9
Other financial assets	**537.7**	766.8
Investments accounted for using the equity method	**323.8**	367.5
Other investments	**77.5**	73.7
Property, plant and equipment	**11,872.6**	11,993.0
Intangible assets	**339.6**	306.9
Deferred tax assets	**1.8**	0.5
Other	**10.4**	9.9
Total non-current assets	**14,363.1**	14,746.2
Total assets	**19,951.0**	19,757.7
Current Liabilities		
Payables	**1,959.1**	1,915.4
Interest-bearing liabilities	**1,010.6**	632.9
Other financial liabilities	**383.7**	136.8
Provisions	**526.3**	462.2
Current tax liabilities	**151.6**	70.8
Revenue received in advance	**2,529.3**	2,278.7
Deferred lease benefits/income	**25.5**	37.5
Total current liabilities	**6,586.1**	5,534.3
Non-current Liabilities		
Interest-bearing liabilities	**4,653.0**	5,844.6
Other financial liabilities	**767.8**	352.2
Provisions	**477.0**	482.9
Deferred tax liabilities	**676.7**	699.4
Revenue received in advance	**701.5**	708.5
Deferred lease benefits/income	**60.4**	98.8
Total non-current liabilities	**7,336.4**	8,186.4
Total liabilities	**13,922.5**	13,720.7
Net assets	**6,028.5**	6,037.0
Equity		
Issued capital	**4,481.2**	4,382.2
Treasury shares	**(32.6)**	(23.8)
Reserves	**148.6**	356.4
Retained earnings	**1,431.3**	1,322.2
Total equity	**6,028.5**	6,037.0

27. Investments Accounted for Using the Equity Method

	Qantas Group 2007 $M	Qantas Group 2006 $M
Share of net profit of associates and jointly controlled entities included in the Income Statement:		
– associates	**14.7**	12.4
– jointly controlled entities	**31.8**	26.5
	46.5	38.9
Investments accounted for using the equity method included in the Balance Sheet:		
– associates	**78.1**	67.0
– jointly controlled entities	**294.5**	305.9
	372.6	372.9

(A) Investments in associates

Details of interests in associates are as follows:

				Ownership Interest		Amount of Investment	
				Qantas Group		Qantas Group	
Name	Principal Activity	Country of Incorporation	Balance Date	2007 %	2006 %	2007 $M	2006 $M
Air Pacific Limited	Air transport	Fiji	31 Mar	**46.3**	46.3	**55.4**	57.7
Fiji Resorts Limited	Resort accomodation	Fiji	31 Dec	**20.6**	–	**12.3**	–
Hallmark Aviation Services LP	Passenger handling services	United States of America	31 Dec	**49.0**	49.0	**2.4**	1.9
HT & T Travel Philippines Inc.	Tours and travel	Philippines	30 Jun	**28.1**	28.1	**0.1**	0.2
Holiday Tours and Travel (Thailand) Ltd.	Tours and travel	Thailand	31 Dec	**36.8**	36.8	**0.4**	0.4
Holiday Tours and Travel Vietnam Joint Venture Company	Tours and travel	Vietnam	30 Jun	**36.8**	36.8	**0.1**	0.1
Jupiter Air Oceania Limited	Freight services	Australia	31 Dec	**47.6**	47.6	**0.3**	0.5
Tour East (TET) Ltd.	Tours and travel	Thailand	31 Dec	**36.8**	36.8	**2.0**	1.1
Thai Air Cargo Company Limited[1]	Freight services	Thailand	31 Dec	**–**	49.0	**–**	–
Travel Software Solutions Pty Limited	Reservations systems	Australia	30 Jun	**50.0**	50.0	**5.1**	5.1
Total associates						**78.1**	67.0

1 This investment was held for sale at 30 June 2006 as described in Note 9. As at 30 June 2006, its total assets were $3.2 million, total liabilities were nil and its results to 30 June 2006 were equity accounted.

27. Investments Accounted for Using the Equity Method continued

	Qantas Group	
Results of associates	**2007 $M**	2006 $M
Revenues	**228.8**	190.9
Profit before related income tax expense	**16.6**	14.8
Income tax expense	**(1.9)**	(2.4)
Share of net profit of associates	**14.7**	12.4

Movements in carrying amount of investments in associates

Carrying amount of investments in associates at 1 July	**67.0**	69.4
Investments in associates acquired	**–**	0.3
Share of net profit of associates	**14.7**	12.4
Dividends received from associates	**(6.0)**	(11.9)
Reclassification of Thai Air Cargo Company Limited to assets classified as held for sale	**–**	(3.2)
Reclassification from investments in jointly controlled entities	**1.0**	–
Reclassification from other investments	**1.4**	–
Carrying amount of investments in associates at 30 June	**78.1**	67.0

Summary financial position of associates

The Qantas Group's share of aggregate assets and liabilities of associates is as follows:		
Current assets	**96.7**	108.5
Non-current assets	**98.2**	80.3
Total assets	**194.9**	188.8
Current liabilities	**79.2**	73.8
Non-current liabilities	**40.8**	51.2
Total liabilities	**120.0**	125.0
Net assets	**74.9**	63.8
Adjustment arising from equity accounting:		
– Goodwill	**3.2**	3.2
Net assets – equity accounting adjusted	**78.1**	67.0

Commitments

Share of associates' capital expenditure commitments contracted for	**621.0**	–
Share of associates' non-capital expenditure commitments contracted for	**35.3**	29.7
Share of associates' commitments	**656.3**	29.7

Contingent liabilities

Share of associates' contingent liabilities	**5.2**	2.5

27. Investments Accounted for Using the Equity Method continued

(B) Interests in jointly controlled entities

Details of interests in jointly controlled entities are as follows:

Name	Principal Activity	Country of Incorporation	Balance Date	Qantas Group Ownership Interest 2007 %	Qantas Group Ownership Interest 2006 %	Qantas Group Amount of Investment 2007 $M	Qantas Group Amount of Investment 2006 $M
Australian air Express Pty Limited	Air cargo	Australia	30 Jun	**50.0**	50.0	**22.1**	20.7
Harvey Holidays Pty Ltd	Tours and travel	Australia	30 Jun	**50.0**	50.0	**2.7**	2.1
Jet Turbine Services Pty Limited[1]	Maintenance services	Australia	30 Jun	**–**	50.0	**–**	19.5
Kilda Express Pte Limited	Freight services	Singapore	31 Dec	**50.0**	–	**2.2**	–
Orangestar Investment Holdings Pte Limited	Air transport	Singapore	31 Mar	**45.0**	45.0	**–**	3.5
Star Track Express Holdings Pty Limited	Express road freight	Australia	30 Jun	**50.0**	50.0	**267.5**	260.1
Total jointly controlled entities						**294.5**	305.9

1 The remaining 50.0 per cent of Jet Turbine Services Pty Limited was purchased on 15 December 2006.

Results of jointly controlled entities

	Qantas Group 2007 $M	Qantas Group 2006 $M
Revenues	**676.6**	559.8
Expenses	**(631.0)**	(519.2)
Profit before related income tax expense	**45.6**	40.6
Income tax expense	**(13.8)**	(14.1)
Share of net profit of jointly controlled entities	**31.8**	26.5

During the year, the investment in Orangestar Investment Holdings Pte Limited ceased to be equity accounted at a carrying value of nil. Unrecognised losses to 30 June 2007 were $1.0 million.

Movements in carrying amount of investments in jointly controlled entities

	2007 $M	2006 $M
Carrying amount of investments in jointly controlled entities at 1 July	**305.9**	286.6
Investments in jointly controlled entities acquired	**2.2**	37.0
Share of net profit of jointly controlled entities	**31.8**	26.5
Dividends from jointly controlled entities	**(22.4)**	(21.8)
Investment in jointly controlled entities impaired in Other expenses	**(4.4)**	(22.4)
Entity acquired	**(17.6)**	–
Reclassification to investments in associates	**(1.0)**	–
Carrying amount of investments in jointly controlled entities at 30 June	**294.5**	305.9

Summary financial position of jointly controlled entities

	2007 $M	2006 $M
The Qantas Group's share of aggregate assets and liabilities of jointly controlled entities is as follows:		
Current assets	**88.4**	104.7
Non-current assets	**413.1**	418.8
Total assets	**501.5**	523.5
Current liabilities	**71.9**	79.6
Non-current liabilities	**137.4**	138.5
Total liabilities	**209.3**	218.1
Net assets	**292.2**	305.4
Adjustment arising from equity accounting:		
– Goodwill	**2.3**	0.5
Net assets – equity accounting adjusted	**294.5**	305.9

27. Investments Accounted for Using the Equity Method continued

Commitments	Qantas Group 2007 $M	Qantas Group 2006 $M
Share of jointly controlled entities' capital expenditure commitments contracted for	**24.5**	1.9
Share of jointly controlled entities' non-capital expenditure commitments contracted for	**393.9**	172.2
Share of jointly controlled entities' commitments	**418.4**	174.1
Contingent liabilities		
Share of jointly controlled entities' contingent liabilities	**28.5**	35.1

28. Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Qantas Group is subject to interest rate, foreign currency, fuel price and credit risks. The Qantas Group manages these risk exposures using various financial instruments, using a set of policies approved by the Board. Qantas Group policy is not to enter, issue or hold derivative financial instruments for speculative trading purposes.

(A) Interest rate risk

The Qantas Group manages interest rate risk by reference to a duration target, being a measure of the sensitivity of the borrowing portfolio to changes in interest rates. The relative mix of fixed and floating interest rate funding is managed by using interest rate swaps, forward rate agreements and options. The Qantas Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities exposed to interest rates are set out below.

For the year ended 30 June 2007, Other financial assets and liabilities included financial instruments hedging debt totalling $195.6 million (asset) (2006: $453.7 million (asset)). These financial instruments are recognised at fair value or amortised cost in accordance with AASB 139. Interest rate financial instruments are shown net of impairment losses for the year of $70.6 million (2006: $22.4 million).

2007				Fixed Rate Maturing in:				
Interest-earning financial assets	Notes	Weighted Average Interest Rate % pa	Floating Rate $M	Less than 1 Year $M	1 to 5 Years $M	More than 5 Years $M	Non Interest-Bearing $M	Total $M
Cash and cash equivalents	6	**6.21**	**80.9**	**3,282.0**	**–**	**–**	**–**	**3,362.9**
Aircraft security deposits	7	**6.84**	**33.4**	**66.6**	**14.6**	**–**	**9.8**	**124.4**
Loans receivable	7	**8.00**	**142.2**	**–**	**–**	**–**	**–**	**142.2**
Financial instruments relating to debt[1]			**156.1**	**(67.6)**	**(312.7)**	**419.8**	**–**	**195.6**
			412.6	**3,281.0**	**(298.1)**	**419.8**	**9.8**	**3,825.1**
Interest-bearing financial liabilities								
Bank loans – secured[2]	15	**3.89**	**1,976.5**	**–**	**–**	**–**	**–**	**1,976.5**
Bank loans – unsecured[2]	15	**6.97**	**627.7**	**–**	**–**	**–**	**–**	**627.7**
Other loans – unsecured[2]	15	**7.61**	**6.5**	**154.3**	**457.7**	**793.4**	**–**	**1,411.9**
Lease and hire purchase liabilities[2]	15	**7.86**	**–**	**472.2**	**276.0**	**310.3**	**–**	**1,058.5**
			2,610.7	**626.5**	**733.7**	**1,103.7**	**–**	**5,074.6**
Net financial (liabilities)/assets			**(2,198.1)**	**2,654.5**	**(1,031.8)**	**(683.9)**	**9.8**	**(1,249.5)**

1 Interest receivable/payable has been included in the calculation of the effective interest rate of the underlying financial asset or liability.

2 Recognised financial liability carry values are shown pre-hedging.

28. Financial Instruments continued

(A) Interest rate risk continued

2006 Interest earning financial assets	Notes	Weighted Average Interest Rate % pa	Floating Rate $M	Fixed Rate Maturing in: Less than 1 Year $M	Fixed Rate Maturing in: 1 to 5 Years $M	Fixed Rate Maturing in: More than 5 Years $M	Non-Interest-Bearing $M	Total $M
Cash and cash equivalents	6	5.89	302.2	2,599.8	–	–	–	2,902.0
Aircraft security deposits	7	6.22	44.8	3.7	78.1	–	3.0	129.6
Loans receivable	7	7.96	–	–	13.9	128.2	–	142.1
Financial Instruments relating to debt[1]			(68.3)	(219.9)	(15.4)	757.3	–	453.7
			278.7	2,383.6	76.6	885.5	3.0	3,627.4
Interest-bearing financial liabilities								
Bank loans – secured[2]	15	3.48	2,302.3	–	–	–	–	2,302.3
Bank loans – unsecured[2]	15	6.27	627.0	–	–	–	–	627.0
Other loans – unsecured[2]	15	7.33	3.1	97.5	645.8	856.7	–	1,603.1
Lease and hire purchase liabilities[2]	15	7.90	–	133.4	748.2	361.6	–	1,243.2
			2,932.4	230.9	1,394.0	1,218.3	–	5,775.6
Net financial (liabilities)/assets			(2,653.7)	2,152.7	(1,317.4)	(332.8)	3.0	(2,148.2)

1 Interest receivable/payable has been included in the calculation of the effective interest rate of the underlying financial asset or liability.

2 Recognised financial liability carry values are shown pre-hedging.

(B) Foreign currency risk

Cross-currency swaps are used to convert long-term foreign currency borrowings to currencies in which the Qantas Group has forecast sufficient surplus net revenue to meet the principal and interest obligations under the swaps. These foreign currency borrowings have a maturity of between one and 12 years. To the extent a foreign exchange gain or loss is incurred, and the cash flow hedge is deemed effective, this is deferred until the net revenue is realised. Forward foreign exchange contracts and currency options are used to hedge a portion of remaining net foreign currency revenue or expenditure in accordance with Qantas Group policy. Net foreign currency revenue and expenditure out to five years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board. Purchases and disposals of property, plant and equipment denominated in a foreign currency are hedged using a combination of forward foreign exchange contracts and currency options at the date a firm commitment is entered into to buy or sell unless otherwise approved by the Board.

Unrealised gains/losses – back-to-back hedges

Where long-term borrowings are held in foreign currencies in which Qantas derives surplus net revenue, offsetting forward foreign exchange contracts have been used to match the cash flows arising under the borrowings with the expected revenue surpluses used to hedge the borrowings. To the extent a gain or loss is incurred, and the cash flow hedge is deemed effective, this is deferred in the hedge reserve until the net revenue is realised. As at 30 June 2007, total unrealised exchange gains on hedges of net revenue designated to service long-term debt were $410.7 million (2006: $184.8 million gain).

For the year ended 30 June 2007, Other financial assets and liabilities includes derivative financial instruments used to hedge foreign currency, including hedging of future capital and expenditure payments totalling $331.9 million (net liability) (2006: $51.8 million (net asset)). These are recognised at fair value in accordance with AASB 139.

28. Financial Instruments continued

(C) Fuel price risk

The Qantas Group uses options and swaps on aviation fuel and crude oil to hedge the exposure to movements in the price of aviation fuel. Hedging is conducted in accordance with Qantas Group policy. Up to 100 per cent of estimated fuel costs out to 12 months may be hedged and up to 50 per cent in the subsequent 12 months, with any hedging outside these parameters requiring approval by the Board. During the year, the net loss arising from effective fuel hedging was $39.8 million (2006: $345.9 million gain) which has been recognised in fuel expenses. In addition, a $59.7 million loss (2006: $64.3 million (loss)) was recognised in Ineffective derivatives – closed positions and $11.5 million loss (2006: $31.1 million gain) in Ineffective derivatives – open positions in accordance with A-IFRS. For the year ended 30 June 2007, Other financial assets and liabilities includes fuel derivatives totalling $129.3 million (asset) (2006: $246.6 million (asset)). These are recognised at fair value in accordance with AASB 139.

(D) Credit risk

Credit risk is the potential loss from a transaction in the event of default by the counterparty during the term of the transaction or on settlement of the transaction. Credit exposure is measured as the cost to replace existing transactions should a counterparty default. The Qantas Group conducts transactions with the following major types of counterparties:

- trade debtor counterparties – the credit risk is the recognised amount, net of any impairment losses. As at 30 June 2007, this amounted to $1,030.8 million (2006: $969.9 million). The Qantas Group has credit risk associated with travel agents, industry settlement organisations and credit provided to direct customers. The Qantas Group minimises this credit risk through the application of stringent credit policies and accreditation of travel agents through industry programs; and
- other financial asset counterparties – the Qantas Group restricts its dealings to counterparties that have acceptable credit ratings. Should the rating of a counterparty fall below certain levels, internal policy dictates that approval by the Board is required to maintain the level of the counterparty exposure.

The Qantas Group minimises the concentration of credit risk by undertaking transactions with a large number of customers and counterparties in various countries. As at 30 June 2007, the credit risk of the Qantas Group to Other financial asset counterparties amounted to $6,004.3 million (2006: $5,718.8 million) and was spread over a number of regions, including Australia, Asia, Europe and the United States of America.

(E) Cash flow hedges

Any gains/losses on contracts entered into to hedge anticipated specific sales and purchases of goods and services, together with the cost of the contracts, are recognised in the Financial Statements at the time the underlying transaction occurs. For further information, see Note 1(F).

At 30 June 2007, the Qantas Group and Qantas held various types of derivative financial instruments that were designated as cash flow hedges of future forecast transactions.

These were:

- hedging of certain foreign currency revenue receipts and operational payments by future debt repayments in foreign currency and exchange derivative contracts (forwards, swaps or options) hedging future foreign exchange risk;
- hedging of future jet fuel purchases by forward crude, gasoil and jet kerosene derivative contracts and options;
- hedging of future interest payments by interest rate derivative contracts (forwards, swaps or options); and
- hedging of future capital expenditure payments by foreign exchange derivative contracts (forwards or options).

To the extent that the hedges were assessed as highly effective, changes in fair value are included in the hedge reserve. The periods in which the related cash flows are expected to occur are summarised below:

	Qantas Group			
2007 $M	**Less than 1 Year**	**1 to 5 Years**	**More than 5 Years**	**Total**
Contracts to hedge future foreign currency payments	**12.3**	**(186.3)**	**(158.1)**	**(332.1)**
Contracts to hedge future aviation fuel payments	**(46.8)**	**(6.6)**	**–**	**(53.4)**
Contracts to hedge future interest payments	**(31.8)**	**(15.4)**	**(10.8)**	**(58.0)**
Contracts to hedge future capital expenditure payments	**70.0**	**202.1**	**–**	**272.1**
	3.7	**(6.2)**	**(168.9)**	**(171.4)**
Related deferred tax charge				**51.4**
Total net gain included within hedge reserve				**(120.0)**

28. Financial Instruments continued

(F) Net fair value

Recognised financial assets and liabilities

The net fair value of cash, cash equivalents and non-interest-bearing financial assets and liabilities approximates their carrying value due to their short maturity. The net fair value of other financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

In the year ended 30 June 2006, the convertible loan notes issued by Air New Zealand were convertible to a 4.40 per cent equity stake. The net fair value of the convertible loan notes was determined by reference to the prevailing market price of Air New Zealand shares at balance date. This investment was disposed during the year ended 30 June 2007.

The net fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The net fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The net fair value of options is determined using standard valuation techniques.

Other financial assets and liabilities represent the fair value of derivative financial instruments recognised on Balance Sheet in accordance with AASB 139.

		Qantas Group Carrying Amount		Qantas Group Net Fair Value	
Recognised financial assets and liabilities	**Notes**	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Financial assets					
Cash and cash equivalents	6	**3,362.9**	2,902.0	**3,389.1**	2,920.5
Trade debtors	7	**1,030.8**	969.9	**1,030.8**	969.9
Aircraft security deposits	7	**124.4**	129.6	**125.8**	132.6
Sundry debtors	7	**452.1**	224.7	**452.1**	224.7
Loans receivable	7	**142.2**	142.1	**142.2**	142.1
Other financial assets		**1,142.5**	1,243.5	**1,142.5**	1,243.5
Unlisted investment in other corporations	10	**3.1**	53.7	**3.1**	53.7
		6,258.0	5,665.5	**6,285.6**	5,687.0
Financial liabilities					
Trade creditors	14	**674.6**	596.7	**674.6**	596.7
Other creditors and accruals	14	**1,331.1**	1,388.6	**1,331.2**	1,388.6
Bank loans – secured	15	**1,976.5**	2,302.3	**2,052.6**	2,396.2
Bank loans – unsecured	15	**627.7**	627.0	**657.8**	650.1
Other loans – unsecured	15	**1,411.9**	1,603.1	**1,480.4**	1,638.7
Other financial liabilities		**1,151.5**	491.4	**1,151.5**	491.4
Lease and hire purchase liabilities	15	**1,058.5**	1,243.2	**1,035.7**	1,237.7
		8,231.8	8,252.3	**8,383.8**	8,399.4
Net financial liabilities		**1,973.8**	2,586.8	**2,098.2**	2,712.4

29. Dividends

Qantas

Dividends declared in the current and prior year by Qantas are:

Type	Cents per Share	Total Amount $M	Date of Payment	Franked Tax Rate for Franking Credit %	Percentage Franked %
2007					
2007 special interim	**15.0**	**297.7**	19 March 2007	30	100
2006 final	**11.0**	**215.1**	4 October 2006	30	100
Total amount	**26.0**	**512.8**			
2006					
2006 interim	**11.0**	**212.2**	5 April 2006	30	100
2005 final	**10.0**	**189.9**	28 September 2005	30	100
Total amount	**21.0**	**402.1**			

Subsequent events

The following dividends were proposed by the Directors after the balance date and a provision has not yet been raised:

2007 final	**15.0**	**297.7**	26 September 2007	30	100

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Total franking account balance at 30 per cent	**184.1**	150.0	**184.1**	150.0

The above amount represents the balance of the franking accounts as at year end, after taking into account adjustments for:

- franking credits that will arise from the payment of income tax payable for the current year;
- franking credits that will arise from the receipt of dividends recognised as receivables at the year end; and
- franking credits that may be prevented from being distributed in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after balance date but not recognised as a liability is to reduce it to $56.5 million (2006: $57.8 million).

Qantas Group

In addition to $512.8 million (2006: $402.1 million) declared to Qantas shareholders, $1.0 million (2006: $0.3 million) of dividends were declared to minority interest shareholders.

30. Segment Information

The segmentation of the Qantas Group 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:

- Qantas;
- Jetstar;
- Qantas Holidays; and
- Qantas Flight Catering.

30. Segment Information continued

2007
$M

Analysis by business segments	Qantas	Jetstar	Qantas Holidays	Qantas Flight Catering	Eliminations	Consolidated
Sales and other income						
External segment revenue	**13,180.3**	**1,059.9**	**767.5**	**158.0**	**–**	**15,165.7**
Inter-segment revenue	**339.0**	**69.0**	**161.0**	**360.7**	**(929.7)**	**–**
Total segment revenue	**13,519.3**	**1,128.9**	**928.5**	**518.7**	**(929.7)**	**15,165.7**
Share of net profit of associates and jointly controlled entities	**45.9**	**–**	**0.6**	**–**	**–**	**46.5**
Profit before related income tax expense and net finance costs	**906.0**	**76.8**	**31.4**	**32.8**	**–**	**1,047.0**
Net finance costs/(revenue)	**41.0**	**(10.6)**	**(15.5)**	**–**	**–**	**14.9**
Profit before related income tax expense	**865.0**	**87.4**	**46.9**	**32.8**	**–**	**1,032.1**
Income tax expense						**(312.5)**
Profit for the year						**719.6**
Depreciation and amortisation	**1,345.9**	**7.7**	**1.4**	**7.7**	**–**	**1,362.7**
Non-cash expenses	**101.7**	**0.2**	**–**	**–**	**–**	**101.9**
Assets						
Segment assets	**18,765.3**	**385.6**	**432.4**	**326.3**	**(676.5)**	**19,233.1**
Investments accounted for using the equity method	**370.0**	**–**	**2.6**	**–**	**–**	**372.6**
Total assets	**19,135.3**	**385.6**	**435.0**	**326.3**	**(676.5)**	**19,605.7**
Liabilities						
Total liabilities	**13,325.5**	**317.9**	**253.3**	**190.5**	**(676.5)**	**13,410.7**
Payments for property, plant and equipment	**1,206.0**	**19.6**	**3.6**	**6.7**	**–**	**1,235.9**

2006
$M

Analysis by business segments	Qantas	Jetstar	Qantas Holidays	Qantas Flight Catering	Eliminations	Consolidated
Sales and other income						
External segment revenue	12,121.7	649.9	719.4	169.6	–	13,660.6
Inter-segment revenue	287.1	52.7	190.0	365.1	(894.9)	–
Total segment revenue	12,408.8	702.6	909.4	534.7	(894.9)	13,660.6
Share of net profit of associates and jointly controlled entities	38.7	–	0.2	–	–	38.9
Profit before related income tax expense and net finance costs	648.2	10.8	29.8	37.0	–	725.8
Net finance costs/(revenue)	71.3	(1.5)[1]	(15.2)	–	–	54.6
Profit before related income tax expense	576.9	12.3	45.0	37.0	–	671.2
Income tax expense						(191.2)
Profit for the year						480.0
Depreciation and amortisation	1,231.2	9.4	1.4	7.8	–	1,249.8
Non-cash expenses	8.6	0.5	–	–	–	9.1
Assets						
Segment assets	18,414.2	152.1	376.9	301.7	(434.5)	18,810.4
Investments accounted for using the equity method	371.1	–	1.8	–	–	372.9
Total assets	18,785.3	152.1	378.7	301.7	(434.5)	19,183.3
Liabilities						
Total liabilities	12,977.2	145.4	225.0	189.1	(434.5)	13,102.2
Payments for property, plant and equipment	1,496.2	26.2	0.2	4.5	–	1,527.1

1 The results of Qantas and Jetstar have been restated by $1.5 million to include interest revenue on Jetstar's working capital balance. This has been calculated by applying the Qantas Group's cost of debt to the monthly average working capital balance throughout the year.

30. Segment Information continued

Passenger, freight and other services revenue from domestic services within Australia is attributed to the Australian geographic region. Passenger, freight and other services revenue from inbound and outbound services between Australia and overseas is allocated proportionately to the area in which the sale was made. Other operating income is not allocated to a geographic region as it is impractical to do so.

Analysis of total revenue by geographic region	Qantas Group 2007 $M	Qantas Group 2006 $M
Sales and other income		
Passenger, freight and other services revenue		
Australia	**9,665.5**	8,548.1
United Kingdom and Europe	**1,139.9**	954.5
Japan	**603.1**	561.1
South-East Asia/North-East Asia	**576.2**	466.1
The Americas and the Pacific	**1,053.7**	961.6
New Zealand	**421.1**	432.2
Other regions	**302.9**	306.6
	13,762.4	12,230.2
Other income		
Tours and travel revenue	**767.5**	719.4
Contract work revenue	**434.3**	469.0
Other unallocated	**201.5**	242.0
Sales and other income	**15,165.7**	13,660.6
Finance income	**244.0**	163.3
Total income	**15,409.7**	13,823.9

For the year ended 30 June 2007, the principal assets of the Qantas Group comprised the aircraft fleet, all except eight of which were registered and domiciled in Australia. These assets are used flexibly across the Qantas Group's worldwide route network. Accordingly, there is no suitable basis for allocating such assets and the related liabilities between geographic areas.

31. Earnings per Share

	Qantas Group 2007 Cents	Qantas Group 2006 Cents
Earnings per share attributable to members of Qantas		
Basic earnings per share	**36.4**	24.9
Diluted earnings per share	**36.4**	24.8

	$M	$M
Profit attributable to members of Qantas	**719.4**	479.5

	Number M	Number M
Weighted average number of shares		
Issued shares as at 1 July	**1,955.0**	1,897.6
Effect of shares issued on 4 October 2006 (2006: 28 September 2005)	**21.5**	23.5
Effect of shares issued on 16 February 2007 (2006: 15 February 2006)	**0.3**	0.8
Effect of shares issued (2006: 5 April 2006)	**–**	5.8
Weighted average number of shares (basic) as at 30 June	**1,976.8**	1,927.7
Weighted average number of shares (basic) as at 30 June	**1,976.8**	1,927.7
QLTEIP Entitlements outstanding	**0.9**	2.3
Weighted average number of shares (diluted) as at 30 June	**1,977.7**	1,930.0

32. Events Subsequent to Balance Date

The Directors declared a fully franked final dividend of 15.0 cents per share on 15 August 2007 in relation to the year ended 30 June 2007. The total amount of the dividend declared was $297.7 million.

On 2 July 2007, Qantas acquired, via a controlled entity, 67.27 per cent of the equity of DPEX Transport Group Pte Ltd (DPEX) by converting a loan to Jupiter Global Limited as described in Note 33. Qantas holds an option over the remaining 32.73 per cent of DPEX and intends to exercise this option on 31 August 2007, as disclosed in Note 21.

On 9 July 2007, Qantas announced it would purchase 20 additional B787 Dreamliners taking total firm orders to 65. This takes total capital expenditure commitments entered into post 30 June 2007 to $3.5 billion.

Qantas acquired 18 per cent of Pacific Airlines Joint Stock Aviation Company (Pacific Airlines), a low cost carrier in Vietnam, via a controlled entity on 31 July 2007 for US$30 million. Qantas exerts significant influence over the entity given its Board representation and provision of operational and management personnel. Qantas will equity account for Pacific Airlines as an associate from 31 July 2007. Qantas has the ability to acquire up to 30 per cent of the equity of Pacific Airlines in the period through to March 2010.

As a result of oil and jet fuel price increases over recent months, Qantas announced on 1 August 2007 that it would increase international fuel surcharges for tickets issued on or after 9 August 2007. Should fuel prices drop in future, Qantas will reduce the surcharges as on previous occasions.

On 16 August 2007, Qantas announced its intention to undertake an on-market buy-back of up to approximately 10 per cent of Qantas shares, which once completed, will amount to a reduction of capital of over $1 billion.

With the exception of the items disclosed above, there has not arisen in the interval between 30 June 2007 and the date of this report, any event that would have had a material effect on the Financial Statements at 30 June 2007.

33. Notes to the Cash Flow Statements

Reconciliation of profit for the year to net cash from operating activities

	Qantas Group		Qantas	
	2007 $M	2006 $M	**2007 $M**	2006 $M
Profit for the year attributable to members of Qantas	**719.4**	479.5	**458.6**	392.0
Add: depreciation and amortisation	**1,362.7**	1,249.8	**1,266.8**	1,110.0
Less: gain on disposal of property, plant and equipment	**(12.9)**	(10.8)	**(13.3)**	(7.7)
Less: gain on disposal of investment	**(30.6)**	–	**–**	–
Less: capitalised interest	**(83.3)**	(68.4)	**(83.3)**	(68.4)
Add: writedown of investments	**14.5**	22.4	**13.5**	220.6
Less: gain on disposal of intangible assets	**(3.2)**	–	**(3.2)**	–
Less: share of net profit of associates and jointly controlled entities	**(46.5)**	(38.9)	**–**	–
Add: dividends received from associates and jointly controlled entities	**28.4**	33.7	**–**	–
Less: discount on acquisition of controlled entity	**(8.8)**	–	**–**	–
(Less)/add: changes in fair value of financial instruments	**4.6**	88.3	**3.9**	40.7
(Less)/add: other items	**(5.3)**	(12.4)	**(6.1)**	(79.7)
Movements in operating assets and liabilities:				
(Increase)/decrease in receivables	**(165.2)**	(58.1)	**497.3**	(92.1)
Increase in receivables from controlled entities	**–**	–	**(178.8)**	(271.1)
Decrease/(increase) in inventories	**167.4**	(1.8)	**173.2**	(2.0)
(Increase)/decrease in other assets	**(16.1)**	16.9	**(22.8)**	40.7
Decrease/(increase) in deferred tax assets	**2.8**	(165.8)	**–**	–
Increase/(decrease) in trade and other payables	**16.1**	80.7	**(105.4)**	21.1
Increase in provisions	**69.0**	73.4	**59.9**	66.3
Increase/(decrease) in current tax liabilities	**80.6**	(20.7)	**80.7**	(12.9)
Increase in revenue received in advance	**234.6**	208.7	**152.9**	171.1
(Decrease)/increase in deferred lease benefits	**(37.5)**	(45.9)	**(33.7)**	2.0
Increase in deferred tax liabilities	**62.7**	195.4	**65.4**	50.3
Net cash from operating activities	**2,353.4**	2,026.0	**2,325.6**	1,580.9

33. Notes to the Cash Flow Statements continued

Entities acquired during the year	Qantas Group 2007 $M	Qantas Group 2006 $M
Consideration	**34.5**	–
Less: cash acquired	**2.4**	–
Payment for controlled entities, net of cash acquired	**32.1**	–
Net assets		
Receivables	**14.5**	–
Inventories	**12.8**	–
Investments accounted for using the equity method	**(17.6)**	–
Property, plant and equipment	**39.0**	–
Goodwill	**20.8**	–
Payables	**(15.9)**	–
Current tax liability	**(0.5)**	–
Revenue received in advance	**(9.2)**	–
Deferred tax liability	**(1.8)**	–
Minority interest	**(1.2)**	–
Discount on acquisition	**(8.8)**	–
Net asset impact of acquisition	**32.1**	–

Qantas acquired the remaining 50 per cent of Jet Turbine Services Pty Limited on 15 December 2006 for a purchase price of $12.1 million.

As part of a strategic investment in the Asian freight market, on 30 May 2007 Qantas, via a controlled entity, issued a convertible loan of $22.4 million to Jupiter Global Limited (Jupiter), for it to acquire the remaining interest in DPEX Transport Group Pte Ltd (DPEX). On the same day, Qantas entered into a Share Mortgage Agreement and a Call Option Agreement over Jupiter's interest in DPEX. These agreements, together with the loan funding and Board control exerted by Qantas, limit the financial and operating control that Jupiter could exert over DPEX. Despite no shareholding in DPEX, Qantas controlled the entity from 31 May 2007. Qantas has the intention of exercising the option to acquire the remaining shares for $10.7 million on 31 August 2007. This has been included as a capital expenditure commitment in Note 21.

Financing facilities

The total amount of committed financing facilities available to the Qantas Group as at balance date is detailed below:

Committed financing facilities	Qantas Group 2007 $M	Qantas Group 2006 $M	Qantas 2007 $M	Qantas 2006 $M
Bank overdraft				
Facility available	**7.0**	7.0	**7.0**	7.0
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**7.0**	7.0	**7.0**	7.0
Syndicated revolving facility[1]				
Facility available	**670.0**	770.0	**670.0**	770.0
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**670.0**	770.0	**670.0**	770.0
Syndicated standby facility[2]				
Facility available	**500.0**	500.0	**500.0**	500.0
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**500.0**	500.0	**500.0**	500.0
Commercial paper and medium-term notes				
Facility available	**1,000.0**	1,000.0	**1,000.0**	1,000.0
Amount of facility used	**100.0**	120.0	**100.0**	120.0
Amount of facility unused	**900.0**	880.0	**900.0**	880.0

1 In August 2006, the syndicated revolving facility was reduced and extended, with $335.0 million maturing on 8 February 2011 and $335.0 million maturing on 8 February 2012. This facility was cancelled effective 28 August 2007.

2 In August 2006, the syndicated standby facility was extended, with $300.0 million maturing on 8 August 2010 and $200.0 million maturing on 8 August 2011.

The bank overdraft facility held with Commonwealth Bank of Australia covers the combined balances of Qantas and its wholly-owned controlled entities. Subject to the continuance of satisfactory credit ratings, the bank overdraft facility may be utilised at any time. Commonwealth Bank of Australia may terminate this facility without notice.

34. Non-Director Related Parties

Controlled entities

Details of interests in controlled entities are set out in Note 25. Transactions between Qantas and controlled entities are conducted on normal business terms and conditions. In addition, the Qantas Group has pooled funding arrangements with its major domestic banker and as such reciprocal borrowings occur regularly between Qantas and its controlled entities.

Transactions between Qantas and related parties in the wholly-owned group include:

- Qantas provides a range of administrative, financial and treasury services to controlled entities;
- Qantas leased aircraft to and provided maintenance services to Australian Airlines Limited (Australian Airlines);
- Qantas provides ground handling services to Australian Airlines, Jetstar Airways Pty Limited (Jetstar) and QantasLink;
- Australian Airlines, Jetstar and QantasLink provide freight capacity to Qantas;
- Qantas Flight Catering Holdings Limited and controlled entities and Snap Fresh Pty Limited provide airline catering and related services to Qantas, Australian Airlines and QantasLink;
- Qantas codeshares on certain Jetstar services for inbound international passengers and Qantas Frequent Flyers for which it pays capacity hire costs;
- Jetstar acts as an agent for QH Tours Ltd;
- QH Tours Ltd and controlled entities and Qantas act as an agent for each other's products;
- Southern Cross Insurances Pte Limited provides insurance services to Qantas and its controlled entities;
- AAL Aviation Limited and its controlled entities assist in the hiring of aircraft capacity;
- Qantas Cabin Crew (UK) Limited provides cabin crew to Qantas;
- Jetconnect Limited provides flights and cabin crew to Qantas;
- Qantas leases aircraft from controlled entities;
- Qantas leases property to and from controlled entities;
- Qantas leases aircraft to Jetstar;
- Qantas leases aircraft to Express Freighters Australia Pty Limited;
- Qantas has an engine tooling arrangement with Jet Turbine Services Pty Limited; and
- Qantas receives engine maintenance services from Jet Turbine Services Pty Limited.

Transactions and balances with partly and wholly-owned controlled entities are included in the Financial Statements as follows:

		Qantas	
	Notes	**2007 $M**	2006 $M
Sales and other income	2	**461.0**	233.1
Finance costs	3	**83.0**	80.3
Current receivables	7	**93.0**	143.9
Non-current receivables	7	**797.6**	827.7
Current payables	14	**308.3**	138.5
Current interest-bearing liabilities	15	**441.9**	430.1
Non-current interest-bearing liabilities	15	**1,419.4**	1,638.5

34. Non-Director Related Parties continued

Associates and jointly controlled entities

Details of interests in associates and jointly controlled entities are provided in Note 27. Transactions with associates and jointly controlled entities are conducted on normal terms and conditions.

Transactions between Qantas and associates and jointly controlled entities include:

- Qantas provides catering, ground handling services and performs maintenance and contract work for Air Pacific Limited (Air Pacific);
- Qantas provides ramp handling services to Australian air Express Pty Limited (Australian air Express);
- Qantas leases aircraft, domestic freight capacity and sub-leases certain property to Australian air Express;
- Qantas codeshares on certain Air Pacific services for which it pays capacity hire costs;
- Australian air Express and the Star Track Express Group provide certain domestic freight and document delivery services for Qantas;
- Qantas receives interest from the Star Track Express Group on an investment loan;
- Qantas provides treasury services to Australian air Express, Air Pacific and Orangestar Investment Holdings Pte Limited (Orangestar);
- Qantas has sub-leased aircraft from Orangestar;
- Qantas has seconded employees and provided various support services to Orangestar;
- Qantas has an engine tooling arrangement with Jet Turbine Services Pty Limited (included below until it became a controlled entity in December 2006); and
- Qantas receives engine maintenance services from Jet Turbine Services Pty Limited (included below until it became a controlled entity in December 2006).

Transactions and balances with associates and jointly controlled entities are included in the Financial Statements as follows:

		Qantas Group		Qantas	
	Notes	**2007 $M**	2006 $M	**2007 $M**	2006 $M
Sales and other income	2	**183.3**	183.6	**32.2**	44.5
Dividend revenue	2	**–**	–	**16.5**	18.4
Finance income	2	**10.3**	10.3	**10.3**	10.3
Expenditure		**82.1**	123.0	**75.4**	116.2
Current receivables	7	**11.7**	22.3	**0.1**	3.9
Non-current receivables	7	**128.2**	128.2	**128.2**	128.2
Current payables	14	**1.8**	18.7	**1.4**	18.4
Current interest-bearing liabilities	15	**6.5**	4.6	**6.5**	4.6

Directors' Declaration

Directors' Declaration

1. In the opinion of the Directors of Qantas Airways Limited (Qantas):
   (a) the Financial Statements and Notes, and the Remuneration Disclosures set out on pages 59 to 70 in the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:
      i. complying with Australian Accounting Standards (including Interpretations) and the Corporations Regulations 2001; and
      ii. giving a true and fair view of the financial position of Qantas and the Qantas Group as at 30 June 2007 and of their performance as represented by the results of their operations and their cash flows, for the year ended on that date;
   (b) the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(A);
   (c) the remuneration disclosures that are included on pages 59 to 70 in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and
   (d) there are reasonable grounds to believe that Qantas will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that Qantas and the controlled entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between Qantas and those controlled entities entered into pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2007.

Signed in accordance with a Resolution of the Directors:

Margaret Jackson
Chairman

27 August 2007

Geoff Dixon
Chief Executive Officer

Independent Audit Report

to the members of Qantas Airways Limited

KPMG

Report on the Financial Report and AASB 124 remuneration disclosures contained in the Directors' Report

We have audited the accompanying Financial Report of Qantas Airways Limited (Qantas), which comprises the Balance Sheets as at 30 June 2007, and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 34 and the Directors' Declaration of both Qantas and the Qantas Group comprising Qantas and the entities it controlled at the year's end or from time to time during the financial year (the Qantas Group).

As permitted by the Corporations Regulations 2001, Qantas has disclosed information about the remuneration of Directors and Executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124), under the heading "Remuneration Report" on pages 59 to 70 in the Directors' Report and not in the Financial Report. We have audited these remuneration disclosures.

Directors' responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the Directors' Report

The Directors of Qantas are responsible for the preparation and fair presentation of the Financial Report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Financial Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(A), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the Financial Report of the Qantas Group, comprising the financial statements and notes, complies with International Financial Reporting Standards but that the Financial Report of Qantas does not comply.

The Directors of Qantas are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's responsibility

Our responsibility is to express an opinion on the Financial Report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report and the remuneration disclosures contained in the Directors' Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Report and the remuneration disclosures contained in the Directors' Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Report and the remuneration disclosures contained in the Directors' Report.

We performed procedures to assess whether in all material respects the Financial Report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards (including Australian Accounting Interpretations), a view which is consistent with our understanding of Qantas and Qantas Group's financial position, and of their performance and whether the remuneration disclosures are in accordance with AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the Financial Report

In our opinion:

a. the Financial Report of Qantas Airways Limited is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of Qantas' and the Qantas Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b. the Financial Report of the Qantas Group also complies with International Financial Reporting Standards as disclosed in Note 1(A).

Auditor's opinion on AASB 124 remuneration disclosures contained in the Directors' Report

In our opinion the remuneration disclosures that are contained on pages 59 to 70 in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

Martin Sheppard
Partner

Sydney, 27 August 2007

Shareholder Information

The shareholder information set out below was applicable as at 17 August 2007.

Distribution of Ordinary Shares

Analysis of ordinary shareholders by size of shareholding:

Number of Shares	Ordinary Shares Held	Number of Shareholders	% of Issued Shares
1 – 1,000[1]	14,984,250	34,796	0.75
1,001 – 5,000	164,362,607	67,510	8.28
5,001 – 10,000	62,044,886	9,031	3.13
10,001 – 100,000	74,815,761	3,767	3.77
100,001 and over	1,668,782,844	200	84.07
Total	1,984,990,348	115,304	100.00

1 6,440 shareholders hold less than a marketable parcel of shares in Qantas.

On-Market Buy-Backs

On 16 August 2007, Qantas announced its intention to undertake an on-market buy-back of up to approximately 10 per cent of Qantas shares, which once completed, will amount to a reduction of capital of over $1 billion.

Twenty Largest Shareholders

Shareholders	Ordinary Shares Held	% of Issued Shares
HSBC Custody Nominees (Australia) Limited	395,258,726	19.91
National Nominees Limited	319,173,891	16.08
JPMorgan Nominees Australia Ltd	313,021,966	15.77
Citicorp Nominees Pty Limited	184,355,592	9.29
ANZ Nominees Limited	115,713,183	5.83
RBC Dexia Investor Services Australia Nominees Pty Limited	74,806,545	3.77
Cogent Nominees Pty Limited	73,438,164	3.70
UBS Nominees Pty Ltd	30,936,696	1.56
AMP Life Limited	27,176,883	1.37
Australian Reward Investment	16,857,675	0.85
CS Fourth Nominees Pty Ltd	9,704,886	0.49
Queensland Investment Corporation	8,951,269	0.45
Pacific Custodians Pty Limited	8,673,704	0.44
Credit Suisse Securities (Europe) Ltd	7,895,000	0.40
Pan Australian Nominees Pty Ltd	7,776,075	0.39
Tasman Asset Management Ltd	6,696,745	0.34
Bond Street Custodians Limited	5,743,049	0.29
UBS Wealth Management Australia Nominees Pty Ltd	5,489,024	0.27
Suncorp General Insurance Ltd	3,404,000	0.17
Argo Investments Limited	2,899,302	0.14
	1,617,972,375	81.51

Substantial Shareholders

The following shareholders have notified that they are substantial shareholders of Qantas Airways Limited:

Shareholders	Ordinary Shares Held	% of Issued Shares
UBS Nominees Pty Ltd[1]	203,194,610	10.24
Commonwealth Bank of Australia[2]	112,006,719	5.64
The Capital Group Companies[3]	109,833,575	5.54
Balanced Equity Management[4]	105,757,868	5.33
Barclays Global Investors Australia[5]	105,665,568	5.32

1 Substantial shareholder notice dated 1 June 2007.
2 Substantial shareholder notice dated 6 July 2007.
3 Substantial shareholder notice dated 16 February 2007.
4 Substantial shareholder notice dated 10 May 2007.
5 Substantial shareholder notice dated 15 May 2007.

Qantas Group Five Year Summary

for the years ended 30 June

Share Information

	Unit	2007	2006	2005	2004	2003
Dividends per share	cents	**30.0**	22.0	20.0	17.0	17.0
Share price – high	$	**5.83**	4.17	3.73	3.81	4.88
Share price – low	$	**2.93**	2.93	3.13	3.08	2.85
Share price – closing	$	**5.60**	2.96	3.37	3.52	3.27
Weighted average number of ordinary shares (basic)	M	**1,976.8**	1,927.7	1,869.2	1,815.4	1,721.2

Operational Statistics

	Unit	2007	2006	2005	2004	2003
Qantas[1]						
Passengers carried	000	**24,950**	24,960	25,546	26,811	25,357
Revenue passenger kilometres (RPKs)	M	**84,418**	82,397	81,104	79,106	74,893
Available seat kilometres (ASKs)	M	**104,379**	106,359	105,911	101,168	96,276
Revenue seat factor	%	**80.9**	77.5	76.6	78.2	77.8
Revenue freight tonne kilometres (RFTKs)	M	**2,621**	2,633	2,329	1,601	1,598
QantasLink						
Passengers carried	000	**3,858**	3,316	3,058	2,996	3,389
Revenue passenger kilometres (RPKs)	M	**2,507**	2,092	1,879	1,931	2,294
Available seat kilometres (ASKs)	M	**3,523**	3,048	2,595	2,687	3,169
Revenue seat factor	%	**71.2**	68.6	72.4	71.9	72.4
Jetstar						
Passengers carried	000	**7,641**	5,799	4,384	315	–
Revenue passenger kilometres (RPKs)	M	**10,697**	6,410	4,346	277	–
Available seat kilometres (ASKs)	M	**14,217**	8,663	6,004	383	–
Revenue seat factor	%	**75.2**	74.0	72.4	72.3	–
Qantas Group[2]						
Passengers carried	000	**36,449**	34,075	32,658	30,076	28,746
Revenue passenger kilometres (RPKs)	M	**97,622**	90,899	86,986	81,276	77,187
Available seat kilometres (ASKs)	M	**122,119**	118,070	114,003	104,200	99,445
Revenue seat factor	%	**79.9**	77.0	76.3	78.0	77.6
Operational passenger aircraft fleet at balance date	#	**213**	216	200	190	196
Passenger yield (per RPK)	cents	**11.69**	10.94	10.34	–	–
Average full-time equivalent employees	#	**34,267**	34,832	35,520	33,862	34,872
RPK per employee	000	**2,849**	2,610	2,449	2,400	2,213
ASK per employee	000	**3,564**	3,390	3,210	3,077	2,852

1 Includes prior year statistics for Australian Airlines which, effective 1 July 2006, are included within Qantas.

2 Qantas and Jetstar 2005 and 2004 statistics include the effect of a domestic codeshare agreement between the two airlines. However, the effect of this codeshare is only included once in these statistics for the Qantas Group.

Sustainability Information

Guidelines

The Global Reporting Initiative's G3 guidelines and recommendations were taken into account in drafting the sustainability information provided.

The data is provided for the information of a wide range of stakeholders including customers, shareholders, employees, suppliers, regulators, politicians, non-government organisations, financiers and various special interest groups.

The sustainability information applies to the Qantas Group unless otherwise indicated. Whilst specific sustainability forums were not held, Qantas continually undertakes extensive research on customer attitudes, has mature stakeholder feedback processes in place, and uses a risk management system to capture feedback from various internal and external sources.

Qantas' sustainability reporting will continue to develop over time, and in future will incorporate improvements in issue identification, strategies, and/or data completeness.

Environmental Impacts

Qantas acknowledges the importance of managing and minimising adverse environmental impacts caused by its operations. The information below provides additional data on the impact our operations have on the environment.

Energy consumption	Units	2007	2006	2005
Aviation fuel	000 L	**4,680,270**	4,561,238	4,392,991
Electricity (Australia)	MWh	**241,324**	236,858	231,095
Gas (Australia)	Gj	**305,803**	289,463	292,959
Ground petrol and diesel (Australia)	000 L	**7,086**	6,998	7,023

Emissions				
CO_2				
– Aviation	Tonnes	**11,499,423**	11,206,962	10,793,578
– Ground (Australia)	Tonnes	**20,135**	19,730	20,109
NO_x [1] – Aviation (Qantas)	Tonnes	**3,387**	3,273	3,294

Aviation efficiency				
CO_2 per 100 RTKs (Qantas)	Kgs	**94.4**	97.1	99.1
Fuel per 100 RTKs (Qantas)	L	**38.4**	39.5	40.3
NO_x per 100 million RTKs (Qantas)	Tonnes	**31.6**	32.4	34.4

Unplanned events				
Fuel jettison	No. of times	**11**	13	n/a
Fuel spills[2]	No. of times	**67**	65	53

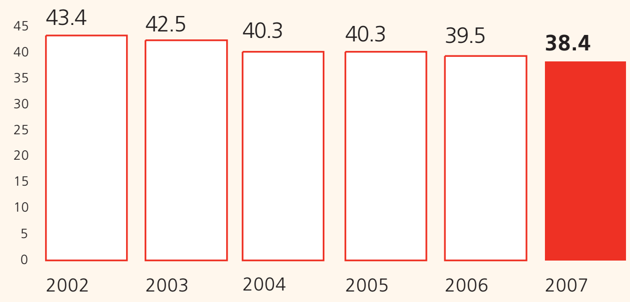
1 Calculated for Qantas jet aircraft emissions below 3,000 feet using standard engine certification emission factors.

2 At least 65 per cent of fuel spills were categorised as minor (less than 100 litres).

- All Qantas Group airlines also comply with the relevant International Civil Aviation Organization noise standards.
- Qantas has engaged specialist advisers to audit water usage at key sites and to recommend strategies to better manage and reduce consumption. Qantas maintains a clean aircraft fleet to improve fuel efficiency and reduce emissions. The water used to clean the aircraft is recycled. In addition, Qantas is working with waste management service providers to analyse waste disposal volumes and recycling rates.

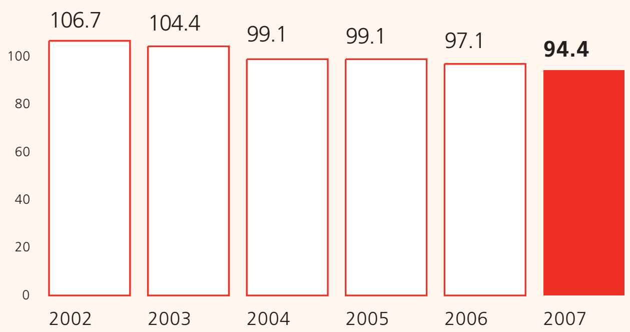
The following graph shows continuous improvement in Qantas Airline's fuel efficiency over the last three years:

Qantas Airline's Aviation Fuel Efficiency (Litres per 100 RTKs)



The following graph shows continuous improvement in Qantas Airline's CO_2 efficiency over the last three years:

Qantas Airline's Aviation CO_2 Efficiency (Kgs per 100 RTKs)

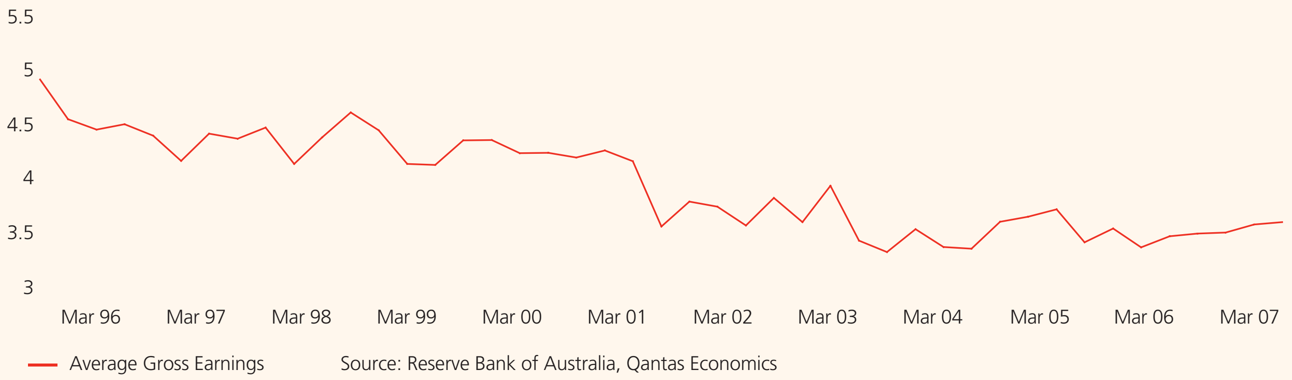


Economic Contribution

The Qantas Group makes a significant economic and social contribution to the Australian community by transporting both people and freight. Australia is to most of the world, a long-haul destination, for which air is the most utilised form of transport. Australia is reliant on air transport to support business, time sensitive freight and importantly, the tourism industry. Qantas is the most significant non-government contributor to Australian tourism. Tourism creates jobs for half a million Australians and is worth $81 billion to the country. Qantas' primary focus is on Australian tourism rather than making Australia an ancillary stop on the way to building passenger volumes through another destination.

A country with the size and geographic dispersion of Australia is reliant on air transport to efficiently connect its citizens to each other and to the world. In addition, Qantas provides the infrastructure to bring tourists and business to Australia and to distribute them around the country. As at 30 June 2007, Qantas Group airlines operate more than 700 international services each week and fly to 85 international destinations (including those operated by codeshare partners) in 38 countries, including Australia. Domestically, the Qantas Group operates more than 5,000 flights each week to 55 city and regional destinations in all Australian states and mainland territories. Qantas also operates more than 200 domestic flights each week within New Zealand.

Weeks of Average Gross Earnings Required to Pay for Return Sydney – Bangkok – London Airfare (including fuel surcharge)



Source: Reserve Bank of Australia, Qantas Economics

In addition to providing an extensive air transport network, Qantas has contributed to making air travel more affordable to more people. As illustrated in the graph above, the number of weeks it takes for an average wage earner to buy a return ticket from Sydney to London has decreased from 5 weeks to 3.6 weeks over the last 12 years.

Making air travel more affordable was greatly extended with the introduction of Jetstar from May 2004, which saw lead-in domestic fares on the markets Jetstar served fall by up to 30 per cent. This greatly stimulated passenger traffic to regional and major leisure destinations. It also made air transport affordable to travellers who may have otherwise taken alternative forms of transport. Between 5 and 10 per cent of Jetstar's customer base are first time travellers.

People

The Qantas Group is one of the largest employers in Australia with over 35,000 staff, 91 per cent of whom are Australian residents. In excess of $3 billion per year is spent on wages, salaries and related employee costs.

Qantas turnover and attrition rates are below community averages, and this reflects its commitment to provide meaningful jobs that are competitively paid, coupled with superior benefits. The Qantas Group also offers flexible work conditions including part-time work and job sharing wherever possible.

Qantas is committed to assisting employees balance their work against their personal commitments, and provides a range of initiatives including:

- 10 weeks' paid maternity leave (including adoption);
- one week's paid paternity leave (including adoption);
- 10 days' carer leave per annum;
- employer-sponsored childcare centres in Sydney and Melbourne with a further centre planned for Brisbane;
- the Employee Assistance program, a self-referral counselling program;
- a Health and Wellbeing program that includes quit-smoking programs, onsite Weight Watchers and access to scheduled exercise and health classes; and
- a Keep in Touch program for employees on parental leave.

Maintaining a group of highly skilled and motivated staff is key to corporate sustainability. The Qantas Group invests in excess of $280 million annually on the training of staff. Qantas is one of the largest private sector employers of apprentices in Australia. Qantas College, which is a Registered Training Organisation, provides targeted, quality training to the Qantas Group and assists in the development of skills in the broader travel industry.

The Qantas Group has a comprehensive talent pipeline program with over 630 participants, focusing on new graduate talent, emerging leaders and talented senior management. The preference is to promote from within wherever possible.

Qantas' graduate recruitment program attracts about 4,000 applicants each year. All graduates (38 in 2008) take part in a two year development program based on rotations through key business areas. In 2006, Qantas was proud to be a finalist in the Australian Graduate Employer of Choice Awards.

Qantas has implemented an innovative accelerated development program for the Group's Emerging Leaders in conjunction with the Accelerated Learning Laboratory at the Australian Graduate School of Management.

A diverse workforce is a key focus for the Qantas Group. It helps meet a business need by reflecting internally the wide range of customers served across the world. In 2005, a Diversity Council was established to sponsor this, with a particular agenda of increasing the representation of women in management at Qantas and supporting those in executive roles. In addition, Qantas aims to encourage young women in the community to enter non-traditional occupations with the "Aiming High" workshop developed in conjunction with the New South Wales Premiers Department.

Qantas has been active in Indigenous employment programs since 1988. It aims to use the Group's influence to support and celebrate the diversity of Indigenous culture and to make a practical contribution to the reconciliation process in Australia. This year, Qantas' own Indigenous Employment strategy has expanded to include a formal partnership with Reconciliation Australia, and to double the number of Indigenous staff employed at Qantas by December 2008.

The Qantas Group recognition program, eXcel, recognises employee excellence throughout the year and at an annual awards event in the areas of service, safety and innovation. Frequent Flyers also recognise the contributions of Qantas employees through the eXcel Frequent Flyers Peoples Choice Award. In 2006, the eXcel program was recognised in the Australian Human Resources Institution Awards for Excellence as a New South Wales finalist in the People Management category.

Sustainability Information

The information below provides additional data concerning Qantas Group employees.

Number of Full-time Equivalent Employees as at 30 June

	2007	2006	2005
Flying Business	**16,738**	16,350	16,699
– Qantas	**14,780**	14,945	15,533
– Jetstar	**1,958**	1,405	1,166
Portfolio Businesses	**14,019**	15,178	16,150
– Airports and Catering	**7,800**	8,645	8,983
– Qantas Engineering	**5,403**	5,764	6,424
– Freight	**816**	769	743
Corporate Support	**2,074**	2,250	2,254
Total	**32,831**	33,778	35,103
Women	**12,760**	12,936	13,190
% Women	**39%**	38%	38%
Indigenous	**141**	136	132

Turnover of Full-time Equivalent Employees

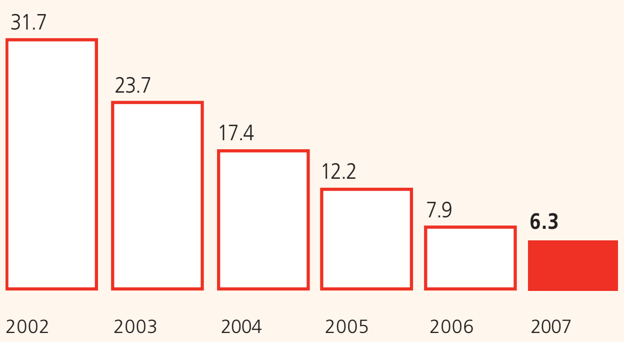
	2007 %	2006 %	2005 %
Flying Business	**11.7**	7.0	6.8
– Qantas	**11.9**	6.7	6.3
– Jetstar	**10.6**	10.7	13.3
Portfolio Businesses	**10.1**	11.6	4.7
– Airports and Catering	**11.1**	9.4	5.8
– Qantas Engineering	**9.2**	16.1	2.9
– Freight	**5.8**	5.7	5.5
Corporate Support	**16.6**	10.9	8.6
Total	**11.3**	9.3	6.0

Safety and Health

Qantas places a very high priority on Safety and Health. All Qantas Group airlines carry physician kits, have first aid trained cabin crew and offer a 24 hours seven days per week inflight medical advisory service. Qantas International, Qantas Domestic and Jetstar International A330 aircraft also carry defibrillators.

As discussed on page 38 and 39, Qantas has significantly improved its safety performance on the ground. The graph below shows an 80 per cent improvement in Lost Time Injury Frequency Rate (LTIFR) over the last five years:

Qantas Group LTIFR by Year



Human Rights and Society's Expectations

Qantas Policies require all employees to act ethically and comply with laws. The Qantas Code of Conduct and Ethics is the primary policy governing business actions and is publicly available on the Internet. Qantas takes policy compliance seriously and requires all senior managers to semi-annually declare their compliance.

The following statements clarify Qantas' policies of relevance to an assessment of its sustainable business practices:

- Qantas is progressively changing its standard terms and conditions to include a requirement for suppliers to recognise human rights in the acquisition and/or production of their supply to Qantas;
- Qantas complies with section 305B of the Commonwealth Electoral Act, which requires donors to political parties to disclose contributions through lodgment of a Donor Return. Qantas representatives take up opportunities for business networking and contact with Ministers and Members of Parliament to make known its position on Public Policy: however, to ensure transparency, this is disclosed in the Return. Qantas does not make direct contributions to political parties;
- Qantas and its employees are expected to comply at all times with all laws governing its operations, including the Trade Practices Act and the competition laws of every jurisdiction in which it operates. Qantas approaches any allegation of a breach seriously and proactively engages with the regulator to resolve the matter. Refer page 104 in this Annual report, for details on existing investigations;
- Qantas investigates and takes seriously all claims of discrimination against or by employees/contractors or customers. Qantas has a solid policy foundation, with managers undergoing regular training to ensure they understand how to prevent and identify discrimination;
- Qantas regularly monitors customer attitudes and seeks feedback on areas for improvement. Complaints are taken seriously and are tracked to feed into a continuous improvement program. Qantas surveys are used to measure customer satisfaction and these results are compared with internationally recognised airline industry surveys, such as Skytrax and IATA Global Airline Performance reports;
- all Qantas Group advertising, promotional and marketing material must comply with relevant consumer protection laws. To ensure compliance, it is Qantas Group policy that all advertisements, promotional and marketing material is reviewed by the Qantas Legal Department before publication; and
- Qantas has had a policy of protecting customers' personal information long before the Privacy Act was amended to apply to business. Qantas takes its privacy obligations very seriously and investigates thoroughly any allegations of wrongful use or disclosure.

Importantly, Qantas Policies require compliance with all laws in the countries in which the Qantas Group operates. Qantas Policies are regularly reviewed to ensure they reflect the highest standard in community and corporate expectations.

Independent Review Report

to Qantas on Sustainability Information

KPMG

Introduction

We have been engaged by Qantas to review selected sustainability performance data (the Performance Data) for the year ended 30 June 2007 unless otherwise stated, as reported in the section titled "Sustainability Information" on pages 136 to 138 of the Qantas Annual Report 2007 (the Annual Report).

Scope

Sustainability reporting in the Annual Report and management responsibilities

The management of Qantas is responsible for the preparation of the sustainability information in the Annual Report and the information and assessments contained within it, for determining Qantas' objectives in relation to sustainability performance, and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived. Management's assertions about the effectiveness of the performance management and internal control systems are included in a separate letter we have received from management.

Review approach

We have conducted an independent review of the Performance Data set out on pages 136 to 138 of the Annual Report for the year ended 30 June 2007, for Qantas Group's operations in Australia.

There are no mandatory requirements for the preparation, publication or review of sustainability performance data. Qantas applies its own internal reporting guidelines for sustainability reporting (the Criteria), a concise version of which can be found in the Glossary on page 141 of the Annual Report. The selection and suitability of the Criteria are the responsibility of management and our review did not include an assessment of the adequacy of the Criteria. Further, the internal control structure which management has established and from which the Performance Data has been derived, has not been reviewed and no opinion is expressed as to its effectiveness.

Our review was conducted in accordance with the International Standard on Assurance Engagements ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board, and with Australian Auditing Standards AUS 108 *Assurance Engagements* and AUS 902 *Review of Financial Reports*. A review is limited primarily to inquiries of company personnel and other procedures applied to the compilation and presentation of the quantitative data. A review does not provide all evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, do not express an audit opinion.

We performed procedures in order to obtain all the information and explanations that we considered necessary to provide sufficient evidence for us to state whether anything has come to our attention that would indicate the Performance Data has not been presented fairly in accordance with the Criteria established by management.

The Performance Data

We have reviewed the following Performance Data reported in the section titled "Sustainability Information" on pages 136 to 138 of the Annual Report for the year ended 30 June 2007 and year ended 30 June 2006 where stated:

- Aviation Fuel 2006 and 2007 (on page 136);
- Electricity 2007 (Australia) (on page 136);
- Gas 2007 (Australia) (on page 136);
- Ground Petrol and Ground Diesel 2007 (Australia) (on page 136);
- Qantas Fuel per 100 Revenue Tonne Kilometres (RTK) 2007 (on page 136);
- Qantas CO_2 emissions per 100 Revenue Tonne Kilometres (RTK) 2007 (on page 136);
- Qantas NO_x emissions 100 per million Revenue Tonne Kilometre (RTK) 2007 (on page 136);
- CO_2 emissions for Aviation 2006 and 2007 (on page 136);
- CO_2 emissions for Ground fuel 2007 (on page 136);
- NO_x emissions for Aviation 2007 (Qantas) (on page 136);

- Fuel Jettison and Fuel Spills 2007 (on page 136);
- Weeks of Average Earnings Required to Pay for Return Sydney – Bangkok – London airfare 2006 and 2007 (on page 137);
- Lost Time Injury Frequency Rate 2007 (on page 138);
- Number of Full-time Equivalent Employees 2007 for Flying Businesses (Qantas, Jetstar), Portfolio Businesses (Airports and Catering, Qantas Engineering, Freight), Corporate Support (on page 138);
- Number and Percentage of Full-time Equivalent female employees 2007 (on page 138); and
- Turnover of Full-time Equivalent Employees 2007 for Flying Businesses (Qantas, Jetstar), Portfolio Businesses (Airports and Catering, Qantas Engineering, Freight) and Corporate Support (on page 138).

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

Based on our review, which is not an audit, nothing came to our attention to indicate that the Performance Data set out on pages 136 to 138 of the Annual Report for the year ended 30 June 2007 has not been presented fairly in accordance with the Criteria established by management.

KPMG

Martin Sheppard
Partner

Sydney, 27 August 2007

Financial Calendar

2007

8	**February**	Half year result announcement
19	**February**	Record date for special dividend
19	**March**	Special dividend payable
30	**June**	Year end
16	**August**	Preliminary final result announcement
31	**August**	Record date for final dividend
26	**September**	Final dividend payable
14	**November**	Annual General Meeting, Melbourne

2008

21	**February**	Half year result announcement
5	**March**	Record date for interim dividend
2	**April**	Interim dividend payable
30	**June**	Year end
21	**August**	Preliminary final result announcement
3	**September**	Record date for final dividend
1	**October**	Final dividend payable
16	**October**	Annual General Meeting

Glossary

Australian Equivalents to International Reporting Standards (A-IFRS)

Australian Securities and Investments Commission (ASIC)

Australian Securities Exchange (ASX)

Annual General Meeting (AGM)

Available Seat Kilometres (ASKs)
Total number of seats available for passengers, multiplied by the number of kilometres flown.

Available Tonne Kilometres (ATKs)
Total number of tonnes of capacity available for carriage of passengers, freight and mail, multiplied by the number of kilometres flown.

Carbon Dioxide (CO_2)
A colourless, odourless, incombustible gas formed during respiration, combustion and organic decomposition, and is the most prominent greenhouse gas in the earth's atmosphere.

Emissions shown in the Report have been calculated for ground and aviation fuel.

Fuel Jettison
Emergency release of fuel to reduce the weight of the aircraft to the maximum landing weight.

Fuel Spills
The accidental spillage of aviation fuel material at airport sites.

Goods and Services Tax (GST)

International Air Transport Association (IATA)

Lost Time Injury (LTI)
A work related injury (or illness) that resulted in a fatality, permanent disability or the loss from work of one day or shift or more.

Lost Time Injury Frequency Rate (LTIFR)
The number of LTIs per million hours worked.

Nitrogen Oxide (NO_X)
The generic term for a group of highly reactive gases, all of which contain nitrogen and oxygen in varying amounts. NOx is formed when fuel is burned at high temperatures, as occurs in the combustion process.

Passenger Yield
Passenger revenue, excluding passenger recoveries, divided by RPKs.

Revenue Freight Tonne Kilometres (RFTKs)
Total number of tonnes of paying freight carried, multiplied by the number of kilometres flown.

Revenue Passenger Kilometres (RPKs)
Total number of paying passengers carried, multiplied by the number of kilometres flown.

Revenue Seat Factor
Percentage of total passenger capacity actually utilised by paying passengers.

Revenue Tonne Kilometres (RTKs)
Total number of tonnes of paying passengers, freight and mail carried, multiplied by the number of kilometres flown.

Sustainable Future Program (SFP)

Turnover of Full-Time Equivalent Employees
Total number of employee terminations expressed as a percentage of total FTEs.

Notice of Meeting

The 2007 AGM of Qantas Airways Limited will be held at 2pm on Wednesday, 14 November 2007 in Melbourne.

The 2008 AGM of Qantas Airways Limited will be held on 16 October 2008. The details will be available on the Qantas website at www.qantas.com.au/info/about/investors/agms

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Company Secretary Cassandra Hamlin

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Paper sourcing and print production by PMG Solutions under a Certified and audited ISO 14001 Environmental Management System.

Cover paper is produced with a combination of fibre sources from recovered waste as well as sustainable forests. The product contains 25% post consumer waste and 30% pre consumer waste.

The Editorial component of this report is printed on paper with PEFC Certification. The Financial component of this report is printed on paper with FSC and PEFC Certification.

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current share price
and shareholder news.

QANTAS