

Acting Company Secretary
Cassandra Hamlin



27 December 2006

Companies Announcement Office
Australian Securities Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir

Letter from Chairman to Qantas Shareholders

Attached is a letter from Qantas Chairman, Margaret Jackson, to Qantas shareholders, in relation to Airline Partners Australia's (APA) intention to make an offer to acquire 100 per cent of Qantas Airways Limited.

Yours faithfully

Cassandra Hamlin



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21 December 2006

Dear Fellow Qantas Shareholder

On 14 December Airline Partners Australia (APA) announced an intention to make an offer to acquire 100 percent of Qantas Airways Limited for \$5.60 cash per share.

The Qantas Board has reviewed all available alternatives to maximise value to our shareholders since receiving an initial approach from APA. The proposal from APA is the result of extensive negotiations and Directors consider it is the best available.

Your Directors believe the proposal provides an attractive premium and an outstanding opportunity for you to realise significant value for your shares.

The offer is:

- 33 percent higher than the closing share price of \$4.20 on 6 November 2006, the day before the first speculation about the offer; and
- 61 percent above Qantas' volume weighted average share price of \$3.48 over the six months to that date.

Therefore, the Board intends to recommend that you accept the offer in the absence of a superior proposal and subject to receiving an independent expert report by Grant Samuel that the offer is fair and reasonable. Directors intend to accept for their own shareholdings.

Qantas will continue to be majority owned and controlled by Australians. APA's Australian members include Allco Equity Partners, Allco Finance Group and Macquarie Bank. It also includes Texas Pacific Group and Onex, minority US and Canadian investors who have a long association with the aviation industry.

The proposal will be implemented by way of an off-market takeover bid, which will be subject to certain conditions including a 90 percent minimum acceptance condition.

By early February, you will receive a Bidder's Statement from APA containing its formal offer and a Target's Statement from the Qantas Board providing further detail on our response and the Independent Expert Report by Grant Samuel.

Attached for your information is a copy of Qantas' release announcing the bid and a summary of key terms of the Implementation Deed between Qantas and APA. These releases can also be found at our website: www.qantas.com.au.

As always, Qantas will continue to inform you of important developments.

Qantas has established a shareholder information helpline to assist you should you have any queries prior to receiving the bid documents.

The helpline is open from 9am to 5pm (Sydney time) Monday to Friday. The numbers are:

- 1300 658 942 (from within Australia); or
- +613 9415 4285 (from outside Australia).

Your ownership and support has helped to ensure Qantas' continued success and the Board thanks you.

Finally, I would like to take this opportunity to wish you and your loved ones a safe and happy Christmas and New Year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Margaret Jackson', with a stylized, flowing script.

Margaret Jackson
Chairman



Media Release

QANTAS RECOMMENDS REVISED OFFER FROM AIRLINE PARTNERS AUSTRALIA

SYDNEY, 14 December 2006: The Chairman of Qantas Airways Limited, Margaret Jackson, today announced that, following detailed negotiations, the Qantas Board had received a revised proposal from Airline Partners Australia (APA) to acquire 100 percent of the Company for \$5.60 cash per share.

Margaret Jackson said the revised proposal provided an attractive premium for Qantas shareholders, being:

- 33 percent higher than the closing share price of \$4.20 on 6 November 2006, the day before the first speculation about the offer; and
- 61 percent above Qantas' volume weighted average share price of \$3.48 over the six months to that date.

Ms Jackson said that, subject to receiving an opinion by independent expert Grant Samuel that the offer is fair and reasonable, the Non-Executive Directors unanimously intend to recommend that shareholders accept the offer in the absence of a superior proposal, and all Directors intend to accept in respect of their own shareholdings.

"The Directors believe this offer allows Qantas shareholders to realise significant value for their shares that has not been fully recognised in the public market," Ms Jackson said.

The proposal will be implemented by way of an off-market takeover bid, which will be subject to certain conditions including a 90 percent minimum acceptance condition.

Ms Jackson said the revised proposal followed negotiations with APA since the Board's rejection yesterday of its initial proposal. These negotiations resulted in the removal of unacceptable conditions and a substantial break fee as well as an increase in the price from \$5.50 to \$5.60 per share.

Under the terms of the offer, the interim dividend that would otherwise be payable in April 2007 will not be available. However, the Board is evaluating whether a fully franked special dividend could be paid during the bid period, in which case the offer consideration would be reduced by the dividend amount.

"Following the Directors' decision, Qantas this morning executed an Implementation Deed with APA and its members to progress the offer," Ms Jackson said.

A summary of the key terms of the Implementation Deed is attached.

APA consists of the following investors:

- Allco Equity Partners
- Allco Finance Group
- Macquarie Bank
- TPG
- Onex
- other foreign investment funds

The proposal involves:

- Qantas transitioning to a privately owned company and de-listing from the Australian Securities Exchange;
- Qantas remaining majority owned and controlled by Australians; and
- retention of the current management team, who will invest in the privately owned company.

Mr Geoff Dixon would continue as Chief Executive Officer and Mr Peter Gregg would remain Chief Financial Officer under the new ownership structure.

As Executive Directors, Mr Dixon and Mr Gregg did not participate in the Board's decision-making processes. However, they agreed with the decision and the rest of the senior executive team also support the proposal.

Ms Jackson said the consortium had expressed its support for core Qantas strategies, including:

- maintaining an extensive domestic and international airline network, using Qantas' two-brand (Qantas and Jetstar) strategy;
- continuing Qantas' commitment to high quality product and service; and
- improving the company's cost base to be globally competitive.

"If this acquisition is successful, Qantas will remain a majority Australian-owned, Australia-based airline," Ms Jackson said.

"The foreign-based Consortium members are experienced airline investors with a long-standing association with the industry. The Consortium members have made it clear to us that they recognise the immense value of the Qantas brand and intend to improve it and grow the business."

"Qantas makes an enormous contribution to the Australian economy and community. It employs around 37,000 staff – 93 percent of them in Australia. It spends billions of dollars on goods and services from local suppliers every year, carries a third of all international tourists to Australia and provides a broad network linking metropolitan, regional and rural Australia to the world.

"If this bid succeeds, Qantas will continue to play a vital role as Australia's national carrier."

Ms Jackson said the Board's formal response will be provided in a Target statement that is expected to be mailed to all shareholders by early February 2007.

UBS, Carnegie, Wylie & Company and Allens Arthur Robinson are advising the Non-Executive Directors of Qantas.

Summary of Implementation Deed

Qantas Airways Limited ("**Qantas**") has entered into an Implementation Deed with Airline Partners Australia Limited ("**APA**") and each of the bid consortium members dated 14 December 2006. The consortium members are Macquarie Bank Limited, Texas Pacific Group, Allco Equity Partners Limited, Allco Finance Group Limited and Onex Corporation (the "**Consortium Members**").

TAKEOVER BID

Under the Deed, APA has agreed to make a takeover offer for all of the Qantas shares on certain agreed terms (the "**Offer**"). The consideration which APA is required to offer Qantas shareholders is \$5.60 cash per Qantas share.

BID CONDITIONS

The Deed sets out the conditions of the Offer which are summarised in the announcement released today by APA.

Under the Deed, Qantas has agreed not to do (or omit to do) anything which will, or is likely to, result in any of the Offer conditions being breached. However, this does not prevent Qantas or the Qantas Directors from taking or refusing to take any action provided that the Qantas Directors have determined, in good faith after having consulted with their external legal and financial advisers, that failing to take, or failing to refuse to take, such action would or would be likely to constitute a breach of the Qantas Directors' fiduciary or statutory obligations.

APA warrants that there is no act, omission, event or fact of which APA or any of its officers, employees and advisers is aware (or which any of them ought reasonably to be aware as a result of the due diligence conducted on Qantas) that would or is likely to result in one or more of the Offer conditions being triggered.

EXCLUSIVITY

Under the Deed, Qantas has agreed, for a period commencing on the signing date until termination of the Deed (the "**Exclusivity Period**"), that:

- (a) it must not, and must ensure that none of its officers, employees and advisers do not, directly or indirectly solicit, invite, facilitate or encourage any person, or communicate any intention to do any of these things, with a view to obtaining any offer or proposal from any person in relation to a competing proposal for Qantas;
- (b) it must not, and must ensure that none of its officers, employees and advisers do not, negotiate or enter into, continue or participate in negotiations or discussions with any other person regarding a competing proposal, even if:
 - (i) that person's competing proposal was not directly or indirectly solicited, initiated, or encouraged by Qantas or any of its officers, employees or advisers; or
 - (ii) that person has publicly announced their competing proposal,

(the "**No-Talk Restriction**");

- (c) Qantas must not without APA's prior written consent:

- (i) solicit, invite, facilitate or encourage any party (other than APA or its officers, employees and advisers) to undertake due diligence investigations on Qantas or any of its related bodies corporate where to do so would involve a breach of paragraph (a); or
- (ii) make available to any person (other than to APA or its officers, employees and advisers) or permit any such person to receive any non-public information relating to Qantas or any of its related bodies corporate,

(the "**No Due Diligence Restriction**").

The obligations in paragraphs (b) and (c) do not apply to the extent that they restrict Qantas or the Qantas board from taking any action in respect of a bona fide competing proposal which was not encouraged, solicited, invited, facilitated or initiated by Qantas in contravention of paragraph (a) provided that the Qantas board has determined:

- (i) that the competing proposal for Qantas is a 'superior proposal' (see definition below); or
- (ii) in good faith and acting reasonably, that failing to respond to that competing proposal would constitute a breach of the Qantas Directors' fiduciary or statutory obligations, after receiving written advice to that effect from Qantas's external lawyers,

(the "**Competing Proposal Exception**").

NOTIFICATION OF OTHER APPROACHES

Under the Deed, Qantas has agreed that during the Exclusivity Period it will immediately inform APA if it is approached by any person to engage in any activity that would breach the No Talk Restriction or the No Due Diligence Restriction (or would breach those restrictions if it were not for the Competing Proposal Exception), in which case Qantas must also keep APA reasonably informed about the nature of any further or ongoing interaction with any such persons, but Qantas will not be obliged to identify the relevant person to APA, or the details of the competing proposal, unless:

- (a) such competing proposal, or details of the relevant competing proposal, has been made public; or
- (b) the Competing Proposal Exception permits or requires Qantas to respond to the competing proposal (in which case Qantas must identify the relevant person to APA, and the details of the competing proposal).

DEFINITION OF 'SUPERIOR PROPOSAL'

Under the Deed, a 'superior proposal' means a bona fide competing proposal which the Qantas Directors have determined, in good faith after consultation with their external legal and financial advisers, is, or is reasonably likely to result in a proposal by the person making the competing proposal that:

- (a) is reasonably capable of being valued, taking into account all aspects of the competing proposal or the proposal and the person making it;
- (b) is reasonably capable of being completed on a timely basis and is no more conditional than the Offer as at the time of announcement of the Offer; and
- (c) is more favourable to Qantas shareholders (as a whole) than the Offer, taking into account all the terms and conditions of the competing proposal or the proposal.

UNDERTAKINGS BY EACH CONSORTIUM MEMBER

Each Consortium Member will in their specified respective proportions (where such proportions total 100%) procure that APA is immediately provided with sufficient funds for the due and punctual performance of any of APA's obligations under the Deed.