



QANTAS AIRWAYS LIMITED AND CONTROLLED ENTITIES

**CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2007**

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

	December 2007 \$m	December 2006 \$m	Change \$m	Change %
Sales and other income	8,126.0	7,634.5	491.5	up 6.4%
Profit for the half-year attributable to members	617.6	307.5	310.1	up 100.8%

DIVIDENDS

31 December 2007 interim dividend - to be paid 2 April 2008	
Amount per security (cents)	18.0
Franked amount per security at 30% tax	18.0
Record date for determining entitlement to the dividend	5 March 2008
Date the dividend is payable	2 April 2008
Total dividend declared (\$m) [^]	344.5
[^] Based on the number of shares issued as at 31 December 2007	
<p>As announced on 8 February 2007, the Qantas Board suspended the Dividend Reinvestment Plan (DRP). The suspension was effected pursuant to Rule 12(a) of the DRP, which entitles the Qantas Board to terminate or suspend the DRP at any time on giving notice to DRP participants of the termination or suspension (and the previous ASX disclosure was deemed to constitute such notification). This means that the interim dividend cannot be applied to acquire further Qantas shares under the DRP.</p>	

EXPLANATION OF RESULTS

<p>Please refer to the attached Press Release for an explanation of the results.</p> <p>This information should be read in conjunction with the Qantas Airways Limited 2007 Annual Report.</p>
<p>The information provided in this report contains all the information required by ASX Listing Rule 4.2A.</p>

OTHER INFORMATION

	Dec 2007	Dec 2006
	\$	\$
Net Tangible Assets per ordinary share	2.73	2.61

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

During the half-year, Qantas (through a controlled entity) gained control of Kilda Express Pte Limited by increasing its ownership interest from 50.0% to 69.3%.

In addition, the Qantas Group incorporated the following wholly-owned companies during the half-year: Qantas Freight Enterprises Limited, A.C.N. 128 382 187, QF Cabin Crew Australia Pty Limited, Qantas Group Flight Training Pty Limited and Qantas Group Flight Training (Australia) Pty Limited.

Details of associates and jointly controlled entities

Equity accounted associates and jointly controlled entities	Percentage of ownership interest held at end of half-year or date of disposal		Contribution to net profit	
	Dec 2007 %	Dec 2006 %	December 2007 \$m	December 2006 \$m
Air Pacific Limited	46.3	46.3	4.5	0.1
Australian air Express Pty Limited	50.0	50.0	6.7	8.7
Fiji Resorts Limited ¹	20.6	-	0.5	-
Hallmark Aviation Services LP	49.0	49.0	0.7	0.7
Harvey Holidays Pty Limited	50.0	50.0	0.3	0.5
HT & T Travel (Phillipines) Inc.	28.1	28.1	(0.1)	-
Holidays Tours and Travel (Thailand) Ltd.	36.8	36.8	-	-
Holidays Tours and Travel Vietnam Joint Venture Company	36.8	36.8	-	-
Jet Turbine Services Pty Limited ²	-	-	-	(1.9)
Jupiter Air Oceania Limited	47.6	47.6	(0.1)	-
Kilda Express Pte Limited ³	-	-	-	-
Orangestar Investment Holdings Pte Limited ^{4,5}	45.0	45.0	-	(4.4)
Pacific Airlines Joint Stock Aviation Company ⁶	18.0	-	-	-
Star Track Express Holdings Pty Limited	50.0	50.0	6.8	9.6
Tour East (TET) Ltd.	36.8	36.8	-	0.1
Travel Software Solutions Pty Limited	50.0	50.0	(2.4)	0.1
Total			16.9	13.5

1 This investment was reclassified from Other investments to Investments accounted for using the equity method in January 2007.

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

3 Qantas (through a controlled entity) acquired 50.0% of the equity of Kilda Express Pte Limited in July 2007 and then acquired a further 19.3% equity on 2 November 2007, increasing its ownership interest to 69.3%. Qantas ceased to equity account the results of Kilda Express Pte Limited from this date.

4 On 29 December 2006, the Board of Orangestar Investment Holdings Pte Limited approved the issuing of an optional convertible note to shareholders. This convertible note had not been issued at 31 December 2007.

5 Since December 2006, the investment in Orangestar Investment Holdings Pte Limited ceased to be equity accounted as losses reduced the value of the investment to below zero. The amount of losses not recognised as at 31 December 2007 was \$0.4 million.

6 Qantas acquired 18.0% of of this entity on 31 July 2007. Qantas exerts significant influence over the entity given its Board representation and provision of operational and management personnel.

DIRECTORS' REPORT

The Directors present their report together with the Consolidated Interim Financial Report for the half-year ended 31 December 2007 and the Independent Auditor's Review Report thereon.

DIRECTORS

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

Name	Period of Directorship
Leigh Clifford <i>Chairman</i>	<i>Director since 9 August 2007 - appointed Chairman 14 November 2007</i>
Margaret Jackson, AC	<i>Director since July 1992 - retired 14 November 2007</i>
Geoff Dixon <i>Chief Executive Officer</i>	<i>Director since August 2000 - appointed CEO in March 2001</i>
Peter Gregg <i>Chief Financial Officer</i>	<i>Director since September 2000</i>
Paul Anderson	<i>Director since September 2002</i>
Mike Codd, AC	<i>Director since January 1992</i>
Peter Cosgrove, AC, MC	<i>Director since July 2005</i>
Patricia Cross	<i>Director since January 2004</i>
Garry Hounsell	<i>Director since January 2005</i>
James Packer	<i>Director since March 2004 - retired 31 August 2007</i>
John Schubert	<i>Director since October 2000</i>
James Strong, AO	<i>Director since July 2006</i>

REVIEW OF OPERATIONS

The Qantas Group achieved a profit before related income tax expense (PBT) for the half-year of \$905.0 million, representing an increase of \$454.8 million or 101.0% on the comparative half-year.

Total revenue for the half-year was \$8.1 billion, an increase of \$491.5 million or 6.4 per cent on the prior comparative period compared to capacity growth, measured in Available Seat Kilometres (ASK), of 3.9 per cent.

Net passenger revenue including fuel surcharge recoveries increased \$503.9 million or 8.4 per cent to \$6.5 billion. Traffic, measured in Revenue Passenger Kilometres (RPK), increased by 6.3 per cent while yield improved by 2.2 per cent. Excluding unfavourable foreign exchange rate movements, net passenger revenue was up 10.6 per cent, with yield improving 4.3 per cent.

Total expenditure increased by \$36.7 million or 0.5% to \$7.2 billion. Operating expenditure increased by \$213.5 million or 3.0% which is less than the increase in capacity of 3.9%. Ineffectiveness from open positions on financial instruments was a \$33.4 million gain in the current half-year compared to a loss of \$99.4 million in the comparative half-year. Net finance revenue of \$22.0 million compares to net finance costs of \$22.0 million in the prior half-year.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Sustainable Future Program (SFP) savings of \$311.0 million contributed toward a reduction in net expenditure cost per ASK of 3.3 per cent.

The net effect of foreign exchange rate movements on overall PBT was a favourable impact of \$113.0 million.

The Qantas flying operations contributed a PBT of \$829.9 million, which was an increase of \$427.7 million on the previous half-year. Passenger revenue increased by \$249.6 million to \$5.5 billion, or 4.8 per cent. Revenue growth was driven by a 4.4 per cent increase in yield while a 2.4 percentage point increase in seat factor largely offset a 2.6 per cent decrease in capacity.

Jetstar Brands achieved a PBT of \$113.4 million, nearly a four fold increase on the comparative half-year result of \$24.5 million. Passenger revenue increased by \$249.9 million or 53.6 per cent, largely driven by a 62.9 per cent increase in capacity, arising from the continued expansion of the Jetstar International network. Despite the significant capacity increase, seat factor was largely maintained decreasing only 0.1 percentage point to 78.6 per cent while yields reduced by 5.6 per cent.

The Loyalty Segment reported a PBT of \$61.9 million. The result included revenue of \$399.0 million primarily from the redemption of Qantas frequent flyer points for flight and other awards. Total costs for the period were \$337.1 million with the majority of costs being the purchase of airline seats from Qantas group airline businesses.

Qantas Freight Enterprises (QFE) reported a PBT of \$53.3 million for the half-year ending 31 December 2007, compared to \$55.6 million in the prior year. This includes QFE's share of the net profit of its associates and jointly controlled entities.

PBT for other subsidiary operations increased by \$0.3 million or 0.9% to \$33.3 million.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The Directors have received the Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001.

The Lead Auditor's Independence Declaration is set out on page 20 and forms part of the Directors' Report for the half-year ended 31 December 2007.

DIRECTORS' REPORT (continued)

ROUNDING

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

Signed pursuant to a Resolution of the Directors:



LEIGH CLIFFORD

Chairman



GEOFF DIXON

Chief Executive Officer

Sydney, 20 February 2008

CONSOLIDATED INCOME STATEMENT
for the half-year ended 31 December 2007

	December 2007 \$m	December 2006 \$m
Sales and Other Income		
Net passenger revenue	6,487.6	5,983.7
Net freight revenue	490.0	493.8
Tours and travel revenue	413.2	412.3
Contract work revenue	225.7	214.5
Other	509.5	530.2 ¹
	8,126.0	7,634.5
Expenditure		
Manpower and staff related	1,718.8 ²	1,687.3 ²
Aircraft operating variable	1,369.9	1,301.3
Fuel	1,707.2	1,735.3
Selling and marketing	331.2	335.6
Property	171.2	165.1
Computer and communication	236.3	187.3
Tours and travel	341.5	342.7
Capacity hire	134.3	160.1
Ineffective derivatives - closed positions	15.4	33.5
Other	302.0 ³	211.1
Depreciation and amortisation	765.9 ⁴	707.2
Non-cancellable operating lease rentals	199.6	209.9
Share of net profit of associates and jointly controlled entities	(16.9)	(13.5)
	7,276.4	7,062.9
Operating result	849.6	571.6
Ineffective derivatives - open positions	33.4	(99.4)
Profit before related income tax expense and net finance revenue/costs	883.0	472.2
Finance income	142.1	106.9
Finance costs	(120.1)	(128.9)
Net finance revenue/(costs)	22.0	(22.0)
Profit before related income tax expense	905.0	450.2
Income tax expense	(286.9)	(142.9)
Profit for the half-year	618.1	307.3
Attributable to:		
Members of Qantas	617.6	307.5
Minority interest	0.5	(0.2)
	618.1	307.3
Earnings per share (EPS) attributable to members of Qantas		
Basic earnings per share (cents)	31.6	15.6
Diluted earnings per share (cents)	31.6	15.6

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

² Redundancy costs incurred during the half-year were \$16.0 million (2006: \$100.1 million).

³ Estimated penalties of \$63.7 million have been recognised in relation to alleged price fixing in the air cargo market.

⁴ Change in estimated useful life of finance leased aircraft and modifications resulted in accelerated depreciation of \$50.1 million (2006: \$35.9 million).

The Consolidated Income Statement is to be read in conjunction with the Notes to the Financial Statements set out on pages 11 to 19.

CONSOLIDATED BALANCE SHEET

as at 31 December 2007

	December 2007 \$m	June 2007 \$m
Current assets		
Cash and cash equivalents	2,909.8	3,362.9
Receivables	1,350.1	1,376.8
Other financial assets	867.3	604.8
Inventories	221.8	180.3
Assets classified as held for sale	6.8	5.4
Other	162.9	103.8
Total current assets	5,518.7	5,634.0
Non-current assets		
Receivables	316.9	372.7
Other financial assets	566.5	537.7
Investments accounted for using the equity method	412.2	372.6
Other investments	3.3	3.1
Property, plant and equipment	12,413.0	12,308.3
Intangible assets	399.0	365.9
Deferred tax assets	0.4	0.3
Other	9.9	11.1
Total non-current assets	14,121.2	13,971.7
Total assets	19,639.9	19,605.7
Current liabilities		
Payables	2,072.8	2,005.7
Interest-bearing liabilities	752.2	863.7
Other financial liabilities	604.9	383.7
Provisions	552.6	500.4
Current tax liabilities	127.8	153.6
Revenue received in advance	2,950.3	3,049.3
Deferred lease benefits/income	20.7	29.3
Total current liabilities	7,081.3	6,985.7
Non-current liabilities		
Interest-bearing liabilities	4,165.0	4,210.9
Other financial liabilities	600.3	767.8
Provisions	430.4	445.3
Deferred tax liabilities	572.7	437.5
Revenue received in advance	1,092.9	1,049.7
Deferred lease benefits/income	59.4	69.0
Total non-current liabilities	6,920.7	6,980.2
Total liabilities	14,002.0	13,965.9
Net assets	5,637.9	5,639.8
Equity		
Issued capital	4,071.1	4,481.2
Treasury shares	(64.7)	(32.6)
Reserves	273.3	148.2
Retained earnings	1,352.7	1,037.1
Equity attributable to members of Qantas	5,632.4	5,633.9
Minority interest	5.5	5.9
Total equity	5,637.9	5,639.8

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 11 to 19.

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

	Issued Capital \$m	Treasury Shares \$m	Employee Compensation Reserve \$m	Hedge Reserve \$m	Fair Value Reserve \$m	Asset Revaluation Reserve \$m	Foreign Currency Reserve \$m	Retained Earnings \$m	Minority Interest \$m	Total Equity \$m
Balance at 1 July 2006	4,382.2	(23.8)	23.7	332.2	(35.4)	4.0	4.8	1,388.5	4.9	6,081.1
Impact of initial adoption of IFRIC13 (refer Note 8)	-	-	-	-	-	-	-	(508.4)	-	(508.4)
Balance as at 1 July 2006	4,382.2	(23.8)	23.7	332.2	(35.4)	4.0	4.8	880.1	4.9	5,572.7
Net profit for the half-year	-	-	-	-	-	-	-	307.5	(0.2)	307.3
Own shares acquired	-	(24.5)	-	-	-	-	-	-	-	(24.5)
Shares vested to employees	-	9.4	(7.2)	-	-	-	-	(2.2)	-	-
Share-based payments	-	-	6.0	-	-	-	-	-	-	6.0
Transfer of hedge reserve to Income Statement	-	-	-	(40.2)	-	-	-	-	-	(40.2)
Recognition of effective cash flow hedges on capitalised assets	-	-	-	13.0	-	-	-	-	-	13.0
Effective portion of changes in fair value of cash flow hedges	-	-	-	(241.4)	-	-	-	-	-	(241.4)
Change in fair value of assets available for sale	-	-	-	-	26.6	-	-	-	-	26.6
Impairment charge against assets previously measured at fair value	-	-	-	-	10.1	-	-	-	-	10.1
Foreign exchange impact of Fair Value Reserve transferred to Foreign Currency Reserve	-	-	-	-	(1.3)	-	1.3	-	-	-
Foreign currency translation of controlled entities	-	-	-	-	-	-	(6.4)	-	-	(6.4)
Pre-acquisition retained profits acquired on acquisition	-	-	-	-	-	-	-	12.0	-	12.0
Dividends declared	99.0	-	-	-	-	-	-	(215.3)	-	(116.3)
Balance as at 31 December 2006	4,481.2	(38.9)	22.5	63.6	0.0	4.0	(0.3)	982.1	4.7	5,518.9

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 11 to 19.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the half-year ended 31 December 2007

	Issued Capital \$m	Treasury Shares \$m	Employee Compensation Reserve \$m	Hedge Reserve \$m	Fair Value Reserve \$m	Asset Revaluation Reserve \$m	Foreign Currency Reserve \$m	Retained Earnings \$m	Minority Interest \$m	Total Equity \$m
Balance as at 1 July 2007	4,481.2	(32.6)	27.0	120.0	0.0	4.0	(2.8)	1,037.1	5.9	5,639.8
Net profit for the half-year	-	-	-	-	-	-	-	617.6	0.5	618.1
Shares bought back	(410.1)	-	-	-	-	-	-	-	-	(410.1)
Own shares acquired	-	(70.6)	-	-	-	-	-	-	-	(70.6)
Shares vested to employees	-	38.5	(34.5)	-	-	-	-	(4.0)	-	-
Share-based payments	-	-	41.4	-	-	-	-	-	-	41.4
Transfer of hedge reserve to Income Statement	-	-	-	(21.7)	-	-	-	-	-	(21.7)
Recognition of effective cash flow hedges on capitalised assets	-	-	-	25.1	-	-	-	-	-	25.1
Effective portion of changes in fair value of cash flow hedges	-	-	-	115.8	-	-	-	-	-	115.8
Foreign currency translation of controlled entities	-	-	-	-	-	-	(1.0)	-	-	(1.0)
Acquisition of minority interest in controlled entity	-	-	-	-	-	-	-	-	(1.2)	(1.2)
Acquisition of further interest in controlled entity previously equity accounted	-	-	-	-	-	-	-	-	0.3	0.3
Dividends declared	-	-	-	-	-	-	-	(298.0)	-	(298.0)
Balance as at 31 December 2007	4,071.1	(64.7)	33.9	239.2	0.0	4.0	(3.8)	1,352.7	5.5	5,637.9

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 11 to 19.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2007

	Decmeber 2007 \$m	December 2006 \$m
Cash Flows from Operating Activities		
Cash receipts in the course of operations	8,311.8	7,893.4
Cash payments in the course of operations	(6,784.5)	(6,687.8)
Interest received	124.9	102.7
Interest paid	(208.2)	(184.0)
Dividends received	8.7	8.7
Income taxes paid	(229.6)	(82.6)
Net cash from operating activities	1,223.1	1,050.4
Cash Flows from Investing Activities		
Payments for property, plant and equipment and intangible assets	(818.3)	(660.8)
Proceeds from disposal of property, plant and equipment	11.5	8.1
Proceeds from disposal of investment	106.2	3.4
Payments for controlled entities, net of cash acquired	(12.7)	-
Payments for investments, net of cash acquired	(33.7)	(11.6)
Net cash used in investing activities	(747.0)	(660.9)
Cash Flows from Financing Activities		
Payments under share buyback ¹	(410.1)	-
Repayment of borrowings	(256.7)	(180.0)
Proceeds from swaps	31.2	56.1
Net receipts from aircraft security deposits	1.5	1.8
Dividends paid ²	(295.1)	(116.1)
Net cash used in financing activities	(929.2)	(238.2)
Net increase in cash and cash equivalents held	(453.1)	151.3
Cash and cash equivalents at the beginning of the half-year	3,362.9	2,902.0
Cash and cash equivalents at the end of the half-year	2,909.8	3,053.3

1 The number of shares bought back during the half-year was 71.1 million.

2 The DRP was suspended after the payment of the 2006 final dividend. During the half-year nil (2006: 28,991,867) shares were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash during the half-year totalled \$nil (2006: \$99.0 million).

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 11 to 19.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2007

Note 1. Statement of Significant Accounting Policies

(a) Reporting entity

Qantas Airways Limited (Qantas) is a company domiciled in Australia. The Consolidated Interim Financial Report (Financial Report) of Qantas as at and for the six months ended 31 December 2007 comprises Qantas and its subsidiaries (Qantas Group) and the Qantas Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Qantas Group as at and for the year ended 30 June 2007 is available upon request from the registered office of Qantas at Qantas Centre, Level 9 Building A, 203 Coward Street, Mascot NSW 2020, Australia or at www.qantas.com.au.

(b) Statement of compliance

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

The Financial Report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Qantas Group as at and for the year ended 30 June 2007. This report must also be read in conjunction with any public announcements made by Qantas during the half-year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

This Financial Report was approved by the Board of Directors on 20 February 2008.

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

(c) Significant accounting policies

Except as disclosed in Note 8, the accounting policies applied by the Qantas Group in this Financial Report are the same as those applied by the Qantas Group in the consolidated Financial Report as at and for the year ended 30 June 2007.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2007

Note 1. Statement of Significant Accounting Policies (continued)

(d) Estimates

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

In preparing this Financial Report, the significant judgements made by management in applying the Qantas Group's accounting policies and the key sources of uncertainty in estimation were the same as those that applied to the Financial Report as at and for the year ended 30 June 2007.

Note 2. Tax Reconciliation

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

	December 2007 \$m	December 2006 \$m
Profit before related income tax expense	905.0	450.2
Prima facie income tax expense @ 30%	271.5	135.1
Add: non-deductible freight penalties	19.1	-
Less: utilisation of carry forward tax losses	-	(1.5)
Add: other items	(3.7)	9.3
Income tax expense	286.9	142.9

Note 3. Capital Expenditure Commitments

	December 2007 \$m	June 2007 \$m
Capital expenditure commitments contracted but not provided for in the Financial Statements, payable:		
Not later than June 2008	659.4	916.3
Later than June 2008 but not later than June 2013	13,697.1	8,511.4
Later than June 2013	1,298.6	2,005.3
	15,655.1	11,433.0

Note 4. Dividends

A fully franked final dividend of 15 cents (2006: 11 cents fully franked) per ordinary share was declared on 15 August 2007 and paid on 26 September 2007 in relation to the financial year ended 30 June 2007. The total amount of the dividend declared was \$297.7 million (2006: \$215.1 million).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2007

Note 5. Contingent Liabilities

(a) Financing and leasing guarantees and indemnities

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.

(b) Price fixing activities in air cargo industry

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 28 November 2007, Qantas reached a settlement with the US Department of Justice for US\$61 million. This amount was paid on 29 January 2008.

As a result of this settlement, as well as ongoing discussions with other regulators, Qantas has provided \$111 million as at 31 December 2007 (30 June 2007: \$47 million). This provision reflects management's best estimate of potential settlements and costs arising from these investigations. However, future developments in these investigations may alter management's current view. Qantas is continuing to co-operate with regulators in other jurisdictions including Australia, Europe and New Zealand. Qantas expects these amounts will be known over the next two years.

(c) Commissions payable to travel agents

A class action claim was made during the prior year by a number of travel agents against International Air Transport Association (IATA), 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.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2007

Note 6. Post Balance Date Events

The Directors declared a fully franked interim dividend of 18 cents per ordinary share on 20 February 2008 in relation to the financial year ending 30 June 2008. The total amount of the dividend declared was \$344.5 million, based on the number of shares issued as at 31 December 2007.

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. During the half-year, Qantas purchased 71.1 million shares at a cost of \$410.1 million. Subsequent to 31 December 2007, Qantas has purchased 13.9 million shares at a cost of \$71.2 million.

As a result of oil and jet fuel price increases over recent months, Qantas announced on 7 January 2008 that it would increase international fuel surcharges for tickets issued on or after 17 January 2008. Should fuel prices drop in future, Qantas will reduce the surcharges as in previous occasions.

In January 2008, Boeing announced a further three-month delay in the delivery of the B787 Dreamliner. A revised delivery schedule to Jetstar has not yet been agreed.

Qantas intends to announce, on 21 February 2008, an agreement to merge its Qantas Holidays (QH) and Qantas Business Travel (QBT) businesses with Jetset Travelworld Limited (Jetset), subject to approval by the shareholders of Jetset and regulatory approval.

Under the terms of the agreement, Jetset would acquire QH and QBT from Qantas in exchange for Jetset scrip. Post transaction, Qantas will own 58 per cent of Jetset's share capital, with the merged entity remaining listed on the ASX under the Jetset brand, with the various businesses operating under their existing trading names. Jetset will be accounted for as a subsidiary of the Qantas Group.

As the value of the consideration of this transaction is subject to changes in the value of Jetset's share price and the fair value of assets and liabilities which will be acquired is yet to be determined, it is impracticable to disclose the effect of this transaction on the Group's current period financial results.

With the exception of the items disclosed above, there has not arisen in the interval between 31 December 2007 and the date of this report, any event that would have had a material effect on the Financial Statements at 31 December 2007.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2007

Note 7. Segment Reporting

Business Segments

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

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

1. Qantas, which is supported by Qantas Engineering, Airports and Qantas Freight. Further disclosure of the results of Qantas is provided for the current half-year, including the results of the Freight and Loyalty segments and the Corporate Centre;
2. Jetstar Group, which is supported by Qantas Engineering, Airports and Qantas Freight;
3. Qantas Holidays; and
4. Qantas Catering.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the half-year ended 31 December 2007

Note 7. Segment Reporting (continued)

Analysis by Business Segments	Qantas/other entities \$m		Jetstar \$m		Qantas Holidays \$m		Qantas Catering \$m		Eliminations \$m		Consolidated \$m	
	Dec 07	Dec 06	Dec 07	Dec 06	Dec 07	Dec 06	Dec 07	Dec 06	Dec 07	Dec 06 ²	Dec 07	Dec 06
Sales and other income												
External segment revenue	6,882.1	6,666.0	749.1	479.8	410.9	409.5	82.3	78.5	1.6	0.7	8,126.0	7,634.5
Inter-segment revenue	132.1	95.5	52.4	32.8	77.8	92.6	181.5	183.4	(443.8)	(404.3)	-	-
Total segment sales and other income	7,014.2	6,761.5	801.5	512.6	488.7	502.1	263.8	261.9	(442.2)	(403.6)	8,126.0	7,634.5
Share of net profit of associates and jointly controlled entities	16.7	17.3	-	(4.4)	0.2	0.6	-	-	-	-	16.9	13.5
Profit before related income tax expense and net finance revenue/costs ¹	751.0	426.9	106.2	19.9	18.0	18.6	7.3	6.6	0.5	0.2	883.0	472.2
Net finance revenue/(costs)	6.7	(34.3)	7.2	4.6	8.1	7.7	-	-	-	-	22.0	(22.0)
Profit before related income tax expense	757.7	392.6	113.4	24.5	26.1	26.3	7.3	6.6	0.5	0.2	905.0	450.2
Income tax expense											(286.9)	(142.9)
Profit for the half-year											618.1	307.3

¹ The prior half-year results have been adjusted to allocate Sustainable Future Program costs to the relevant business segment.

² Comparative results have been derived by extrapolating current year trading terms across the historical period.

Sales and other income	Qantas/other entities \$m		Qantas \$m		Freight \$m		Loyalty \$m		Corporate \$m		Eliminations \$m	
	Dec 07	Dec 06	Dec 07	Dec 06 ²	Dec 07	Dec 06 ²	Dec 07	Dec 06 ²	Dec 07	Dec 06 ²	Dec 07	Dec 06 ²
External segment revenue	6,882.1	6,666.0	5,861.5	5,669.4	587.1	576.0	399.0	388.0	11.6	11.7	22.9	20.9
Inter-segment revenue	132.1	95.5	601.2	618.0	0.3	0.4	-	-	102.9	90.9	(572.3)	(613.8)
Total segment sales and other income	7,014.2	6,761.5	6,462.7	6,287.4	587.4	576.4	399.0	388.0	114.5	102.6	(549.4)	(592.9)
Share of net profit of associates and jointly controlled entities	16.7	17.3	5.7	(1.1)	13.4	18.3	-	-	(2.4)	0.1	-	-
Profit before related income tax expense and net finance revenue/costs	751.0	426.9	846.1	456.3	53.3	55.6	61.9	60.8	(217.0) ³	(151.9)	6.7	6.1

³ Corporate expenses include estimated penalties of \$63.7 million (2006: \$nil) in relation to alleged price fixing in the air cargo market.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the half-year ended 31 December 2007

Note 8. Change in Accounting Policy

On 1 July 2007, the Qantas Group revised its accounting policy in relation to accounting for Qantas Frequent Flyer points and their associated expiry. This accounting policy change effects the early adoption of the Australian Accounting Standards Board *Interpretation 13: Customer Loyalty Programmes* (IFRIC13).

The previous accounting policy created a provision for the cost of the obligation to provide travel rewards to members arising from travel on points earning services. This provision excluded the costs of an estimation of the number of points that were expected to expire. The provision was calculated as the present value of the expected incremental direct cost (being the cost of meals and passenger expenses) of providing the travel rewards.

The new Qantas Group accounting policy requires revenue received in relation to points earning flights to be split. The allocation between the value of the flight and the value of the points awarded is undertaken at fair value. The value attributable to the flight is then recognised on passenger uplift, whilst the value attributed to the awarded points is deferred as a liability until the points are ultimately utilised.

The value attributed to the points that are expected to expire is recognised as revenue as the risk expires i.e. based on the number of points that have been redeemed relative to the total number expected to be redeemed.

The impact of the adoption of IFRIC13 on the Balance Sheet as at 1 July 2006 and 30 June 2007 is shown in the table on the following page.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the half-year ended 31 December 2007

Note 8. Change in Accounting Policy (continued)

	Previously reported 1 July 2006 \$m	Effect of adoption of IFRIC13 \$m	Revised 1 July 2006 \$m	Previously reported 30 June 2007 \$m	Effect of adoption of IFRIC13 \$m	Revised 30 June 2007 \$m
Total current assets ¹	4,948.4	-	4,948.4	5,634.0	-	5,634.0
Total non-current assets ¹	14,234.9	-	14,234.9	13,971.7	-	13,971.7
Total assets ¹	19,183.3	-	19,183.3	19,605.7	-	19,605.7
Current liabilities						
Payables	1,985.3	-	1,985.3	2,005.7	-	2,005.7
Interest-bearing liabilities	440.8	-	440.8	863.7	-	863.7
Other financial liabilities	139.2	-	139.2	383.7	-	383.7
Provisions	469.0	(28.4)	440.6	534.4	(34.0)	500.4
Current tax liabilities	72.4	-	72.4	153.6	-	153.6
Revenue received in advance	2,282.8	481.0	2,763.8	2,533.6	515.7	3,049.3
Deferred lease benefits/income	37.5	-	37.5	29.3	-	29.3
Total current liabilities	5,427.0	452.6	5,879.6	6,504.0	481.7	6,985.7
Non current liabilities						
Interest-bearing liabilities	5,334.8	-	5,334.8	4,210.9	-	4,210.9
Other financial liabilities	352.2	-	352.2	767.8	-	767.8
Provisions	479.7	(38.9)	440.8	481.9	(36.6)	445.3
Deferred tax liabilities	701.2	(217.9)	483.3	675.6	(238.1)	437.5
Revenue received in advance	708.5	312.6	1,021.1	701.5	348.2	1,049.7
Deferred lease benefits/income	98.8	-	98.8	69.0	-	69.0
Total non-current liabilities	7,675.2	55.8	7,731.0	6,906.7	73.5	6,980.2
Total liabilities	13,102.2	508.4	13,610.6	13,410.7	555.2	13,965.9
Net assets	6,081.1	(508.4)	5,572.7	6,195.0	(555.2)	5,639.8
Equity						
Issued capital	4,382.2	-	4,382.2	4,481.2	-	4,481.2
Treasury shares	(23.8)	-	(23.8)	(32.6)	-	(32.6)
Reserves	329.3	-	329.3	148.2	-	148.2
Retained profits	1,388.5	(508.4)	880.1	1,592.3	(555.2)	1,037.1
Equity attributable to members of the Company	6,076.2	(508.4)	5,567.8	6,189.1	(555.2)	5,633.9
Minority interest	4.9	-	4.9	5.9	-	5.9
Total equity	6,081.1	(508.4)	5,572.7	6,195.0	(555.2)	5,639.8

¹ IFRIC13 has not impacted assets and accordingly the individual categories appearing on the face of the Balance Sheet have not been disclosed here.

The table on the next page shows the impact of the adoption of IFRIC13 on the comparative Income Statements for the half-year ended 31 December 2006 and for the full year ended 30 June 2007.

QANTAS AIRWAYS LIMITED
ABN 16 009 661 901
Note 8. Change in Accounting Policy (continued)
CONSOLIDATED INTERIM FINANCIAL REPORT
HALF-YEAR ENDED 31 DECEMBER 2007

	Previously reported 6 months to December 2006 \$m	Effect of adoption of IFRIC13 \$m	Revised 6 months to December 2006 \$m	Previously reported 12 months to June 2007 \$m	Effect of adoption of IFRIC13 \$m	Revised 12 months to June 2007 \$m
Sales and Other Income						
Net passenger revenue ¹	6,010.7	(27.0)	5,983.7	11,942.6	(48.1)	11,894.5
Net freight revenue	493.8	-	493.8	902.5	-	902.5
Tours and travel revenue ¹	412.3	-	412.3	775.1	-	775.1
Contract work revenue	214.5	-	214.5	434.3	-	434.3
Other ¹	596.1	(65.9)	530.2	1,111.9	(57.9)	1,054.0
	7,727.4	(92.9)	7,634.5	15,166.4	(106.0)	15,060.4
Expenditure						
Manpower and staff related	1,687.3	-	1,687.3	3,334.7	-	3,334.7
Aircraft operating - variable ¹	1,301.3	-	1,301.3	2,608.4	-	2,608.4
Fuel	1,735.3	-	1,735.3	3,336.8	-	3,336.8
Selling and marketing ¹	353.2	(17.6)	335.6	726.7	(34.9)	691.8
Property	165.1	-	165.1	350.5	-	350.5
Computer and communication ¹	187.3	-	187.3	383.2	-	383.2
Tours and travel	342.7	-	342.7	641.7	-	641.7
Capacity hire	160.1	-	160.1	303.2	-	303.2
Ineffective derivatives - closed positions	33.5	-	33.5	67.6	-	67.6
Other ¹	211.1	-	211.1	581.0	-	581.0
Depreciation and amortisation	707.2	-	707.2	1,362.7	-	1,362.7
Non-cancellable operating lease rentals	209.9	-	209.9	415.3	-	415.3
Share of net profit of associates and jointly controlled entities	(13.5)	-	(13.5)	(46.5)	-	(46.5)
	7,080.5	(17.6)	7,062.9	14,065.3	(34.9)	14,030.4
Operating result	646.9	(75.3)	571.6	1,101.1	(71.1)	1,030.0
Ineffective derivatives - open positions	(99.4)	-	(99.4)	(54.1)	-	(54.1)
Profit before related income tax expense and net finance costs	547.5	(75.3)	472.2	1,047.0	(71.1)	975.9
Finance income	106.9	-	106.9	244.0	-	244.0
Finance costs	(131.0)	2.1	(128.9)	(258.9)	4.1	(254.8)
Net finance costs	(24.1)	2.1	(22.0)	(14.9)	4.1	(10.8)
Profit before related income tax expense	523.4	(73.2)	450.2	1,032.1	(67.0)	965.1
Income tax expense	(164.9)	22.0	(142.9)	(312.5)	20.2	(292.3)
Net profit	358.5	(51.2)	307.3	719.6	(46.8)	672.8

¹ Previously reported balances have been reclassified as a result of the implementation of a common chart of accounts throughout the Qantas Group.



Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 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

20 February 2008

DIRECTORS' DECLARATION

In the opinion of the Directors of Qantas Airways Limited:

- (a) the financial statements and notes set out on pages 6 to 19, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Qantas Group as at 31 December 2007 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard *AASB 134: Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that Qantas Airways Limited and its controlled entities will be able to pay its debts as and when they become due and payable.

Signed pursuant to a Resolution of the Directors:



LEIGH CLIFFORD
Chairman



GEOFF DIXON
Chief Executive Officer

Sydney, 20 February 2008



KPMG half-year review report to the members of Qantas Airways Limited

Report on the financial report

We have reviewed the accompanying half-year financial report of Qantas Airways Limited, which comprises the consolidated interim balance sheet as at 31 December 2007, consolidated income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 8 and the Directors' Declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Qantas Airways Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Qantas Airways Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) Giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Martin Sheppard'.

Martin Sheppard
Partner

Sydney

20 February 2008

QANTAS AIRWAYS LIMITED
ABN 16 009 661 901

OPERATIONAL STATISTICS

for the half-year ended 31 December 2007

(Unaudited)		Half-Year Ended December 2007	Half-Year Ended December 2006	Percentage Increase/ (Decrease)
QANTAS INTERNATIONAL - SCHEDULED SERVICES				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	4,183	4,464	(6.3)
Revenue passenger kilometres (RPK)	m	30,140	30,996	(2.8)
Available seat kilometres (ASK)	m	36,204	38,361	(5.6)
Revenue seat factor	%	83.3	80.8	2.5 pts
Revenue freight tonne kilometres (RFTK)	m	1,355	1,415	(4.2)
QANTAS DOMESTIC - SCHEDULED SERVICES				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	8,904	8,344	6.7
Revenue passenger kilometres (RPK)	m	12,946	12,142	6.6
Available seat kilometres (ASK)	m	15,644	15,101	3.6
Revenue seat factor	%	82.8	80.4	2.4 pts
QANTASLINK - SCHEDULED SERVICES				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	2,179	1,949	11.8
Revenue passenger kilometres (RPK)	m	1,468	1,281	14.6
Available seat kilometres (ASK)	m	1,966	1,761	11.6
Revenue seat factor	%	74.7	72.7	2.0 pts
JETSTAR INTERNATIONAL - SCHEDULED SERVICES				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	759	239	217.6
Revenue passenger kilometres (RPK)	m	3,431	679	405.3
Available seat kilometres (ASK)	m	4,659	978	376.4
Revenue seat factor	%	73.6	69.4	4.2 pts
JETSTAR DOMESTIC - SCHEDULED SERVICES				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	3,758	3,542	6.1
Revenue passenger kilometres (RPK)	m	4,276	4,062	5.3
Available seat kilometres (ASK)	m	5,154	5,044	2.2
Revenue seat factor	%	83.0	80.5	2.5 pts
QANTAS GROUP OPERATIONS				
<i>TRAFFIC AND CAPACITY</i>				
Passengers carried	000	19,783	18,538	6.7
Revenue passenger kilometres (RPK)	m	52,261	49,160	6.3
Available seat kilometres (ASK)	m	63,627	61,246	3.9
Revenue seat factor	%	82.1	80.3	1.8 pts
Aircraft in service at period end ¹	#	216	214	2 units
<i>FINANCIAL</i>				
Yield (passenger revenue per RPK)	¢	11.85	11.59	2.2
<i>PRODUCTIVITY</i>				
Average full-time equivalent employees	#	33,342	33,725	(1.1)
RPK per employee	000	3,109	2,892	7.5
ASK per employee	000	3,785	3,602	5.1

¹ Includes three aircraft that are not in operational service.

QANTAS AIRWAYS LIMITED

ABN 16 009 661 901

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

as at 31 December 2007

(Unaudited)	As at December 2007 \$m	As at June 2007 \$m
Balance Sheet Equity	5,637.9	5,639.8
Hedge Reserve	239.2	120.0
Equity excluding Hedge Reserve	5,398.7	5,519.8
On Balance Sheet Debt ¹		
Current Debt	752.2	863.7
Non-current Debt ²	4,165.0	4,210.9
Cash and Cash Equivalents ³	(3,033.6)	(3,487.3)
Fair value of hedges relating to debt ⁴	(179.4)	(195.6)
Net On Balance Sheet Debt	1,704.2	1,391.7
Off Balance Sheet Debt		
Non-Cancellable Operating Leases ⁵	2,465.5	2,583.8
Net Debt including Off Balance Sheet Debt	4,169.7	3,975.5
Balance Sheet including Off Balance Sheet Debt		
Total Assets ⁶	22,202.4	22,335.0
Total Liabilities	16,473.6	16,558.3
Total Equity including Hedge Reserve	5,728.8	5,776.7
Less: Hedge Reserve	239.2	120.0
Total Equity excluding Hedge Reserve	5,489.6	5,656.7
Net Debt to Net Debt and Equity	23 : 77	20 : 80
Net Debt to Net Debt and Equity (including Off Balance Sheet Debt and Hedge Reserve)	42 : 58	41 : 59
Net Debt to Net Debt and Equity (including Off Balance Sheet Debt and excluding Hedge Reserve)	43 : 57	41 : 59
Working Capital Ratio	35 : 65	34 : 66

Notes

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

QANTAS AIRWAYS LIMITED

ABN 16 009 661 901

ADJUSTED NET BORROWING COSTS

as at 31 December 2007

(Unaudited)	Half-Year Ended December 2007 \$m	Half-Year Ended December 2006 \$m
Borrowing Costs		
Net borrowing (revenue)/costs	(22.0)	22.0
Unwind of discount on non-current provisions	(12.6)	(15.3)
Unwind of discount on non-current receivables	10.8	5.7
Capitalised interest	47.3	36.5
Interest on non-cancellable operating leases	120.3	121.8
Adjusted Net Borrowing Costs	143.8	170.7
Interest Cover	(40.1)	21.5
Average Net Debt *		
Average Net Debt Including Off Balance Sheet Debt	4,072.6	4,735.5
Adjusted Net Borrowing Costs as a Percentage of:		
Average Net Debt Including Off Balance Sheet Debt	3.5	3.6
* Average Net Debt balances are calculated on a weighted average basis.		

QANTAS AIRWAYS LIMITED**ABN 16 009 661 901****INEFFECTIVE DERIVATIVES (Unaudited)**

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

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

Accounting ineffectiveness for derivative transactions has been split into two lines within the Consolidated Income Statement, as shown in the table below. The table shows the foreign exchange, interest rate and fuel hedging transactions that fail the accounting effectiveness measure in the half-year ended 31 December 2007.

	December 2007 \$m	December 2006 \$m
Ineffective derivatives - closed positions	15.4	33.5
Ineffective derivatives - open positions	(33.4)	99.4
Total Ineffective (Gain)/Loss	(18.0)	132.9

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

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

A net gain of \$18.0 million has been recognised in the Consolidated Income Statement as Ineffective derivatives during the half-year. This includes a loss of \$15.4 million recognised as "Ineffective derivatives - closed positions". This has been included in the operating result in the Consolidated Income Statement as it relates to derivative hedging instruments deemed ineffective for accounting purposes that matured during the half-year.

A gain of \$33.4 million has been recognised as "Ineffective derivatives - open positions". This has been excluded from the operating result as it relates to derivative hedging instruments deemed ineffective for accounting purposes that are to hedge underlying risks in future reporting periods.