# 2003 **Qantas** Annual Report

QANTAS
Spirit of Australia

*En route to Frankfurt, Germany, 50° 7'N 8° 41'E_11.40 PM*

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Established in 1920 as Queensland and Northern Territory Aerial Services Limited, Qantas is Australia's leading domestic carrier and one of the world's premier long haul airlines. Qantas is also one of Australia's most recognised brand names, with a reputation for excellence in safety, operational reliability, engineering and maintenance, and customer service.

**Qantas operates 24 hours a day, seven days a week, 365 days a year, offering more than 5,000 flights each week.**

Qantas offers approximately 540 international services every week to 77 destinations in 33 countries across the Asia-Pacific region, Europe, North America, South America and South Africa.

Within Australia, the airline operates more than 4,500 domestic flights a week, serving 58 city and regional destinations across the country.

Qantas also operates a number of non-flying, airline-related businesses, including Qantas Holidays, Qantas Freight, Qantas Flight Catering, Qantas Defence Services and engineering and maintenance services.

*Los Angeles, USA_34° 4'N  118° 15'W_9.00 AM*


TO OUR FELLOW SHAREHOLDERS

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

Qantas was given little time to recover from the tumultuous events of 11 September 2001 before a series of new external shocks rocked the global aviation industry – the bombings in Bali, the war in Iraq and the devastating outbreak of Severe Acute Respiratory Syndrome. It has been said that our industry is now suffering from "constant shock syndrome" and the impact on the world's airlines has been enormous. The International Air Transport Association has estimated that its member airlines will lose US$30 billion between September 2001 and the end of the 2003 calendar year.



## ANNUAL RESULTS

In this extremely challenging environment, Qantas achieved a profit before tax of $502.3 million for the year ended 30 June 2003 and a net profit after tax of $343.5 million.

Revenue for the year totalled $11.4 billion, while total expenditure was $10.8 billion.

After a record first half profit before tax of $513.1 million, the war in Iraq and SARS combined to decimate the company's profitability in the second half of the year. All areas of the company were affected. International operations were hit particularly badly, with the number of inbound visitors to Australia falling by more than 20 per cent in some months and up to 45 per cent on some Asian routes. International operations incurred an earnings before interest and tax loss of $54.5 million in the second half of the year. The fall in demand for international travel also affected domestic operations because 15 per cent of all domestic passengers come from inbound international services.

The Directors declared a fully franked final dividend of 9 cents per share, bringing total fully franked dividends for the year to 17 cents per share.

## OUR PEOPLE

Qantas has met the substantial challenges confronting the aviation industry with discipline, flexibility and the wholehearted support of our people.

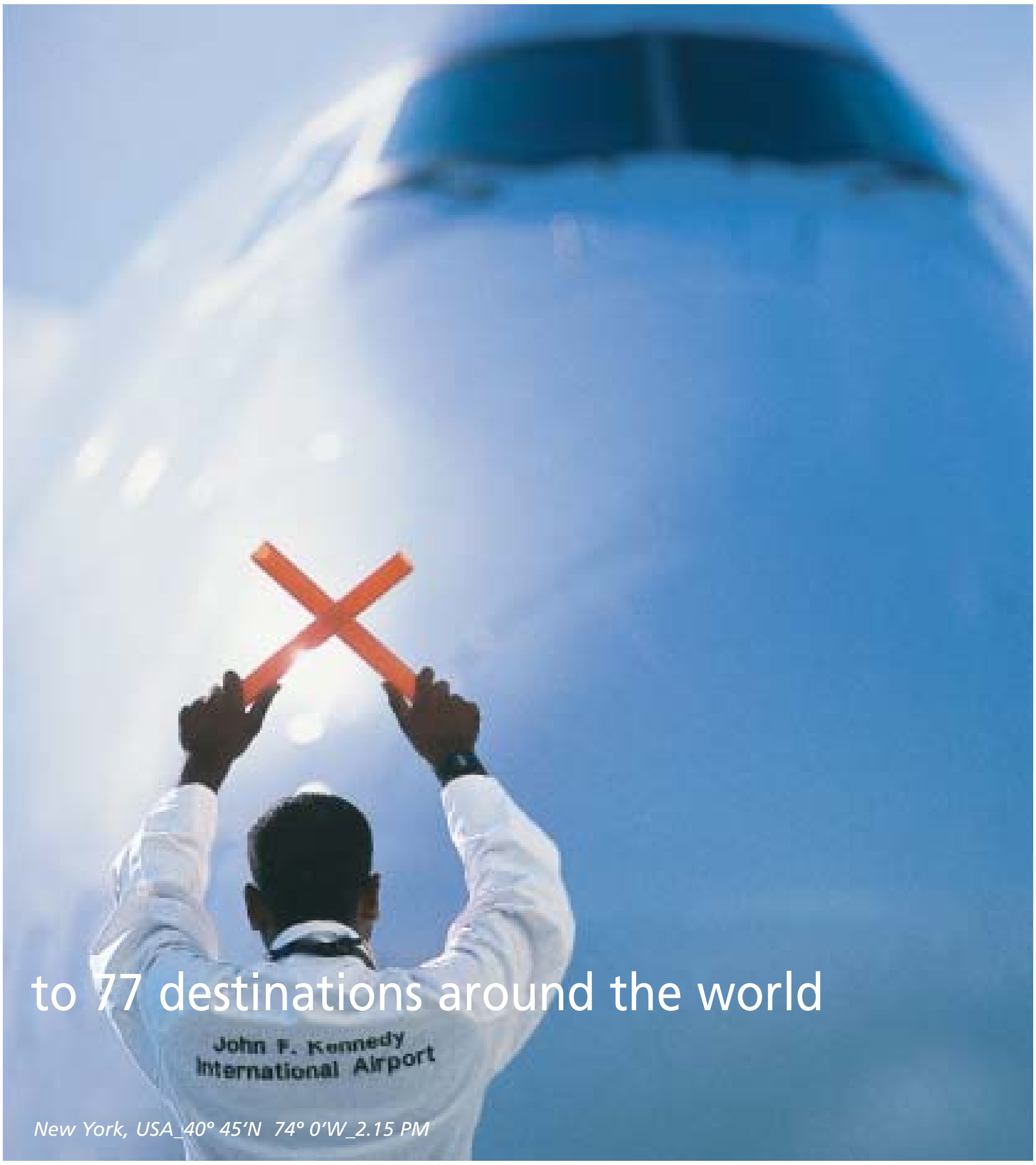
It is a tribute to all our staff and to our management that the company performed so well given the negative circumstances existing in the airline industry.

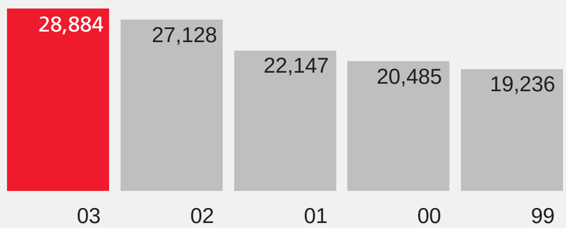
We would like to take this opportunity to thank them for their efforts through another very difficult year.

Qantas employs approximately 34,000 full time equivalent employees, including 2,800 pilots and other flight crew, 6,800 cabin crew and 25,000 ground and administration staff (which includes sales and support, airports, engineering and maintenance, freight and catering). This makes Qantas one of Australia's largest employers.

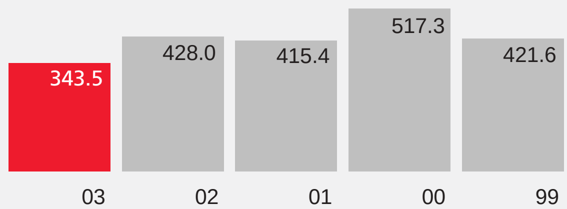
Our people responded magnificently to the bombings in Bali, the bushfires in Canberra and Sydney and numerous other instances where our customers and the community needed assistance during the year (see page 24). This continued a proud tradition of community spirit at Qantas.

Qantas also launched its Family and Life Friendly Strategy during the year, an initiative that includes the provision of on-site




Passengers Carried ('000)




Net Profit Attributable to Members of Company the ($M)

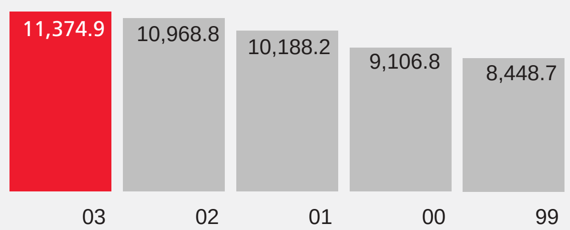
childcare centres and six weeks' paid maternity leave for staff. Our first childcare centre, the Joey Club, opened at Qantas' Sydney headquarters in May 2003.

## OUR RESPONSE TO THIS YEAR'S CRISES

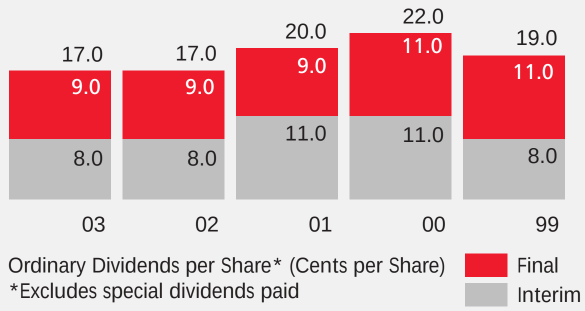
Qantas acted quickly in response to the substantial fall in demand for travel due to the war in Iraq and the outbreak of SARS. Initiatives included:

- reducing planned international flying by up to 20 per cent from April 2003;
- using accumulated leave to reduce staffing numbers by the equivalent of 2,500 full time employees between April and 30 June 2003 and by 1,000 between July and September 2003;
- implementing a restructuring program involving 2,800 positions through redundancies, attrition and the conversion of permanent positions from full time to part time;
- freezing capital and discretionary expenditure;
- retiring some older aircraft and deferring delivery of some new aircraft; and
- introducing a program to reduce planned capital expenditure next year, the 2003/04 financial year, by $1 billion.

These initiatives resulted in a one-off charge of $91 million for the write down of the Boeing 767-200 fleet, which will be retired by the end of the 2003/04 financial year, and were the major reason for a one-off charge of $115 million from redundancies.


Sales and Operating Revenue ($M)




Ordinary Dividends per Share* (Cents per Share)
*Excludes special dividends paid

## OUR STRATEGY

While Qantas is profitable and has performed better than most of its peers in the current environment, it must continue to improve its profitability to create sustainable shareholder value. Only by achieving satisfactory profitability can Qantas continue to invest in new aircraft, product and service initiatives.

A key strategy to attain these objectives is a project called Sustainable Future. Launched in February 2003, the Sustainable Future project aims to reduce operating costs by $1 billion over the next two years.

Qantas is also implementing strategies to maintain its position as the leading Australian domestic carrier and one of the world's premier long haul airlines.

The key elements in achieving these objectives are:

- reducing costs;
- upgrading and expanding the fleet to improve efficiency (see pages 20 and 21);
- maintaining a flexible and diversified network;
- maintaining current alliances and seeking mutually beneficial relationships with other quality airlines (see page 7 and 13);
- improving the profitability of the Qantas Group's non-flying, airline-related businesses (see pages 17 to 19);
- maintaining financial strength; and
- investing in product and customer service initiatives (see pages 8, 9, 11, 12 and 15).


| Year Ended 30 June | | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| Sales and Operating Revenue | $M | **11,374.9** | 10,968.8 | 10,188.2 | 9,106.8 | 8,448.7 |
| Earnings Before Interest and Tax | $M | **567.0** | 679.3 | 695.8 | 874.0 | 762.6 |
| Profit From Ordinary Activities Before Tax | $M | **502.3** | 631.0 | 597.1 | 762.8 | 662.5 |
| Net Profit Attributable to Members of the Company | $M | **343.5** | 428.0 | 415.4 | 517.3 | 421.6 |
| Earnings per Share | cents | **20.0** | 29.1 | 33.0 | 42.8 | 35.4 |
| Ordinary Dividends per Share | cents | **17.0** | 17.0 | 20.0 | 22.0 | 19.0 |
| Passengers Carried | 000 | **28,884** | 27,128 | 22,147 | 20,485 | 19,236 |
| Available Seat Kilometres | M | **99,509** | 95,944 | 92,943 | 85,033 | 81,765 |
| Revenue Passenger Kilometres | M | **77,225** | 75,134 | 70,540 | 64,149 | 59,863 |
| Revenue Seat Factor | % | **77.6** | 78.3 | 75.9 | 75.4 | 73.2 |
| Aircraft in Service at Balance Date | # | **196** | 193 | 178 | 147 | 135 |


A potential mutually beneficial relationship is the proposed strategic alliance with Air New Zealand. This involves Qantas acquiring an equity interest of up to 22.5 per cent in Air New Zealand. The alliance would enable Qantas and Air New Zealand to make better use of their resources, including improved aircraft utilisation and coordination of services, and to compete more effectively in the increasingly tough global aviation industry. The alliance would also deliver significant benefits to the economy and tourism industry in both Australia and New Zealand. At the same time, both national carriers would retain their independence. The alliance is subject to regulatory and other approvals. Qantas and Air New Zealand lodged submissions with the Australian Competition and Consumer Commission and the New Zealand Commerce Commission in December 2002. These authorities are expected to issue their final determinations in late September 2003.

## REORGANISATION

In August 2003, Qantas announced a significant reorganisation of its business that will enable the company to better manage constant change and drive current and future initiatives. This reorganisation involves the establishment of at least eight internal businesses, each with its own management and leadership. These businesses come from three areas:

- flying businesses;
- flying services (Maintenance and Airports); and
- associated businesses (Qantas Catering, Qantas Freight, Qantas Holidays and Qantas Defence Services).

Qantas Catering has been selected as the pilot business segment. Each business will have budgets and profit targets and be required to produce targeted returns on the assets allocated to them and, at the same time, operate to optimise the performance of the whole Qantas Group.

The businesses will be supported by a corporate centre, including a shared services division that will provide information technology, human resources and financial services to each business segment.

This reorganisation will greatly improve the company's performance in all areas, allow us to compete more effectively, protect jobs at Qantas and, importantly, deliver better service to our customers and more fulfilling jobs for our people.

All these strategic initiatives are essential for the long term viability of Qantas, but their implementation will not in any way affect the airline's absolute commitment to operational excellence and safety in everything we do.

## OUR COMMITMENT TO SAFETY AND SECURITY

Safety and security – both in the air and on the ground – are paramount at Qantas and, as Australia's national carrier and largest airline, we take our responsibilities extremely seriously.


*Los Angeles, USA_34° 4'N 118° 15'W_10.30 AM*

On the ground, Qantas has introduced two important programs to enhance workplace safety – SAFE (Safe Airline For Everyone) and People Safe. SAFE has established the processes and structure to systematically manage, record and monitor safety within our business. People Safe has been developed in conjunction with safety consultants DuPont to reinforce safe behaviour and build a work culture that continuously strives to be injury free. Between May 2002 and June 2003, these programs enabled Qantas to halve its Lost Time Injury Frequency Rate.

As for security, Qantas has tripled its expenditure since the events of September 2001. The company spent more than $180 million on security measures during the 2002/03 financial year. Major investments since September 2001 have included:

- replacement and upgrading of all Qantas security screening equipment deployed throughout the network;
- installation of enhanced bullet-proof security cockpit doors on all Qantas jet aircraft, a program that will be completed in November 2003;
- development and implementation of additional security training for all flight and cabin crew;
- development and introduction of additional training for contract screening staff at all ports where Qantas is the screening authority;
- introduction of Explosive Trace Detection (ETD) equipment to inspect and clear baggage of 'failed to board' passengers; and
- introduction of freight screening using ETD, x-ray and physical search procedures.

## INVESTMENT IN AIRCRAFT, PRODUCT AND SERVICE

Qantas is continuing to invest in new aircraft, aircraft enhancements, infrastructure, product and service initiatives to ensure we maintain our reputation as one of the leading airlines in the world. This year's highlights included:

- nine new Boeing 737-800s, four new Boeing 747-400ERs and four new Airbus A330-200s brought into service;
- completion of a $300 million program to fully refurbish the fleet of Boeing 747-400s, including the installation of a new, award-winning inflight entertainment system featuring seat-back videos in Economy Class;
- introduction of a new-look International Economy Class, with improvements offering customers greater choice in inflight service and greater comfort;
- expansion of the successful City*flyer* service to Perth and Canberra; and
- launch of a new uniform for Qantas frontline staff – including pilots, flight attendants and ground staff – created by leading Australian designer, Peter Morrissey.


Qantas also introduced a new international airline to the travelling public, with Australian Airlines operating its first services between Australia and Asia in October 2002 (see page 12).

In September 2003, Qantas will launch its new International Business Class, featuring Skybed – a state-of-the-art, cocoon-style sleeper seat – that will be installed on all of the airline's Boeing 747-400s from September 2003 and seven new Airbus A330-300s that will be delivered between June and December 2004.

The new International Business Class will also offer specially trained, dedicated flight attendants; new food and wine; a new service style; a self-service bar for drinks and snacks; premium quality noise cancellation headsets; and luxury amenity kits.

In addition, First Class customers will see improvements in seat comfort and cabin enhancements including new bathrooms and amenities.

A further $6 billion will be invested in new and more efficient aircraft over the next three years.

## OUR COMMITMENT TO THE COMMUNITY

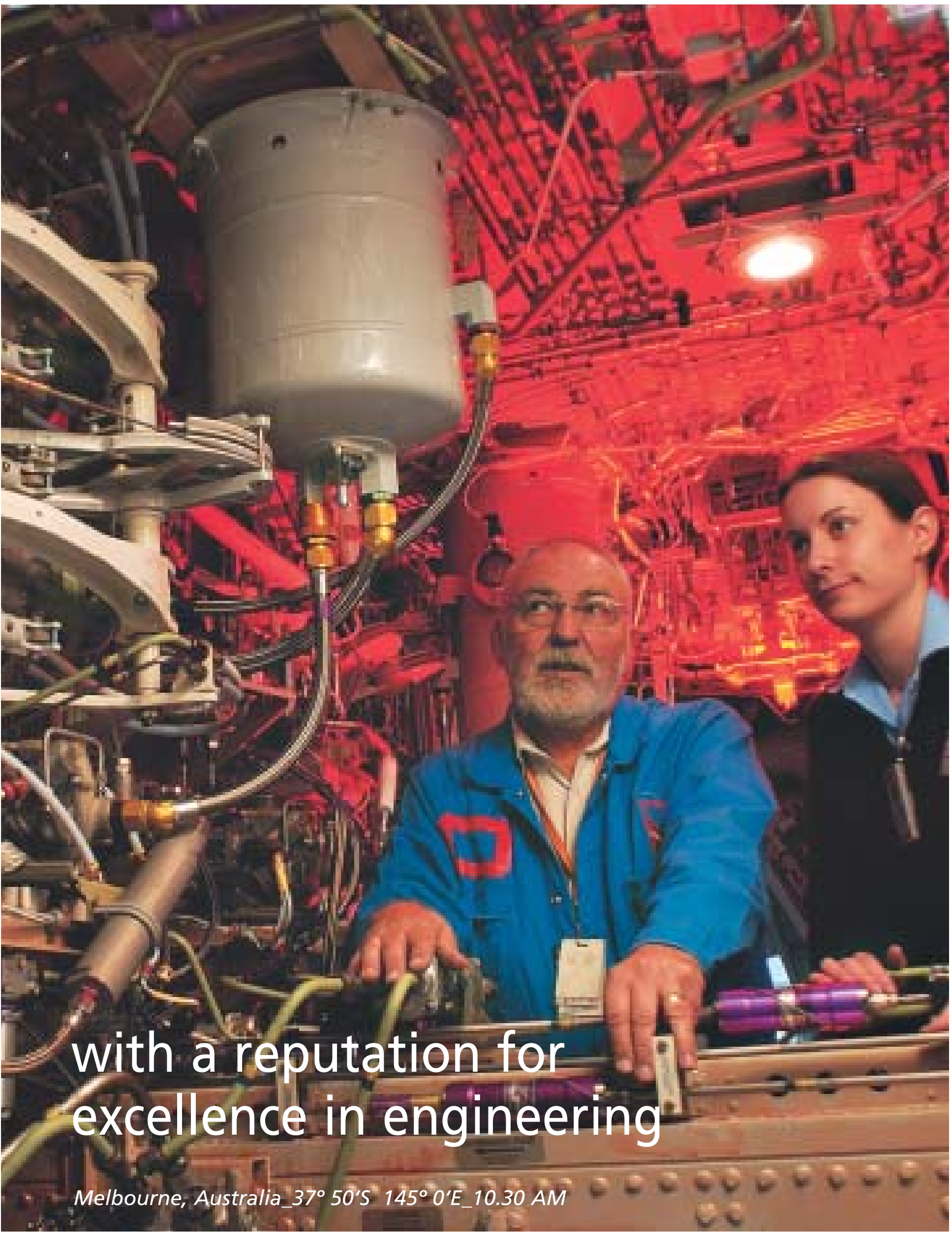
In April 2003, Qantas was awarded the inaugural Queensland Community Foundation Award in recognition of the company's ongoing support of communities in need, with particular mention of Qantas' efforts following the tragic bombings in Bali. Qantas, in partnership with UNICEF Australia, also won the Cultural Events and Community Activities category of *The Australian Financial Review Magazine* Corporate Partnership Awards for its Change for Good program. The company proudly continued its ongoing support of a wide range of community, cultural, arts and sporting events and organisations (see pages 24 and 25).

## OUTLOOK

The hard work on reducing costs and investing in product over a sustained period has provided the platform for Qantas to transition back to satisfactory levels of profitability over the next two to three years. While conditions in the aviation industry remain challenging, Qantas expects to improve on its performance in 2003/04 while continuing to invest in its fleet, product and service.

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

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*Brisbane, Australia_27° 25′S 153° 2′E_2.50 PM*

# Review of Operations and Activities

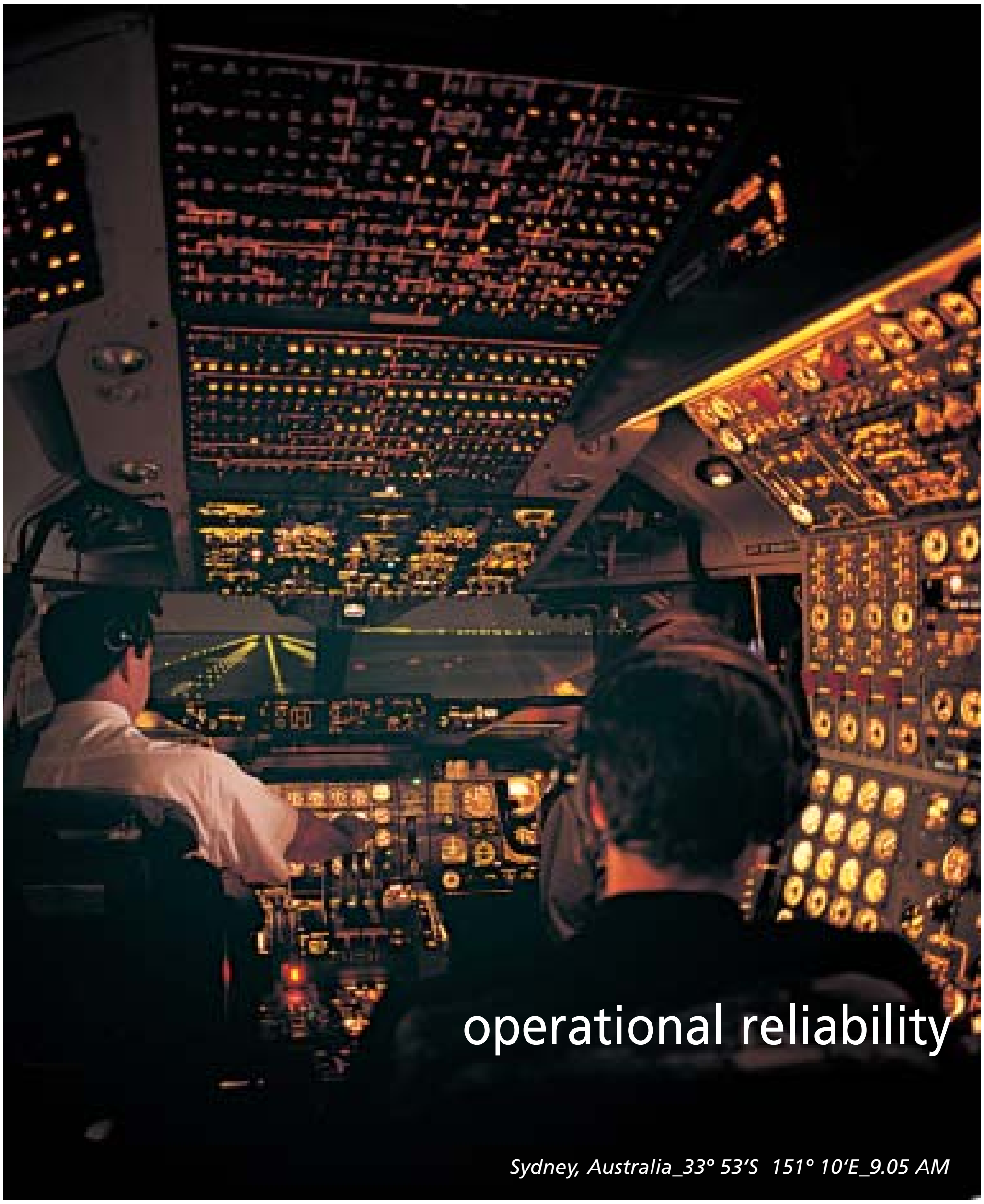
## OUR INTERNATIONAL OPERATIONS

Giovanni Bisignani, Director-General of the International Air Transport Association, said during the year that international aviation had been hit by The Four Horsemen Of The Apocalypse – a world economic slowdown, 9/11, the war in Iraq and SARS.

The international operations of Qantas were not immune from these global forces.

During the first half of the year, demand rebounded following 9/11. However, from January 2003 onwards, the threat of global terrorism, the war in Iraq, and SARS all adversely affected demand for international air travel. Qantas reduced its planned international flying by up to 20 per cent from April 2003 and made the extremely difficult decision to suspend its twice weekly Rome services from September 2003. (Qantas has entered into a codeshare agreement with oneworld partner Cathay Pacific, offering four services a week to Rome via Hong Kong, increasing to five per week from November 2003.)

Earnings before interest and tax for international operations, including Australian Airlines, totalled $206.9 million, up from $202.8 million last year. This includes an EBIT loss of $54.5 million for the second half of the year.


A strength of Qantas lies in its ability to respond quickly to events and changes in demand due to a strategically diversified route network that reduces the airline's exposure to individual markets and allows the quick reallocation or adjustment of capacity.

At the date of this annual report, Qantas' international capacity was about 10 per cent below pre-SARS levels. International capacity is expected to return to pre-SARS levels by the end of the 2003/04 financial year.

There have been some signs of recovery. Services to the United States increased from 25 to 28 per week in July 2003 and will rise to 32 services per week from September 2003. A further increase is planned from November 2003. Qantas also plans to increase United Kingdom services from 19 to the pre-SARS level of 21 per week by November 2003. Qantas is working on a range of marketing initiatives, in conjunction with the Australian Tourist Commission and local tourism bodies, to stimulate travel to Japan and Hong Kong. Capacity on these routes will be increased from November 2003.

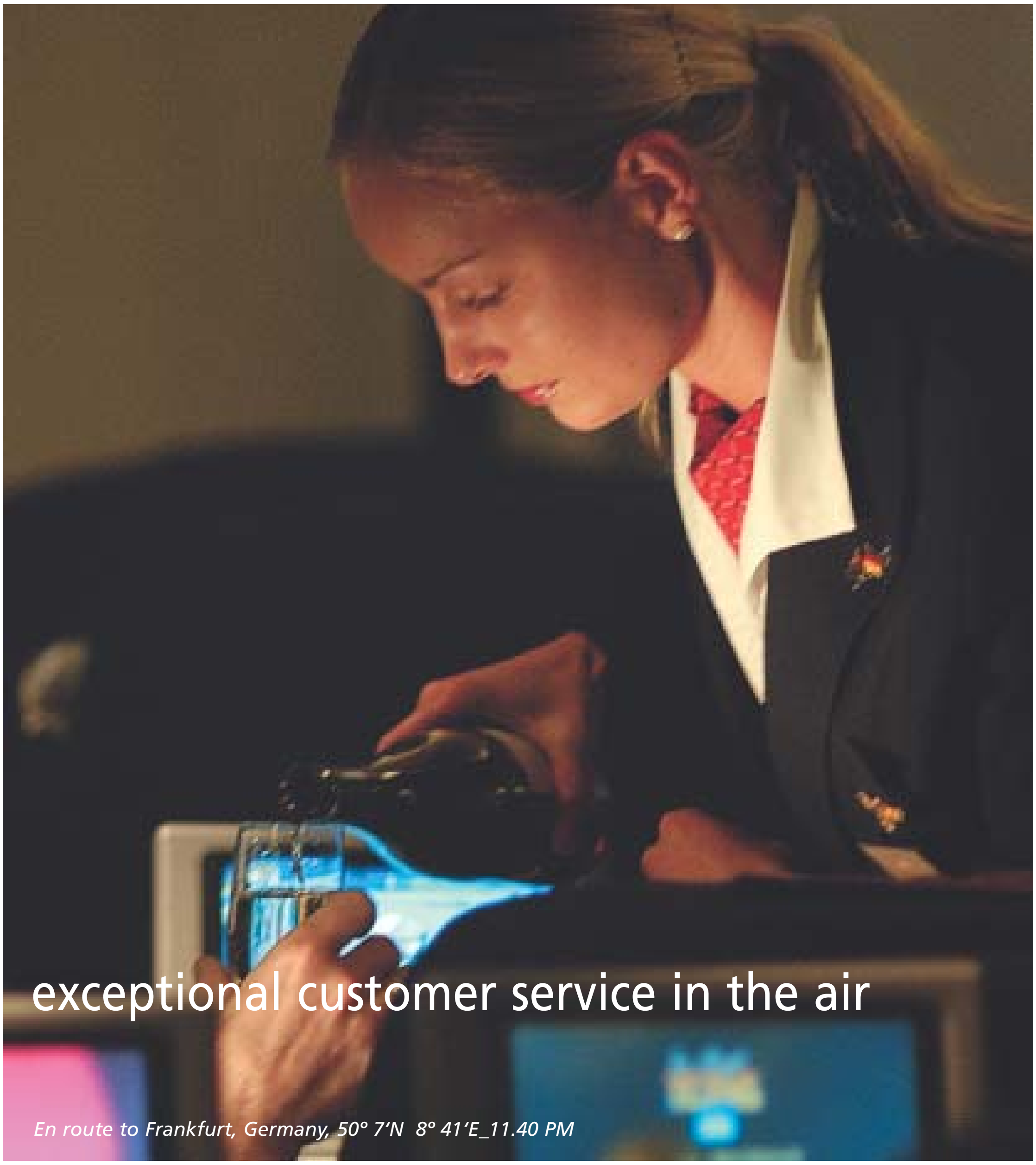
There is no doubt that the international aviation market will remain extremely competitive, with 37 international passenger airlines flying to and from Australia each week.

Qantas' ongoing investment program will see new seating and interiors on nearly all its international aircraft by the end of 2004. The highlight is Skybed – a new, state-of-the-art, cocoon-style sleeper seat, developed with internationally renowned Australian designer Marc Newson to provide the very best levels of comfort, privacy, flexibility and personal space. At two metres reclined, it will be the longest bed in the sky. It features extensive seat adjustment controls; a 26.4 centimetre touch screen with Qantas' award winning, multi-channel inflight entertainment system; privacy screens between seats; a back massage function; and PC power outlets that allow laptop computers to be plugged in without adaptor cables.

Skybed is the centrepiece of a new International Business Class, featuring:

- specially trained, dedicated flight attendants;
- new food and wine;
- a new service style;
- a self-service bar for drinks and snacks;
- premium quality noise cancellation headsets; and
- luxury amenity kits.

This builds on the recent $300 million refurbishment of the airline's fleet of 747-400s, including installation of a new inflight entertainment system offering in-seat videos in Economy Class, larger personal screens and PC power in Business and First Class and in-seat telephones in all classes.



# exceptional customer service in the air

*En route to Frankfurt, Germany, 50° 7′N  8° 41′E_11.40 PM*

In addition, Qantas is:

- refurbishing its six Boeing 747-300s, installing Dreamtime Business Class seats and new seats in Economy, in-seat inflight entertainment, new interiors, enhanced cabin lighting in Business Class and PC power in Business Class that does not require an adaptor;
- opening a new lounge at Los Angeles Airport, following the opening of new international Qantas Club lounges in Sydney, Melbourne, Singapore, Bangkok, and Honolulu;
- introducing a Short Message Service (SMS) system from late September 2003, offering a reply facility that will be a world first; and
- installing a unique LED mood lighting system, the first of its kind in the skies, in First and Business Class on the Boeing 747 fleet. The system offers light schemes that harmonise with cabin activities and time of day to increase customer comfort and relaxation.

Looking further forward, Qantas will take delivery of 12 Airbus A380 aircraft from 2006. These aircraft will revolutionise international air travel and offer even greater personal space and comfort.

## AUSTRALIAN AIRLINES

A new concept in international air travel to and from Australia was launched by Qantas in October 2002, when Australian Airlines made its first flights between Cairns and ports in Japan.

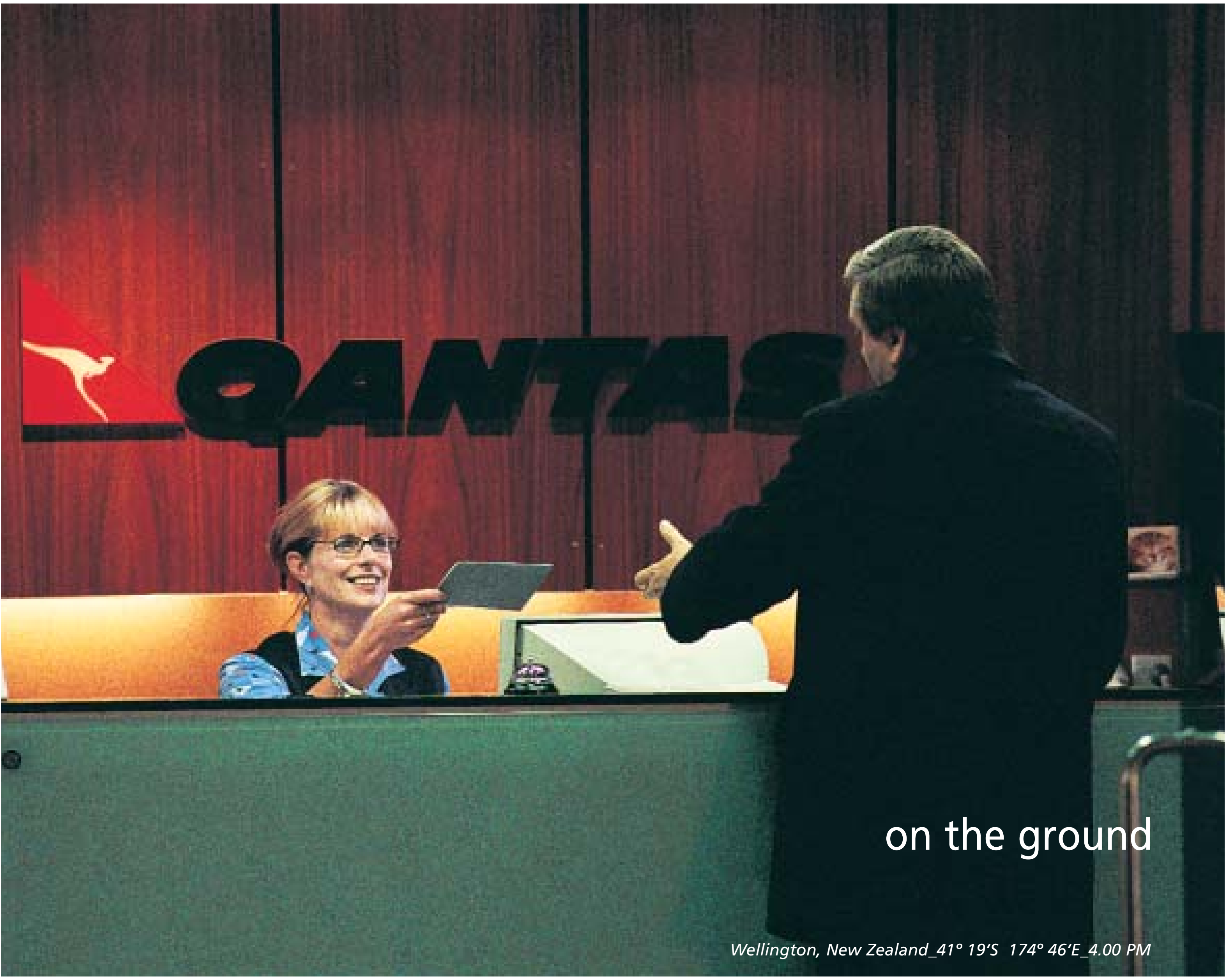
The wholly owned, full-service international leisure carrier has its operational base in Cairns where it services inbound markets with flights from Fukuoka, Osaka and Nagoya in Japan and also from Hong Kong and Singapore.

With a fleet of four all-economy Boeing 767-300 aircraft, and a fifth to be added in November 2003, Australian Airlines employs 300 staff and made a significant contribution to Queensland and Australian tourism during the year.

Australian Airlines was profitable until March 2003, however it recorded a loss for the June quarter due to the impact of the war in Iraq and SARS on international leisure travel in the Asia-Pacific region.

In response to SARS, Australian Airlines reduced some services in the first half of 2003. Frequency levels have now been restored to pre-SARS levels.

In an important development, and as part of its growth strategy, Australian Airlines commenced services from Australia to Bali and Sabah in June 2003. These are the airline's first services out of the south eastern states. Connecting services for international

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travellers also commenced between Cairns and the Gold Coast, and Cairns-Sydney services commenced in July 2003.

## OUR ALLIANCES

Qantas has entered into a number of strategic alliances to create scale and scope for its operations, build stronger feeder traffic, improve fleet utilisation and deliver enhanced customer service, including easier transfers, greater choice and flexibility, increased frequency and increased rewards and recognition for Frequent Flyers.

Qantas is a founding member of the oneworld alliance that features seven other airlines:

- Aer Lingus
- American Airlines
- British Airways
- Cathay Pacific
- Finnair
- Iberia
- LanChile

It also has separate bilateral alliances with British Airways, American Airlines, Japan Airlines and Air Pacific and codeshare arrangements are in place with Air Calin, Air Tahiti Nui, Air Vanuatu, Alaska Airlines, Alitalia, Asiana, China Eastern, EVA Air, Gulf Air, Origin Pacific, Polynesian Airlines, South African Airways and Vietnam Airlines.

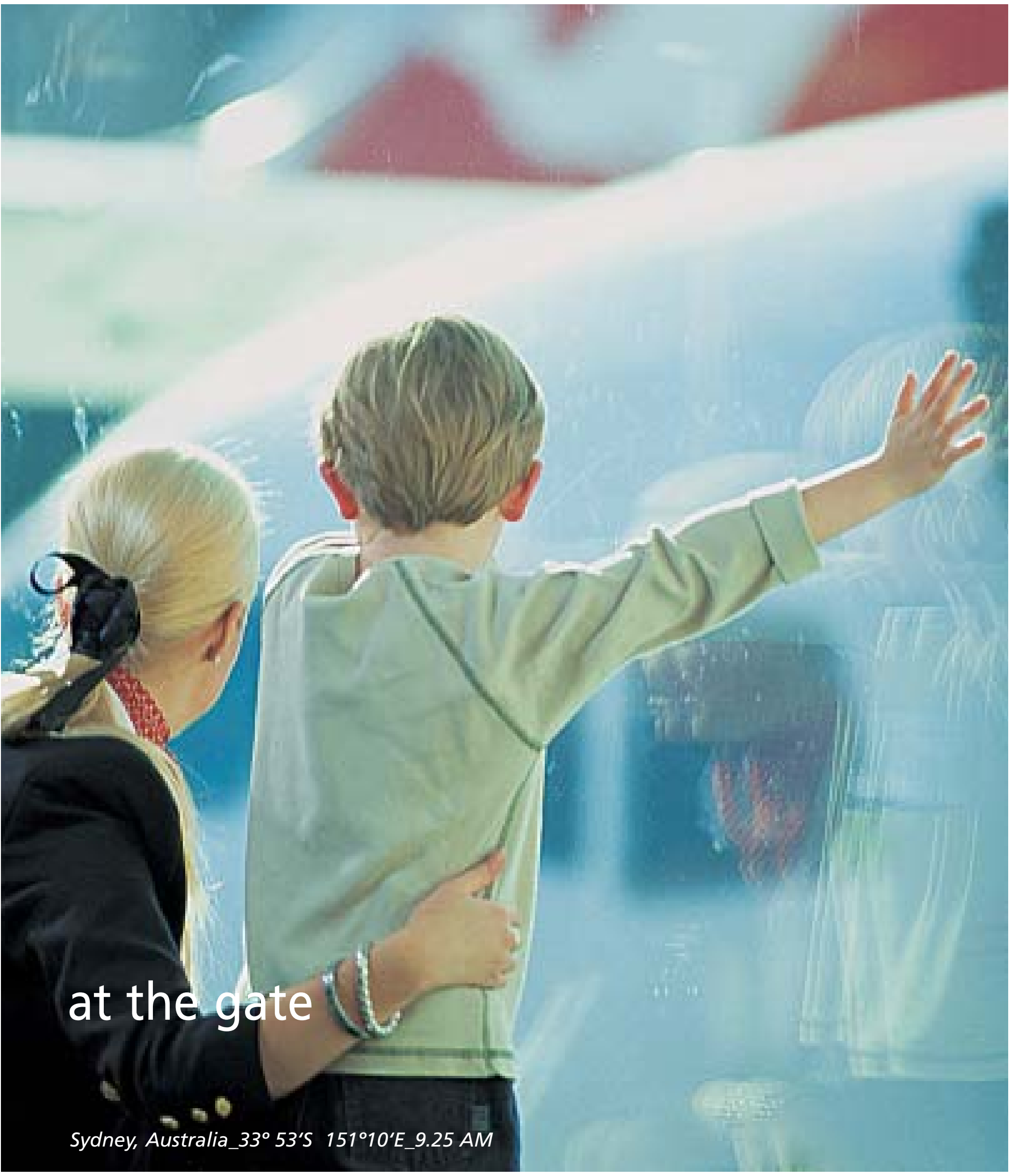
### QANTAS AND BRITISH AIRWAYS

Qantas has a longstanding relationship with British Airways. Under the Joint Services Agreement (JSA), the two airlines engage in full strategic, tactical and operational cooperation on the 42 return services they operate each week between Australia and the United Kingdom. The arrangement also gives Qantas customers access to codeshared flights operated by British Airways across the United Kingdom and Europe.

Qantas and British Airways continued to coordinate sales and marketing activities worldwide and to share all costs and revenues on the JSA routes. This gave both an incentive to further improve the joint business. Additional value was generated with cost savings and revenue cooperation across a range of functions.

Ultimately, the arrangement provides customers with improved flight departure times, routings and competitively priced airfares.

Qantas and British Airways have applied to the Australian Competition and Consumer Commission (ACCC) seeking renewal of the JSA for a further 10 years.




## OUR SUPPORT FOR THE TOURISM INDUSTRY

Qantas continued its strong support for Australian inbound and domestic tourism through its excellent relationships with the Australian Tourist Commission and the various state tourism organisations.

The value of these partnerships has been highlighted by the ongoing challenges facing the aviation and tourism industries.

For example:

- Qantas and other industry partners recently combined to support a $20 million Australian Tourist Commission campaign designed to further stimulate demand for travel to Australia from foreign markets;
- the airline continued its support for the Federal Government's See Australia domestic tourism initiative, which encourages Australians to holiday in their own country; and
- Qantas was again the major sponsor of this year's Australian Tourism Exchange, the largest tourism trade show in the southern hemisphere, and of the incentive travel trade event, Dreamtime 2002, which was held in Alice Springs in September 2002.

This year, Qantas - in conjunction with the Cooperative Research Centre for Sustainable Tourism and the University of NSW - began its sponsorship of the Qantas Professorial Chair in Travel and Tourism Economics. This initiative will drive research into a range of tourism and travel issues, representing an important new contribution to the professional and academic development of the tourism industry.

The airline's ongoing contribution to the tourism industry was recently recognised, with Qantas winning a number of 2003 National Tourism Industry Awards, including Best Airline (International), Best Airline (Domestic) and Best Airline (Regional), as well as a special award for Outstanding Contribution by a Company.

## OUR DOMESTIC OPERATIONS

Qantas' domestic operations were adversely affected by the major global events of the year as nearly 15 per cent of domestic passengers come from inbound international services. While some travellers who had planned to travel internationally switched to local destinations instead, they mostly purchased deeply discounted leisure fares.

Domestic operations, including QantasLink, contributed $223.0 million in earnings before interest and tax for the year, down from $340.7 million last year.


*Sydney, Australia_33° 53'S 151°10'E_3.20 PM*


*Adelaide, Australia_34° 52'S 138° 30'E_7.30 PM*

Qantas is continuing to invest in new, two-class Next Generation Boeing 737-800s for its domestic operations and this fleet has grown to 19 since February 2002.

This is part of a fleet strategy that will increase the commonality and efficiency of both the international and domestic fleets, with:

- four Airbus A330-200s, which currently fly domestically, to move to international operations, together with the seven Airbus A330-300s that will be delivered in the second half of 2004; and
- the Boeing 767-300 fleet, which currently operates internationally, to replace the Airbus A330-200s domestically, operating major domestic routes together with the growing Boeing 737-800 fleet and refurbished Boeing 737-400s.

Overall, Qantas will have a younger domestic fleet offering customers a better product as well as further improving reliability and on-time performance.

Qantas has also overhauled its domestic fare structure in the biggest change to fares since the deregulation of domestic aviation 13 years ago. The new, simpler structure, introduced from June 2003, allows business and leisure travellers to mix and match one way fares to combine affordability and flexibility to better suit their individual travel needs.

It applies to more than 500 city pair combinations across the entire Qantas domestic and QantasLink regional network. The changes also allow customers to make itinerary changes right up to the day before travel for all fares, and right up to departure for flexible fares.

The new domestic fare structure complements significant enhancements to the qantas.com internet site, with a booking engine that has made it faster to book online, and which ensures customers have access to the full range of fares available for their chosen route.

More than 25 per cent of domestic bookings are now made through qantas.com.

Other investments in domestic services and infrastructure included:

- opening of new or upgraded domestic Qantas Club lounges in Sydney, Melbourne, Brisbane, Perth and Adelaide, featuring more seating and more technology to suit the needs of the business traveller. New lounges will also be opened in Townsville, Darwin and the Gold Coast;
- upgrading of meals on all domestic services;
- introduction of self-service QuickCheck kiosks at Sydney, Melbourne, Brisbane and Canberra domestic airports, to streamline the check-in process; and


- expansion of the successful City*flyer* service to Canberra and Perth, and the introduction of a new international style of inflight service for the transcontinental services.

City*flyer* was launched on the Sydney-Melbourne route in July 2001 and was so successful that it has been extended to Brisbane, Adelaide, Canberra and Perth.

City*flyer* streamlines the airport process for business travellers and includes:

- priority departure gates nearest to airport security screening and Qantas Club lounges;
- complimentary newspapers for early morning flights;
- dedicated baggage carousels; and
- free bar service after 4.00pm.

## OUR REGIONAL OPERATIONS

In addition to core domestic airline services, QantasLink operates over 2,500 flights a week across an extensive regional network.

QantasLink employs approximately 1,600 people and has:

- operational bases in Sydney, Melbourne, Brisbane, Hobart, Cairns and Mildura;
- a Dash 8 heavy maintenance facility and administration centre in Tamworth;
- Dash 8 line maintenance facilities in Mildura, Sydney, Brisbane and Melbourne; and
- a Boeing 717 heavy maintenance facility in Newcastle.

During the year, Qantas restructured the management and administration functions of the regional airline group to reduce duplication.

The previously separate management of the two jet airline businesses, Impulse Airlines and Airlink, was consolidated and the operations of Southern Australia Airlines were integrated into Eastern Australia Airlines and Airlink.

QantasLink also completed a major rationalisation of its turboprop fleet to achieve a single turboprop fleet type – the de Havilland Dash 8 aircraft.

New 50-seat Dash 8-Q300s were ordered to increase capacity and frequency on regional routes in NSW, Queensland, Victoria and Tasmania. The use of a common fleet of larger aircraft – following the withdrawal and sale of the Beechcraft 1900 and Shorts 360 fleets – has delivered an enhanced inflight experience for regional customers and efficiency savings for the airline.

QantasLink was successful in winning a five year tender from the Queensland Government to operate air services on regulated routes to Weipa, Horn Island, Longreach, Barcaldine, Blackall, Roma and Charleville.



QantasLink continued to develop relationships with a number of other regional airlines during the year. These partnerships extend the regional network available to Qantas customers and give customers of partner airlines access to a range of benefits including bookings via the Qantas global distribution system, seamless through check-in to and from the Qantas network and participation in the Qantas Frequent Flyer program. In turn, these relationships support the growth and viability of smaller operators, who play a vital role in the provision of air services to rural and regional Australia.

QantasLink also strengthened its support for a wide range of rural and regional events and organisations, including the extension of its sponsorship of the QantasLink Newcastle Knights, the development of a new relationship with Landcare Australia, and ongoing support for communities, charities, schools and sporting groups in regional Australia.

## QANTAS FREIGHT

Qantas has been carrying freight since the airline's inaugural service in November 1922 and uplifting international airmail since the airline's first international flight between Darwin and Singapore in February 1935.

Employing approximately 700 staff across the network, Qantas Freight offers a varied and flexible range of services in the carriage of cargo, mail and express items on all international sectors. Domestic freight is marketed by Australian air Express, a 50 per cent joint venture with Australia Post. Australian air Express is the largest express freight company in Australia.

Qantas Freight also has an arrangement to access freight capacity on certain routes flown by dedicated freighter operators and provides its own customs brokerage service to process customs clearance. It has handling facilities at all major Australian airports, including a dedicated express and mail handling unit in Sydney.

Qantas Freight is an industry leader in e-commerce, with the majority of bookings now made online, and a range of services on hand to provide fast and easy access to accurate information on worldwide freight movements around the clock.

During the year, Qantas Freight joined three key Asia-Pacific air freight carriers in expanding their e-business capabilities by forming a new Internet-based cargo portal – ezycargo.com. The initiative has the potential for global expansion with partnerships with other carriers.

*Melbourne, Australia_37° 50'S  145° 0'E_10.55 AM*


## QANTAS CATERING

Qantas Flight Catering Holdings Limited (QFCH) is a wholly owned subsidiary of Qantas and operates two catering businesses – Qantas Flight Catering Limited (QFCL) and Caterair Airport Services Proprietary Limited (Caterair).

QFCL has catering centres in five Australian ports - Sydney, Melbourne, Brisbane, Adelaide and Perth. Caterair has catering centres in Cairns and Sydney and is a joint venture which is fully managed by QFCH. The businesses employ more than 3,800 people.

Qantas Catering's earnings before interest and tax improved by $3.7 million, or 5.3 per cent, to $73.3 million, with overall meals produced increasing by 4.5 per cent and flights handled increasing by 6.6 per cent.

During the year, QFCL and Caterair produced nearly 40 million meals for Qantas and over 30 external customers including airline, rail and hospital clients.

Snap Fresh, another wholly owned Qantas subsidiary and Australia's first centralised meal production facility for the airline industry, marked its first anniversary of operation in February 2003.

Snap Fresh product has been developed specially for Qantas, with more than 130,000 meals produced each week. Snap Fresh also began servicing its first external airline customers in 2002/03.

A key strategy for Snap Fresh is to break into new business areas, and specifically non-airline markets such as the hospitality, health care and mining industries.

## QANTAS HOLIDAYS

QH Tours, trading under the brands Qantas Holidays and Viva! Holidays, continues to be Australia's leading wholesaler of domestic and international holidays. The business employs more than 1,100 staff in Australia and overseas. In addition to its Australian operations, QH Tours is established globally through its subsidiary companies in Asia and Europe.

Within Australia, Qantas Holidays and Viva! Holidays market travel packages and products in a number of ways, including via 34 brochures covering a wide range of destinations in Australia, Asia, Africa, Europe, the Pacific, Canada and the United States.

A recent initiative involved Qantas Holidays launching an online consumer booking engine for domestic accommodation bookings and access to brochures.

This increase in Qantas Holidays' online presence was accompanied by the redesign of the Industry Sales Site for travel agents.

In 2002/03, QH Tours increased earnings before interest and tax by 2.8 per cent to $43.6 million, primarily due to stronger domestic demand. Overall, domestic and international sales increased slightly, in spite of the international outbound market


*Perth, Australia_31° 57'S 115° 52'E_11.10 AM*

suffering from the effects of the Bali bombings, the ongoing threat of terrorism, the war in Iraq and SARS.

Qantas Holidays is working closely with the new international carrier Australian Airlines to market and sell holiday packages to the airline's outbound destinations of Bali and Sabah.

Qantas Holidays was also recently recognised for its contribution to the Australian travel industry, when it was jointly named Best Wholesaler (National) at the 2003 National Tourism Industry Awards.

## OUR ENGINEERING AND MAINTENANCE OPERATIONS

As one of the largest aircraft engineering and maintenance facilities in the Asia Pacific region, Qantas Engineering Technical Operations and Maintenance Services (ETOMS) is effectively a multi-million dollar business operation which has established an international reputation for excellence.

The ETOMS Division employs nearly 6,000 employees at major maintenance facilities in Sydney and Melbourne and at line stations around Australia and at several overseas locations, providing a comprehensive range of engineering, maintenance, inventory, training and support services for aircraft, engines and components.

Sydney facilities are responsible for maintaining the airline's wide-body Boeing aircraft and large fan engines. The Melbourne facility caters for the narrow-body Boeing fleet.

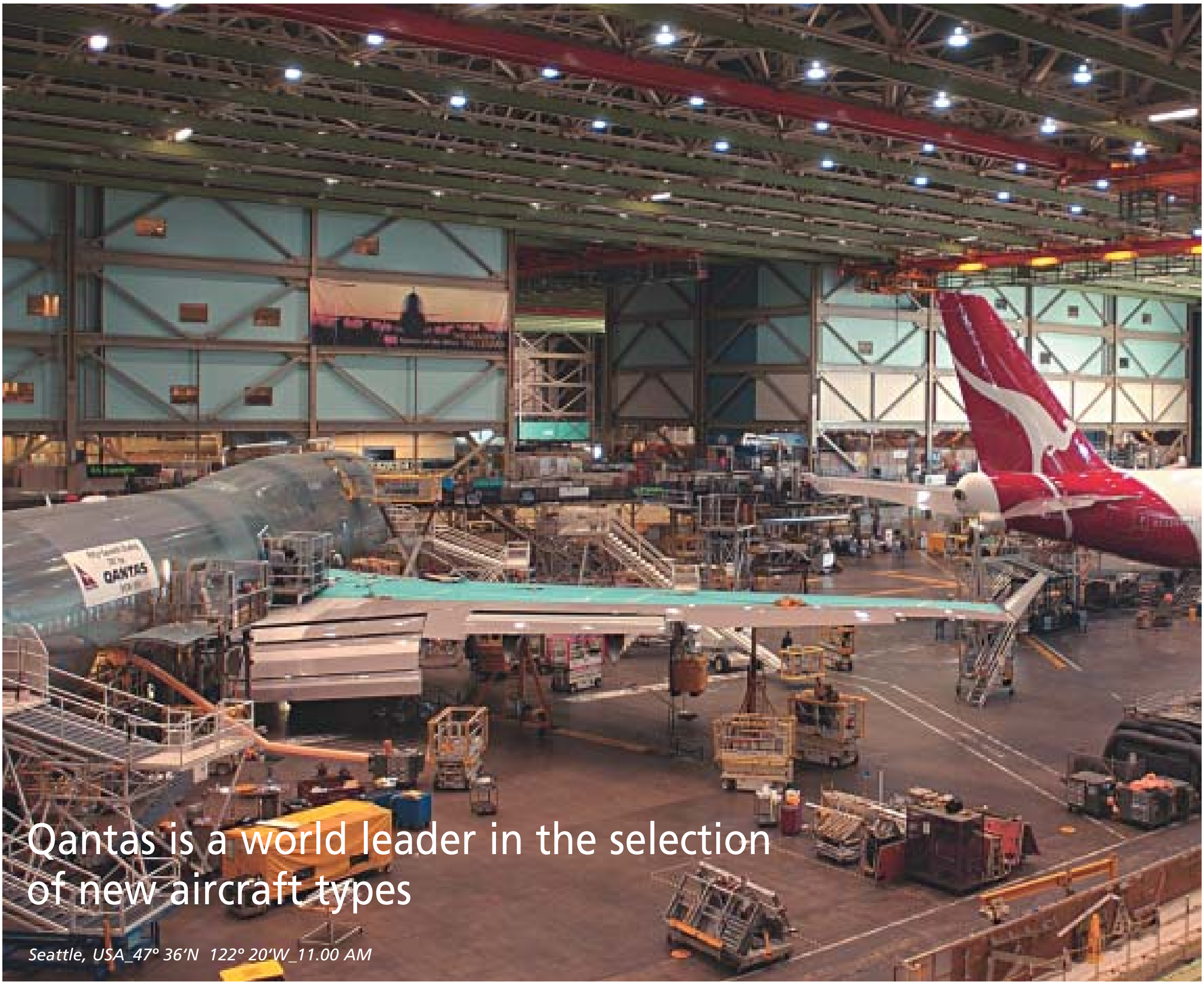
Qantas' continuing investment in engineering and maintenance infrastructure is highlighted by its decision to establish a Boeing 767 major maintenance hangar in Brisbane in 2004. The new facility will be capable of maintaining aircraft up to Boeing 747 size and will cater for growth of the Qantas fleet.

Line maintenance hangars were also acquired in Brisbane and Adelaide over the last year to support future fleet growth.

Qantas' engineering and maintenance is currently in the advanced stages of planning to provide future maintenance support for new aircraft, engine and component types, and the division continued to undertake a significant amount of business for third parties.

Qantas is also continuing to invest in engineering and maintenance training. During the year, Qantas announced the expansion of its 2003 apprenticeship program, seeking applications for at least an additional 70 aircraft maintenance apprentices to be based in Sydney. These were in addition to 170 apprenticeships that had already been offered in Sydney and Melbourne. Nearly 500 apprentices are currently employed.

As the fleet expands with new types of aircraft and engines, Qantas' commitment to an ongoing apprenticeship program is integral to the core business objective of ensuring the fleet is maintained to the highest standards of reliability and safety. Apprentices will also be based in Brisbane at the new Boeing 767 maintenance base.




*Seattle, USA_47° 36’N 122° 20’W_11.00 AM*

## OUR FLEET

Qantas continues to be a world leader in the selection of new aircraft types.

At 30 June 2003, the Qantas fleet totalled 196 aircraft.

During the year, 17 aircraft entered service:

- nine Boeing 737-800s
- four Boeing 747-400ERs
- four Airbus A330-200s

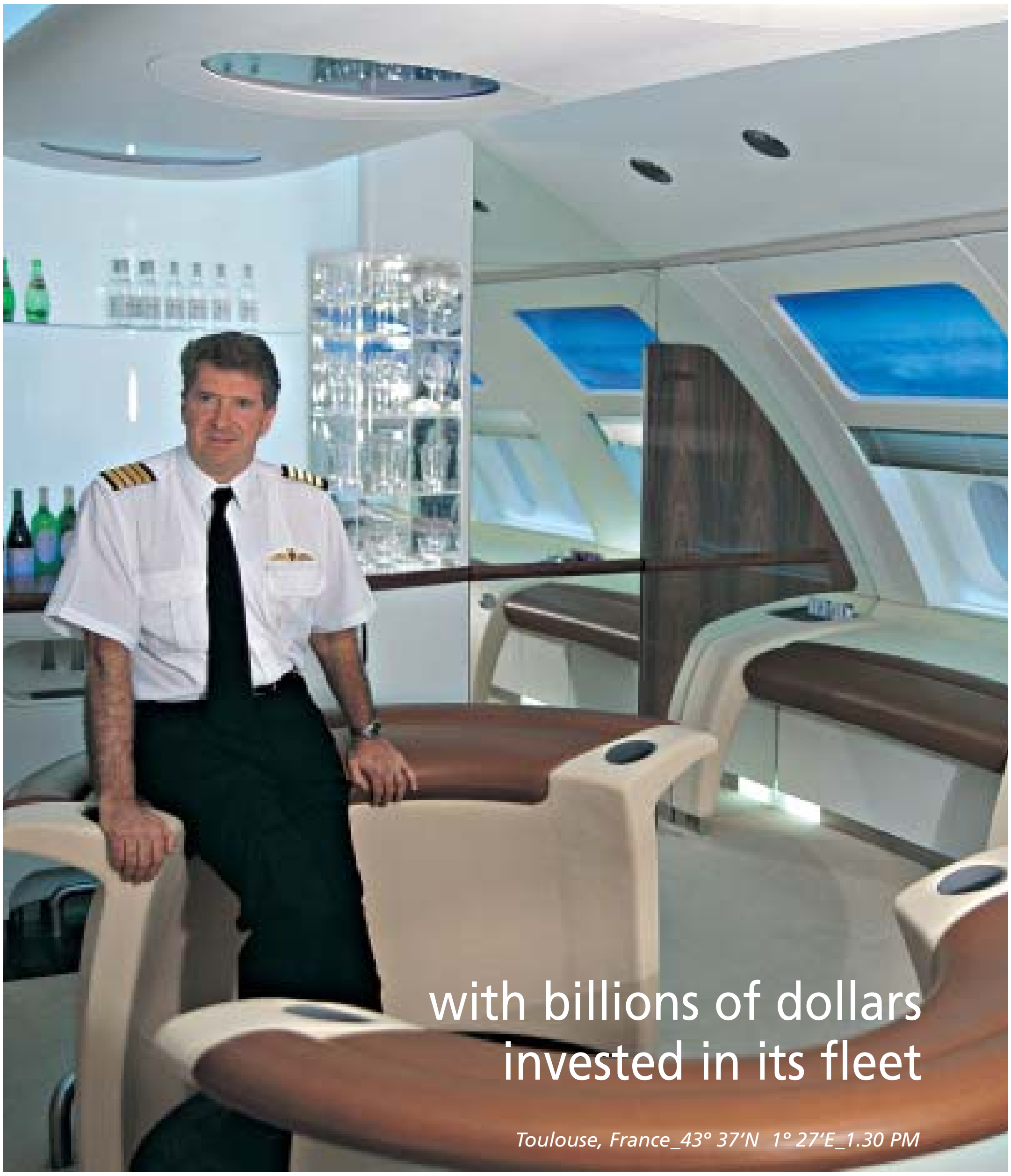
Highlights of the year included:

- delivery to Qantas of the world’s first passenger Boeing 747-400ER aircraft. At the date of this annual report, Qantas has a fleet of six 747-400ERs, providing capacity to meet passenger growth on international long haul routes and, importantly, allowing Qantas to operate trans-Pacific and European routes with fewer payload restrictions;
- delivery of the first Qantas Airbus aircraft, an A330-200, in December 2002. Qantas now has four A330-200s in service and the A330 fleet will increase to 13 over the next three years. The Airbus A330 offers the flexibility to meet changing requirements in both domestic and international markets as well as a wider and more spacious cabin;
- the aviation milestone achieved in the delivery of the second Airbus A330-200 to join the Qantas fleet, when the aircraft flew non-stop for 20 hours and over almost 17,000 kilometres between Toulouse and Melbourne;
- donation of a retired Boeing 747-200 to the Qantas Founders’ Outback Museum in Longreach where it now holds pride of place as a major local tourist attraction;
- announcement that the fleet of seven Boeing 767-200 aircraft would be progressively retired between June 2003 and September 2004; and
- return of two BAe146 aircraft at the expiry of their lease terms in November 2002.

Looking forward, a great deal of work is being done in preparation for the deliver of the first Qantas Airbus A380 in 2006.

The A380 will offer customers greater personal space and comfort while achieving increased payload capability, operational benefits and reduced aircraft operating costs.

The A380 will accommodate up to 555 passengers in a standard three class configuration, compared to 416 passengers on the Boeing 747-400ER which is currently used on similar routes. The larger payload of the A380 will provide greater opportunities to expand capacity at slot constrained airports around the world.



with billions of dollars invested in its fleet

*Toulouse, France_43° 37'N 1° 27'E_1.30 PM*

## OPERATIONAL AIRCRAFT FLEET (as at 30 June 2003)*

| Aircraft Type | Owned, HP & Finance Leases | Other Operating Leases | Total in Service |
|---|---|---|---|
| Boeing 747-400 | 18 | 6 | 24 |
| Boeing 747-400ER | 4 | – | 4 |
| Boeing 747-300 | 6 | – | 6 |
| Boeing 767-300ER | 17 | 12 | 29 |
| Boeing 767-200ER | 6 | – | 6 |
| Boeing 737-800 | 18 | – | 18 |
| Boeing 737-400 | 21 | 1 | 22 |
| Boeing 737-300 | 17 | 4 | 21 |
| Boeing 717-200 | – | 14 | 14 |
| Airbus A330-200 | 4 | – | 4 |
| British Aerospace 146 | – | 15 | 15 |
| de Havilland Dash 8 | 29 | 4 | 33 |
| **Total Qantas Fleet** | **140** | **56** | **196** |

* includes 4 x Boeing 767-300ERs operated by Qantas subsidiary Australian Airlines

Between 30 June 2003 and the date of this annual report, an additional two Boeing 747-400ERs, one Boeing 737-800 and two de Havilland Dash 8-Q300s have joined the fleet


Qantas is the world's second-oldest airline

*Avalon Air Show, Avalon, Australia_38° 2'S 144° 25'E_2.30 PM*

## INFORMATION TECHNOLOGY

As part of the drive to reduce business costs, Qantas established and then embarked on a computer operations, network and telecommunications strategy designed to contain operating expenditure and reduce IT unit costs.

The strategy includes a specific focus on investment in programs designed to enable business change and the need to simplify technology infrastructure by retiring high cost components and looking to outsource commodity services to managed service providers where possible and practical.

During the year, two important IT projects were implemented:

- the eQ Program, which provides Qantas with new human resources, finance, payroll, purchasing and customer systems to help increase productivity and efficiency. eQ uses a managed service model that involves Qantas staff working closely with IBM Global Services Australia (which is providing infrastructure and hosting services), IBM Business Consulting Services (which is leading implementation activities) and Oracle Corporation (which is delivering application and technical platforms); and
- in November 2002 Qantas also completed the first major phase of the Triton Program which involved the successful transfer of all airline reservations processing to strategic partner Amadeus.

## THE ENVIRONMENT

Qantas remained committed to continual improvement in environmental performance by planning and managing operations in a manner that minimises effects on the environment.

In 2002/03 the airline focused particularly on waste management, resource use efficiency, aircraft noise and fuel emissions, with Environmental Management Plans developed by local environment committees to address environmental issues at major operational sites.

Resource management projects resulted in increased energy and water efficiency at ground facilities, with innovative work undertaken in energy management recognised through the Energy Smart Awards of the NSW Sustainable Energy Development Authority.

Qantas also continued to expand recycling programs, with the Starlight Foundation, the Australian Cranio Maxillo Facial Foundation in Adelaide and Brisbane's Royal Children's Hospital the beneficiaries of the proceeds of an aluminium can recovery program.



Qantas will continue to pursue environmental performance improvements through fleet planning, working with relevant government and community groups, implementing online environmental training for staff and developing further waste management initiatives.

## MANAGING OUR RISKS

### FOREIGN CURRENCY RISK

Qantas is exposed to foreign exchange rate fluctuations on the Australian dollar value of foreign currency denominated revenues and expenses. Qantas earns revenues in approximately 80 countries. The foreign currency costs of Qantas are primarily denominated in US dollars and relate largely to fuel, engineering and maintenance, landing fees, air navigation charges and lease rentals. Although Qantas has expenditures in many foreign currencies other than US dollars, revenues earned in those currencies generally offset or exceed this expenditure.

Qantas is also exposed to foreign exchange risk on the residual value of its aircraft, its foreign currency borrowings and on a large proportion of its capital expenditure as its aircraft are purchased in US dollars. Qantas seeks to mitigate its foreign currency exposures by using a variety of long term and short term hedging instruments in accordance with the company's risk management policies.

### CREDIT RISK

Credit risk arises primarily from financial instruments and security deposits entered into as part of long term aircraft financing structures and long term and short term hedging and investment activities. Credit exposure is measured as the cost of replacing existing transactions should a counterparty default.

Our risk management policies restrict our dealings with financial institutions to those with certain minimum credit ratings and limit the maximum exposure to any one counterparty. Movements outside these guidelines must be approved by the Board.

### INCREASES IN FUEL COSTS

Fuel costs are a significant portion of the operating expenses of an airline. Fuel prices continue to be susceptible to a number of factors, including international political and economic circumstances, such as the war in Iraq. Qantas cannot control near or long term fuel prices or the events that affect fuel prices. In accordance with its risk management policies, Qantas uses options and swaps on aviation fuel and crude oil to hedge its exposure to movements in the price of aviation fuel.

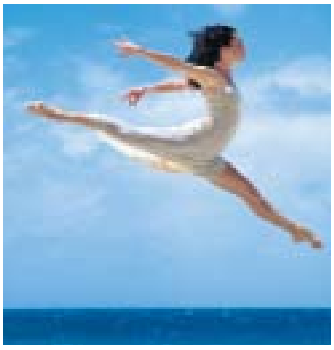

UNICEF


Pathfinders


Qantas Cabin Crew Team


Bangarra Dance Company


Australian Youth Orchestra


Sydney Dance Company


Soccer Australia


Australian Swimming


Australian Cricket Board


Australian Rugby Union

# and of course, supporting the community!

## OUR COMMITMENT TO THE COMMUNITY

In a difficult operating environment, Qantas continued with its commitment to the highest standards of corporate social responsibility. During the year, Qantas acted quickly to assist customers and other Australians in need on numerous occasions. The airline is a proud financial and hands on supporter of a wide range of community, arts and sporting organisations, in keeping with the company's concern for the communities it serves and in which it operates.

In April 2003, Qantas was awarded the inaugural Queensland Community Foundation Award in recognition of the company's ongoing support of communities in need, with particular mention of Qantas' efforts following the tragic bombings in Bali.

Qantas responded to the Bali bombings by carrying more than 4,500 people from Bali to Australia (including many people with tickets to travel on other airlines); scheduling nine special evacuation flights in addition to regular scheduled services; sending two Qantas doctors and three Qantas nurses to Denpasar to provide medical assistance; carrying 16 medical specialists from Emergency Management Australia to Bali; carrying medical supplies to Bali; and working with the Department of Foreign Affairs and Trade on the repatriation of victims' remains.

Following the devastating bushfires which hit Canberra and Sydney over the summer, Qantas transported firefighters to areas in need, offered free domestic seats to Canberra residents who had lost their homes to the fires and needed to relocate to other Australian cities, positioned extra staff from Sydney to Canberra to assist at the airport and to relieve Qantas staff who had lost or were defending their own homes and offered support groups working with affected people Qantas blankets and free meals.

In partnership with UNICEF Australia, the airline received national recognition for the Change for Good program, winning the Cultural Events and Community Activities category of *The Australian Financial Review* Magazine Corporate Partnership Awards. With the program now in its 12th year, Qantas was the first airline in the world to implement the initiative which has raised more than $8.6 million since 1991 for UNICEF programs that help disadvantaged children around the world. The program has also been adopted by Qantas' oneworld partner airlines as their global charity, with US$37.4 million raised to date.

Through groups such as Pathfinders and the Qantas Cabin Crew Team, Qantas staff continued to raise significant funds for a range of causes.

Qantas also continued its strong track record in Indigenous employment. The airline has had an Aboriginal and Torres Strait Islander employment and training program in place since 1988 and currently employees 213 Aboriginal and Torres Strait Islander people across all areas of operation. The program aims to increase this number to 240 by next year.

This commitment to creating employment opportunities for Indigenous Australians was strengthened by Qantas' participation in the Federal Government's Corporate

Leukemia Foundation


CARE Australia


Mission Australia


Spinal Injury Research

Australian Formula One Grand Prix


Starlight Tennis Cup


National Rugby League


75th Anniversary Re-enactment of the first trans-Pacific Flight


Landcare Australia


Clean Up Australia

Leaders for Indigenous Employment program which aims to generate more jobs in the private sector for Indigenous people.

In the sporting arena, October 2002 saw Qantas and British Airways confirmed as the Official Airlines of the world's third largest sporting event - Rugby World Cup 2003. This is Qantas' biggest ever sponsorship commitment which includes flying players, officials and tens of thousands of fans to Australia.

Qantas became synonymous with the future of Australian soccer in January 2003, when it became naming rights sponsor of all of the country's national soccer teams. This long term investment in Soccer Australia builds on a partnership that has been in place for many years.

QantasLink also worked with the National Rugby League to implement the highly successful QantasLink Rugby League Clinic, an initiative that took star country-born players back to their home towns to encourage local children to take up the game at the grass roots level.

The events, activities and organisations supported by Qantas include:

### COMMUNITY ORGANISATIONS

- Bobby Goldsmith Foundation
- Brain Foundation
- Canteen
- CARE Australia
- Clean Up Australia
- Foodbank Australia
- Garvan Institute
- Juvenile Diabetes Foundation
- Landcare Australia
- National Breast Cancer Foundation
- Prime Minister's Disability Awards
- Starlight Children's Foundation of Australia
- Taronga Park Zoo
- UNICEF
- World Vision Australia

### THE ARTS

- Australia Business Arts Foundation
- Australian Ballet
- Australian Brandenburg Orchestra
- Australian Chamber Orchestra
- Australian Youth Orchestra
- Bangarra Dance Company
- Bell Shakespeare Company
- Opera Australia
- Sydney Dance Company
- Tropfest

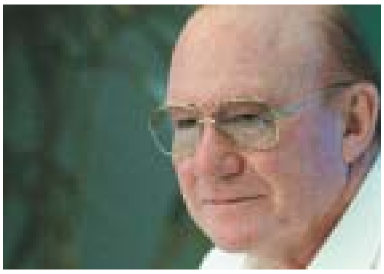
### SPORT

- Arafura Games
- Athletics Australia
- Australian Basketball
- Australian Cricket Board
- Australian Football League
- Australian Formula One Grand Prix
- Australian Olympic Committee
- Australian Rugby Union
- Australian Swimming
- IndyCar Grand Prix
- National Aboriginal Sports Corporation
- National Rugby League
- Netball Australia
- Rally Australia
- Royal Life Saving Society of Australia
- Soccer Australia
- Special Olympics Australia
- Sport Australia Hall of Fame
- Tennis Australia

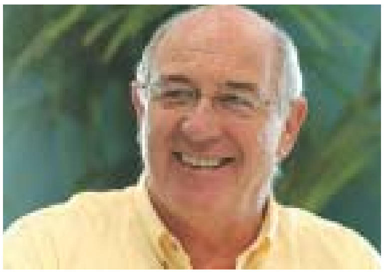
**Margaret Jackson, AC**
Chairman

**Geoff Dixon**
Chief Executive Officer

**Peter Gregg**
Chief Financial Officer



**Jim Kennedy, AO, CBE**
Non-Executive Director



**Trevor Kennedy, AM**
Non-Executive Director

# Board of Directors

## MARGARET JACKSON, AC
Chairman, Age 50

- Appointed to the Board in July 1992 and as Chairman in August 2000
- Chairperson of Methodist Ladies College, Melbourne
- Director of Australia and New Zealand Banking Group Limited, Billabong International Limited and John Fairfax Holdings Limited
- Fellow of the Institute of Chartered Accountants in Australia
- Member of the Business Council of Australia Chairman's Panel
- Council Member of the Asialink Centre

## GEOFF DIXON
Chief Executive Officer, Age 63

- Appointed to the Board in August 2000 and as Chief Executive Officer in March 2001
- Member of the Safety, Environment & Security Committee and Chairman of a number of controlled entities of Qantas
- Director of Leighton Holdings Limited and Air Pacific Limited
- Member of the International Marketing Institute of Australia
- Member of the Boards of Mission Australia and the Starlight Foundation

## PETER GREGG
Chief Financial Officer, Age 48

- Appointed to the Board in September 2000
- Director of a number of controlled entities of Qantas
- Director of Air Pacific Limited
- Fellow of the Finance & Treasury Association
- Member of the Australian Institute of Company Directors

## JIM KENNEDY, AO, CBE
Non-Executive Director, Age 69

- Appointed to the Board in October 1995
- Chairman of the Audit Committee
- Member of the Chairman's Committee
- Deputy Chairman of GWA International Limited
- Director of the Australian Stock Exchange Limited, Macquarie Goodman Funds Management Limited and Suncorp-Metway Limited
- Member of the Advisory Board of Blake Dawson Waldron

## TREVOR KENNEDY, AM
Non-Executive Director, Age 61

- Appointed to the Board in April 1994
- Director of Qantas Superannuation Limited
- Chairman of Oil Search Limited and Cypress Lakes Group Limited
- Deputy Chairman of CTI Logistics Limited
- Director of several other public and private companies including Downer EDI Limited, FTR Holdings Limited and RG Capital Radio Limited

**Paul Anderson**
Non-Executive Director

**Mike Codd, AC**
Non-Executive Director

**Trevor Eastwood, AM**
Non-Executive Director

**Roger Maynard**
Non-Executive Director

**Dr John Schubert**
Non-Executive Director

**Nick Tait, OBE**
Non-Executive Director

## PAUL ANDERSON
Non-Executive Director, Age 58

- Appointed to the Board in September 2002
- Non-Executive Director of US-based Temple-Inland Inc and Fluor Corporation
- Member of the Board and Vice President of the Business Council of Australia
- Global Counsellor for The Conference Board

## MIKE CODD, AC
Non-Executive Director, Age 63

- Appointed to the Board in January 1992
- Chairman of the Safety, Environment & Security Committee
- Member of the Audit Committee
- Chancellor, University of Wollongong
- Chairman of National Australia Asset Management Limited and National Corporate Investment Services Limited
- Director of National Wealth Management Holdings Limited, National Australia Financial Management Limited, National Australia Fund Management Limited, MLC Limited, MLC Investments Limited and Toogoolawa Consulting Pty Limited
- Member of the Advisory Boards of Spencer Stuart and Blake Dawson Waldron

## TREVOR EASTWOOD, AM
Non-Executive Director, Age 61

- Appointed to the Board in October 1995
- Member of the Audit Committee and the Chairman's Committee
- Chairman of Wesfarmers Limited
- Fellow of Curtin University, the Australian Institute of Management and the Australian Institute of Company Directors

## ROGER MAYNARD
Non-Executive Director, Age 60

- Appointed to the Board by British Airways Plc in March 1993
- Member of the Audit Committee
- Director of Investments and Alliances for British Airways Plc
- Chairman of British Airways Citi-Express
- Director of Iberia, Lineas Aereas de Espana, S.A

## DR JOHN SCHUBERT
Non-Executive Director, Age 60

- Appointed to the Board in October 2000
- Member of the Safety, Environment & Security Committee
- Deputy Chairman of Commonwealth Bank of Australia
- Director of BHP Billiton Limited and BHP Billiton Plc
- President of the Business Council of Australia
- Chairman of Worley Group Limited
- Chairman of G2 Therapies Limited
- Director of the Australian Graduate School of Management Limited, the Great Barrier Reef Research Foundation and the Salvation Army Advisory Board

## NICK TAIT, OBE
Non-Executive Director, Age 64

- Appointed to the Board by British Airways Plc in March 1993
- Member of the Safety, Environment & Security Committee and Chairman's Committee
- Director of the Garvan Research Foundation
- Member of the Global Foundation Advisory Council
- Fellow of the Australian Institute of Company Directors

## EXECUTIVE COMMITTEE

**Geoff Dixon**
Chief Executive Officer

**Peter Gregg**
Chief Financial Officer

**Denis Adams**
Chief Executive Officer
Australian Airlines

**Fiona Balfour**
Executive General Manager
and Chief Information Officer

**John Borghetti**
Executive General Manager
Sales and Marketing

**Kevin Brown**
Executive General Manager
Human Resources

**Paul Edwards**
Executive General Manager
Airline Strategy and Network

**Grant Fenn**
Executive General Manager
Finance and Deputy Chief Financial Officer

**David Forsyth**
Executive General Manager
Aircraft Operations

**Narendra Kumar**
Executive General Manager
Subsidiary Businesses

**Curtis Davies**
Group General Manager
Sustainable Future

**David Hawes**
Group General Manager
Government and International Relations

**Brett Johnson**
General Counsel &
Company Secretary

**Michael Sharp**
Group General Manager
Corporate Communication

CORPORATE GOVERNANCE STATEMENT

## BOARD RESPONSIBILITIES

In preparing this Statement, the Qantas Board has focussed on the structure and values which it has in place to ensure that the Board protects and enhances shareholder value. The Board endorses each of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles) published in March 2003.

On 1 September 2003, the Board adopted a formal Board Charter. A copy of the Board Charter will be available on the Corporate Governance section of the Qantas website (www.qantas.com).

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 BA Directors and Executive Directors, have extensive commercial experience and bring independence, accountability and judgment to the Board's deliberations to ensure maximum benefit to shareholders, employees and the wider community.

In particular, the Board:

- promotes ethical and responsible decision-making
- ensures compliance with laws, regulations and all appropriate accounting standards
- sets and reviews strategic direction and approves the annual operating budget
- oversees the Qantas Group, including its control and accountability systems
- monitors the operating and financial performance of the Qantas Group
- monitors the performance of the Chief Executive Officer, Chief Financial Officer and executive management
- ensures a clear relationship between performance and executive remuneration
- monitors risk management
- ensures that the market and shareholders are fully informed of material developments
- recognises the legitimate interests of stakeholders

## BOARD STRUCTURE

- 11 Directors
- seven independent Non-Executive Directors elected by shareholders other than British Airways – the independent Non-Executive Directors are:
  - Margaret Jackson (Chairman)
  - Paul Anderson
  - Michael Codd
  - Trevor Eastwood
  - Jim Kennedy
  - Trevor Kennedy
  - John Schubert
- a Qantas Non-Executive Director will be considered to be independent if they:
  - are not a substantial shareholder of Qantas, or an officer of, or otherwise associated directly with, a substantial shareholder of Qantas (as such, the BA Directors are not considered to be independent)
  - have not, within the last three years, been employed in an executive capacity by the Qantas Group
  - have not, 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
  - are not 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
  - have no material contractual relationship with the Qantas Group other than as a Director
  - are 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
- materiality thresholds for determining the independence of Non-Executive Directors are:
  - for Directors:
    - a relationship which accounts for more than 10% of his/her gross income (other than Director's Fees paid by Qantas)
    - when the relationship is with a firm, company or entity, in respect of which the Director (or any associate) has more than a 20% shareholding if a private company or 2% shareholding if a listed company
  - for Qantas:
    - in respect of advisers or consultants – where fees paid exceed $2 million pa
    - in respect of suppliers – where goods or services purchased by the Qantas Group exceed $100 million pa (other than banks, where materiality must be determined on a case by case basis)
    - in respect of customers – where goods or services supplied by Qantas Group exceed $100 million pa
- 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. BA Directors must consult with the Chairman on a case by case basis their attendance during discussions concerning the relationship between Qantas and British Airways

## CORPORATE GOVERNANCE STATEMENT continued

- maximum 12 year term for independent Non-Executive Directors and six year term for the Chairman
- Chairman is an independent Non-Executive Director
- two Non-Executive Directors are appointed by British Airways (a right acquired from the Australian Government in 1993 when British Airways purchased its shareholding)
- two Executive Directors – Chief Executive Officer and Chief Financial Officer
- new independent Non-Executive Directors are nominated by the Chairman's Committee, appointed by the other independent Non-Executive Directors and elected by shareholders
- details of the Directors, their qualifications and tenure in office are on pages 26 and 27
- at the 2000 Annual General Meeting, shareholders approved the entering of Director Protection Deeds with each Director

### AUSTRALIAN PROVISIONS

- the Constitution contains provisions 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
  - British Airways cannot vote in any election of independent Non-Executive Directors
  - quorum for a Directors' meeting must include a majority of non-BA Directors who are Australian citizens and at least one BA Director
  - maximum 49% aggregate foreign ownership
  - maximum 35% aggregate foreign airline ownership
  - maximum 25% ownership by one foreign person

### BOARD MEETINGS

- eight formal meetings a year
- additional meetings held as required (eg during the crises resulting from the Sudden Acute Respiratory Syndrome (SARS) outbreak and war in Iraq)
- two-day meeting held each year to review and approve the strategy and financial plan for the next financial year

### COMMITTEES

- Board does not delegate major decisions to Committees
- Committees are responsible for considering detailed issues and making recommendations to the Board
- Audit Committee – assists the Board in fulfilling its audit, accounting and reporting obligations, monitors internal and external auditors (including the independence of the external auditors) and monitors business risk management and compliance with legal and statutory obligations
- Safety, Environment & Security Committee – receives detailed reports on all safety (including occupational health and safety), environment and security aspects of the airline and ensures that the appropriate risk management procedures are in place to protect the airline, its passengers, employees and the community
- Chairman's Committee (fulfils the functions of the nominations and remuneration committees for the purposes of the ASX Principles) – reviews Board's performance and remuneration, nomination of new Directors, recommends remuneration for Chief Executive Officer, Chief Financial Officer and senior executives and monitors succession planning
- Nominations Committee – approval of Chairman and any Alternate Directors
- the Audit Committee, Safety, Environment & Security Committee and Chairman's Committee operate under formal Charters which are updated regularly. A copy of the Charter for each Committee will be available on the Corporate Governance section of the Qantas website
- independent Non-Executive Directors are a majority on and hold the Chair of all Committees
- Chairman of the Audit Committee has appropriate financial experience
- the experience/qualifications of Committee members is set out on pages 26 and 27
- membership of and attendance at 2003 Board and Committee meetings are detailed on page 34

### REMUNERATION

- the Qantas remuneration policy (Qantas Executive Remuneration Philosophy and Objectives) Policy adopted by the Board on 20 August 2003 is Attachment 1 to this Statement
- remuneration of the Directors and top five executives is disclosed on pages 35 to 38
- on retirement, Qantas Directors are entitled to statutory superannuation and certain travel benefits (see page 38)

### STANDARDS

- annual review of Board performance
- active participation by all Directors at all meetings
- open access to information
- regular management presentations and visits to interstate/offshore operations
- Chief Executive Officer and Chief Financial Officer have certified the accuracy and completeness of financial information prepared in accordance with relevant accounting standards as provided to the Board
- Chief Executive Officer and Chief Financial Officer have certified that a sound system of risk oversight and management controls have been developed to identify, assess, monitor and manage risk and to inform the Board and shareholders of any material change in the risk profile of the Qantas Group and that they are not aware of any material breakdowns in the operation of this system during the year

CORPORATE GOVERNANCE STATEMENT continued

- independent professional advice is available to the Directors if necessary, at the expense of Qantas
- formal Code of Conduct – including conflict of interest, formal share trading procedures and compliance with legal and other obligations to legitimate stakeholders. A copy of the Qantas Code of Conduct will be available on the Corporate Governance section of the Qantas website
- all equity-based executive remuneration made in accordance with plans approved by shareholders
- formal Continuous Disclosure Policy – ensures compliance with the Listing Rules and Corporations Act and that all shareholders and the market has equal access to material information. A copy of the Continuous Disclosure Policy will be available on the Corporate Governance section of the Qantas website

## EXTERNAL AUDITOR INDEPENDENCE

- the Board and Audit Committee closely monitors the independence of the external auditors
- regularly reviews the independence safeguards put in place by the external auditors
- requires the rotation of the audit partner every five years
- policies to restrict the type of non-audit services which can be provided by the external auditors
- undertakes a detailed monthly review of non-audit fees paid to the external auditor
- imposes restrictions on the employment of ex-employees of the external auditor
- the Audit Committee meets regularly with management without the external auditors and with the external auditors without management
- external auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report

## SHAREHOLDERS

- Shareholder Communications Policy – promotes effective communication with shareholders and encourages effective participation at general meetings. A copy of the formal Policy will be available on the Corporate Governance section of the Qantas website

ATTACHMENT 1

## EXECUTIVE REMUNERATION PHILOSOPHY AND OBJECTIVES

Qantas' policy is to ensure that remuneration properly reflects the duties and responsibilities of its executives, and that remuneration is competitive in attracting, motivating and retaining people of the highest calibre.

This is achieved via a mixture of:

- Fixed Annual Remuneration;
- The Performance Plan, comprising:

  The Performance Cash Plan - a short term cash incentive; and

  The Performance Equity Plan - made up of a medium-term incentive (the Performance Share Plan) and a long-term incentive (the Performance Rights Plan); and
- Concessionary Travel Benefits, Service Payments and other retention tools, and other discretionary benefits considered appropriate from time to time.

The Chairman's Committee play a critical role in reviewing and recommending to the Qantas Board on matters of remuneration policy, specific recommendations relating to Senior Executives and all matters concerning equity plans and awards.

The guiding principles in managing remuneration for executives are that:

- all elements of remuneration should be set at an appropriate level having regard to market practice for roles of similar scope and skill;
- the Performance Plan should be used to differentiate reward for high performers and to encourage continuously higher levels of performance;
- the Performance Plan should be clearly linked to appropriate goals via a robust performance management system; and
- the Performance Equity Plan, comprising the Performance Share Plan and Performance Rights Plan elements of the Performance Plan, should be used to align the interests of executives with shareholders, support a culture of employee share ownership and act as a retention initiative.

Overall the mix of the Remuneration program is consistent with market practice.

## FIXED ANNUAL REMUNERATION (FAR)

Salary decisions are based on the concept of Fixed Annual Remuneration (FAR), which involves a guaranteed salary level from which superannuation and other benefits are able to be deducted, at the election of the individual, 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, defined as the top 50 ASX listed entities for senior management and a broad selection of equivalent roles within Australia for other executives.

ATTACHMENT 1 continued

## THE PERFORMANCE PLAN

The alignment of executive remuneration with the performance of both Qantas and the individual is a key part of the Qantas People Plan. Relevant performance hurdles, agreed in advance of the allocation of incentives, are a key element in an appropriately structured Performance Plan. Vesting should be over a period that is consistent with the realisation of the short, medium and long term strategic objectives approved by the Board.

### PERFORMANCE CASH PLAN

The Performance Cash Plan is designed to reward executives when key performance measures are achieved over the 12 month business cycle.

The target reward is a percentage of FAR dependent on each individual's level of responsibility. The actual incentive earned is based on a combination of Qantas results and individual performance.

Performance against target results on a company wide basis, determines the amount (if any) of the pool of money available for payment. Assessment of the performance of individuals against their specific annual goals and a further assessment of the relative contribution of executives, results in a differentiated distribution of the bonus pool.

### PERFORMANCE EQUITY PLAN

The Performance Equity Plan comprises the (medium-term) Performance Share Plan, and the (long-term) Performance Rights Plan. Both elements are designed to strengthen the alignment of the interests of the executives with shareholders.

### PERFORMANCE SHARE PLAN

The medium term incentive component is delivered via deferred shares under the Performance Share Plan, subject to satisfactory results on a balanced scorecard basis. Shares issued under this plan are purchased on market, half have a one year trading lock and half have a two year trading lock, after which they may be transferred to the relevant executive.

### PERFORMANCE RIGHTS PLAN:

The aim of the Performance Rights Plan is to:

- align the interests of eligible executives and Shareholders;
- provide targeted but competitive remuneration;
- provide a long-term incentive for the retention of key executives; and
- support a culture of employee share ownership.

As a retention tool, the program is specifically targeted to senior managers and others identified as high potential developing executives.

## CONCESSIONARY TRAVEL BENEFITS, SERVICE PAYMENTS AND RETENTION ARRANGEMENTS

Concessionary travel benefits are available to executives within Qantas. This travel is on a sub-load (standby) basis. There is also a post retirement element of this benefit for staff who qualify through retirement or redundancy. These travel benefits are consistent with practice in the airline industry.

In addition to this, a small number of Senior Executives are entitled to a number of free trips, for personal purposes. These benefits extend into retirement, in some cases only for a limited period. The value of these benefits is accrued over the expected service of the individual. Eligibility for new participants is now restricted to members of the Qantas Executive Committee.

The primary elements of retention within Qantas are the provision of appropriate development opportunities for high performing executives and the recognition of performance on an ongoing basis through the remuneration programs detailed above.

For executives appointed to Senior Executive roles, fixed term contracts of up to five years are agreed on appointment as a further element of retention. A limited number of these are eligible for a payment on termination provided they have completed five years service.

For a small number of the most Senior Executives, there are negotiated contractual conditions to ensure retention of key Senior Executives.

## CONTINUOUS IMPROVEMENT

Qantas continually reviews all elements of its Executive Remuneration Philosophy and Objectives to ensure that they are appropriate from the perspectives of governance, disclosure and reward.

# PERFORMANCE SUMMARY
for the year ended 30 June 2003

| | Qantas Group | | |
|---|---|---|---|
| | **2003 $M** | 2002 $M | Increase/ (Decrease) % |
| **FINANCIAL RESULTS** | | | |
| **SALES AND OPERATING REVENUE** | | | |
| Net passenger revenue | **8,992.8** | 8,718.5 | 3.1 |
| Net freight revenue | **511.3** | 518.8 | (1.4) |
| Tours and travel revenue | **696.3** | 674.4 | 3.2 |
| Contract work revenue | **530.9** | 479.1 | 10.8 |
| Other sources | **643.6** | 578.0 | 11.3 |
| Sales and operating revenue | **11,374.9** | 10,968.8 | 3.7 |
| **EXPENDITURE** | | | |
| Manpower and staff related | **3,017.7** | 2,689.2 | 12.2 |
| Selling and marketing | **546.6** | 608.2 | (10.1) |
| Aircraft operating – variable | **2,405.0** | 2,287.4 | 5.1 |
| Fuel and oil | **1,540.4** | 1,570.0 | (1.9) |
| Property | **286.5** | 264.3 | 8.4 |
| Computer and communication | **412.3** | 408.4 | 1.0 |
| Depreciation and amortisation | **891.4** | 693.5 | 28.5 |
| Non-cancellable operating lease rentals | **283.9** | 255.7 | 11.0 |
| Tours and travel | **564.0** | 584.4 | (3.5) |
| Capacity hire | **381.6** | 499.9 | (23.7) |
| Other | **488.1** | 464.6 | 5.1 |
| Share of net profit of associates | **(9.6)** | (36.1) | (73.4) |
| Expenditure | **10,807.9** | 10,289.5 | 5.0 |
| **Earnings before interest and tax** | **567.0** | 679.3 | (16.5) |
| Net borrowing costs | **(64.7)** | (48.3) | 34.0 |
| **Profit from ordinary activities before related income tax expense** | **502.3** | 631.0 | (20.4) |
| Income tax expense relating to ordinary activities | **(155.7)** | (201.7) | (22.8) |
| **Net profit** | **346.6** | 429.3 | (19.3) |
| Outside equity interests in net profit | **(3.1)** | (1.3) | (138.5) |
| **Net profit attributable to members of the Company** | **343.5** | 428.0 | (19.7) |
| **FINANCIAL POSITION** | | | |
| Total assets | **16,973.8** | 14,801.5 | 14.7 |
| Total liabilities | **11,711.7** | 10,548.0 | 11.0 |
| **Total equity** | **5,262.1** | 4,253.5 | 23.7 |
| **CASH FLOWS** | | | |
| Net cash provided by operating activities | **1,290.8** | 1,143.3 | 12.9 |
| Net cash used in investing activities | **(2,995.7)** | (2,306.1) | (29.9) |
| Net cash provided by financing activities | **2,935.6** | 1,688.8 | 73.8 |
| **Net increase in cash held** | **1,230.7** | 526.0 | 134.0 |
| **PERFORMANCE RATIOS** | | | |
| Net debt to net debt plus equity (ratio) | **37:63** | 31:69 | n/a |
| Net debt to net debt plus equity including off balance sheet debt (ratio) | **50:50** | 50:50 | n/a |
| Net debt to net debt plus equity including off balance sheet debt and revenue hedge receivables (ratio) | **51:49** | 49:51 | n/a |
| Earnings per share (cents per share) | **20.0** | 29.1 | (31.3) |
| Return on equity (percentage) | **6.5** | 10.1 | (3.6) points |
| Return on equity including the notional capitalisation of non-cancellable operating leases on a hedged basis (percentage) | **8.9** | 12.0 | (3.1) points |
| Earnings before interest and tax as a percentage of sales and operating revenue (percentage) | **5.0** | 6.2 | (1.2) points |
| Profit from ordinary activities before related income tax expense as a percentage of sales and operating revenue (percentage) | **4.4** | 5.8 | (1.4) points |

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Information for shareholders is provided in this Annual Report and in a separate Financial Report.

This Report is a Concise Financial Report which contains key financial information about Qantas in a concise format.

The Financial Report provides more detailed financial information. The Concise Financial Report, whilst derived from the Financial Report, cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Qantas and its controlled entities as the Financial Report.

A copy of the Financial Report, including the Independent Audit Report thereon, is available to all shareholders, free of charge, upon request. The Financial Report can be requested by telephone (toll free within Australia 1800 177 747, overseas 61 2 8280 7390) and is available on the internet at qantas.com.

## GLOSSARY

### AVAILABLE FREIGHT TONNE KILOMETRES (AFTK)

Total freight tonnage capacity available, multiplied by the number of kilometres flown.

### AVAILABLE SEAT KILOMETRES (ASK)

Total number of seats available for passengers, multiplied by the number of kilometres flown.

### AVAILABLE TONNE KILOMETRES (ATK)

Total number of tonnes of capacity available for carriage of passengers, freight and mail, multiplied by the number of kilometres flown.

### REVENUE FREIGHT TONNE KILOMETRES (RFTK)

Number of tonnes of paying freight carried, multiplied by the number of kilometres flown.

### REVENUE PASSENGER KILOMETRES (RPK)

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.

# DIRECTORS' REPORT
for the year ended 30 June 2003

The Directors of Qantas Airways Limited (Qantas) present their report together with the Concise Financial Report of the consolidated entity, being Qantas and its controlled entities (Qantas Group), for the financial year ended 30 June 2003 and the Audit Report thereon.

## DIRECTORS

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

Margaret Jackson, AC
Peter Gregg
Mike Codd, AC
Jim Kennedy, AO, CBE
Roger Maynard
Nick Tait, OBE.
Geoff Dixon
Paul Anderson (appointed 2 September 2002)
Trevor Eastwood, AM
Trevor Kennedy, AM
John Schubert

Details of Directors, their experience and any special responsibilities are set out on pages 26 and 27.

## PRINCIPAL ACTIVITIES

The principal activities of the Qantas Group during the course of the financial year were the operation of international and domestic air transportation services, the sale of worldwide and domestic holiday tours, and associated support activities including information technology, catering, ground handling and engineering and maintenance. There were no significant changes in the nature of the activities of the Qantas Group during the financial year.

## DIVIDENDS

The Directors declared a final dividend of $159.7 million (final ordinary dividend of 9.0 cents per share) for the year ended 30 June 2003 (2002: final ordinary dividend of 9.0 cents per share). The final dividend will be fully franked and follows a fully franked interim ordinary dividend of $140.5 million (8.0 cents per share), which was paid during the financial year.

## REVIEW OF OPERATIONS AND STATE OF AFFAIRS

A review of the Qantas Group's operations, including the results of those operations, and changes in the state of affairs of the Qantas Group during the financial year is contained on pages 10 to 25. 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 financial year under review not otherwise disclosed in this Annual Report.

## EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Qantas Group, the results of those operations, or the state of affairs of the Qantas Group, in this financial year or in future financial years.

## LIKELY DEVELOPMENTS

Pages 5 to 9 of this Report include information on developments likely to affect the operations of the Qantas Group.

Further information about likely developments in the operations of the Qantas Group and the expected results of those operations in future financial years has not been included in this Directors' Report because disclosure of the information could be unreasonably prejudicial to the Qantas Group.

## DIRECTORS' MEETINGS

The number of Directors' meetings held (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors during the financial year are as follows:

| | Qantas Board Scheduled Meetings | | Qantas Board Unscheduled Meetings | | Audit[1] Committee | | Safety, Environment & Security Committee | | Chairman's Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| Directors | Attended | Held[2] | Attended | Held[2] | Attended | Held[2] | Attended | Held[2] | Attended | Held[2] |
| Margaret Jackson | 8 | 8 | 2 | 2 | 3[3] | 3 | 4[3] | 4 | 5 | 5 |
| Geoff Dixon | 8 | 8 | 2 | 2 | 3[3] | 3 | 4 | 4 | 3[3] | 5 |
| Peter Gregg | 8 | 8 | 2 | 2 | 3[3] | 3 | 2[3] | 4 | | |
| Paul Anderson | 5 | 5 | 1 | 2 | | | | | | |
| Mike Codd | 8 | 8 | 2 | 2 | 3 | 3 | 4 | 4 | | |
| Trevor Eastwood | 8 | 8 | 2 | 2 | 3 | 3 | | | 5 | 5 |
| Jim Kennedy | 8 | 8 | 2 | 2 | 3 | 3 | | | 5 | 5 |
| Trevor Kennedy | 8 | 8 | 1 | 2 | | | | | | |
| Roger Maynard | 8 | 8 | 2 | 2 | 2[4] | 3 | 1[3] | 4 | | |
| John Schubert | 7 | 8 | 2 | 2 | | | 4 | 4 | | |
| Nick Tait | 8 | 8 | 2 | 2 | 1[5] | 3 | 4 | 4 | 5 | 5 |

1 Previously called the Audit, Risk & Compliance Committee.
2 Reflects the number of meetings held during the time that the Director held office during the financial year.
3 Attended meetings in an ex-officio capacity.
4 Alternate Director (Nick Tait) attended the third meeting on Roger Maynard's behalf.
5 Attended meeting in an Alternate Director capacity (for Roger Maynard).

DIRECTORS' REPORT continued
for the year ended 30 June 2003

## DIRECTORS' INTERESTS AND BENEFITS

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

| Directors | Ordinary Shares 2003 Number | Ordinary Shares 2002 Number |
|---|---|---|
| Margaret Jackson | 143,972 | 117,284 |
| Geoff Dixon[1] | 63,487 | 14,504 |
| Peter Gregg[1] | 23,460 | 4,292 |
| Paul Anderson | 25,000 | 25,000 |
| Mike Codd | 11,007 | 9,376 |
| Trevor Eastwood | 12,434 | 11,857 |
| Jim Kennedy | 1,975 | 1,975 |
| Trevor Kennedy | 122,750 | 122,750 |
| Roger Maynard | 720 | – |
| John Schubert | 34,753 | 30,975 |
| Nick Tait | – | – |

1 In addition to the interests shown above Geoff Dixon and Peter Gregg have an indirect interest in 250,000 and 150,000 shares respectively under the Qantas Long-Term Incentive Deferred Share Plan (see page 37).

## DIRECTORS' AND EXECUTIVES' REMUNERATION

## NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-Executive Directors' remuneration includes Directors' fees, non-cash benefits and post-retirement benefits.

Details of the nature and amount of each major element of the emoluments of each Non-Executive Director of Qantas is set out below:

| Non-Executive Directors | Fees[1] $ | Non-Cash Benefits[2] $ | Superannuation Contributions $ | Total $ |
|---|---|---|---|---|
| Margaret Jackson | 320,000 | 42,832 | 9,903 | 372,735 |
| Paul Anderson | 60,000 | 4,085 | – | 64,085 |
| Mike Codd | 112,000 | 21,797 | 9,633 | 143,430 |
| Trevor Eastwood | 104,000 | 16,642 | 9,360 | 130,002 |
| Jim Kennedy | 112,000 | 16,252 | 9,633 | 137,885 |
| Trevor Kennedy | 80,000 | 17,535 | 7,200 | 104,735 |
| Roger Maynard[3] | 92,000 | – | 8,280 | 100,280 |
| John Schubert | 92,000 | 21,955 | 8,280 | 122,235 |
| Nick Tait | 104,000 | 30 | 9,360 | 113,390 |

1 Fees comprise both Directors' Fees and Committee Fees.

2 Non-Cash Benefits include travel benefits which are available to Directors on similar terms and conditions to those offered to other Senior Executives of the Qantas Group.

3 Directors' Fees for Roger Maynard are paid directly to British Airways Plc.

### Fees

The aggregate fees paid in any year to Non-Executive Directors is fixed by the members of Qantas Airways Limited at the Annual General Meeting. The pool is allocated between Directors' Fees and Committee Fees and the amount paid to each individual reflects the roles held.

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

### Non-Cash Benefits

Non-Cash Benefits received by Non-Executive Directors during the year include a limited number of free of charge flights. These flight benefits are included in remuneration on a cost to the company basis as incurred. The cost includes the incremental cost of providing the flight and the associated Fringe Benefits Tax.

### Post-Retirement Benefits

A limited number of free of charge flights are available to Non-Executive Directors both whilst they are serving on the Board of Qantas and for a corresponding number of years once they have retired.

The benefit is determined on a cost to the company basis and is accrued over the period of service, taking into account historical and projected usage rates. The total accrual for these post-retirement benefits was $385,650 at 30 June 2003, $55,700 of which was accrued during the year.

DIRECTORS' REPORT continued
for the year ended 30 June 2003

The amount accrued during the year for each individual Non-Executive Director is as follows:

| Non-Executive Directors | Post-Retirement Benefit $ |
|---|---|
| Margaret Jackson | 18,500 |
| Paul Anderson | 4,650 |
| Mike Codd | 4,650 |
| Trevor Eastwood | 4,650 |
| Jim Kennedy | 4,650 |
| Trevor Kennedy | 4,650 |
| Roger Maynard | 4,650 |
| John Schubert | 4,650 |
| Nick Tait | 4,650 |

## EXECUTIVE DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

### VESTED REMUNERATION

Details of the nature and amount of remuneration paid and payable to each Executive Director of Qantas and each of the five highest paid Executive Officers of Qantas and the Qantas Group are set out below:

| Executive Directors | Fixed Annual Remuneration[1] $ | Non-Cash Benefits $ | Bonus $ | Non-Recurring Milestone Payment[2] $ | Total $ |
|---|---|---|---|---|---|
| Geoff Dixon | 1,600,000 | 37,696 | – | – | 1,637,696 |
| Peter Gregg | 960,000 | 38,867 | – | – | 998,867 |
| **Executive Officers** | | | | | |
| John Borghetti | 720,000 | 14,675 | – | – | 734,675 |
| Denis Adams | 577,500 | 15,629 | – | 100,000 | 693,129 |
| Kevin Brown | 605,000 | 57,905 | – | – | 662,905 |
| David Forsyth | 640,000 | 2,096 | – | – | 642,096 |
| Paul Edwards | 605,000 | 16,652 | – | – | 621,652 |

1 Fixed Annual Remuneration includes base salary, motor vehicle allowances and salary sacrifice superannuation contributions.

2 Denis Adams received a one-off, non-recurring milestone payment during the year related to the successful launch of Australian Airlines in October 2002.

#### Fixed Annual Remuneration

Executive salary packages are based on the concept of Fixed Annual Remuneration (FAR) which includes guaranteed salary and non-salary components such as motor vehicle allowances and salary sacrifice superannuation. The amount of FAR is set with reference to market data reflecting the underlying responsibility of the role and is reviewed annually.

#### Non-Cash Benefits

Non-Cash Benefits received by Executive Directors and Senior Executives during the year includes limited free air travel for recreational purposes. Non-Cash Benefits are included in remuneration on a cost to the company basis as incurred. The cost of travel benefits includes the incremental cost of providing the flight and the associated Fringe Benefits Tax.

#### Short-Term Incentives

All Executives of the Qantas Group (including Executive Directors) participate in an annual performance-based reward scheme (Executive Bonus Scheme) which provides for performance bonuses to be paid where pre-determined objectives are met. Performance objectives are based on a combination of Qantas results and individual performance. Maximum performance bonuses are set as a percentage of Fixed Annual Remuneration for Executives within Qantas and vary according to level of seniority. Bonuses awarded under the Executive Bonus Scheme are primarily payable in cash, though in previous years certain Senior Executives received a portion of their bonus as Qantas shares. In such circumstances, the shares provided were purchased on-market and a holding lock was placed on the shares for two years.

Benefits awarded under the Executive Bonus Scheme, whether payable in cash or shares, are included in remuneration in the period in which the bonus is earned.

No bonuses have been granted to Executives in relation to the 2002/03 financial year.

DIRECTORS' REPORT continued
for the year ended 30 June 2003

## NON-VESTED REMUNERATION

### Long-Term Incentive Plans

#### Qantas Long-Term Incentive Deferred Share Plan (LTIDSP)

During the year, Executive Directors and Senior Executives were granted Qantas shares under the LTIDSP. These shares were purchased on-market and are being held in trust for up to four years, after which time they will be transferred to all eligible Executives still employed by the Qantas Group. Geoff Dixon and Peter Gregg are entitled to a bonus allocation of one share for every nine held upon transfer.

The cost of providing benefits to Executives under the LTIDSP is accrued in the profit and loss account over the period in which the benefits are earned (ie from grant date to transfer date).

The following shares were granted under the LTIDSP during the year. No shares were granted under the LTIDSP in previous years.

| Executive Directors | Long-Term Incentive Deferred Share Plan Number of Shares Allocated | Vesting Date |
|---|---|---|
| Geoff Dixon[1] | 250,000 | 31 December 2005 |
| Peter Gregg[2] | 150,000 | 20 August 2006 |
| **Executive Officers** | | |
| John Borghetti[1] | 80,000 | 30 December 2006 |
| Denis Adams[1] | 70,000 | 30 December 2006 |
| Kevin Brown[1] | 60,000 | 30 December 2006 |
| David Forsyth[1] | 60,000 | 30 December 2006 |
| Paul Edwards[1] | 60,000 | 30 December 2006 |

[1] All shares were purchased on-market at an average price of $3.80.

[2] All shares were purchased on-market at an average price of $3.70.

#### Qantas Long-Term Executive Incentive Plan (QL-TEIP)

In previous years, Entitlements over unissued ordinary shares in Qantas were awarded to Executive Directors and other Senior Executives under the QL-TEIP introduced in the 1999/00 financial year. The QL-TEIP has now been terminated and as such no Entitlements have been granted in the 2002/03 financial year.

Entitlements awarded under the QL-TEIP in prior years may vest between three and five years following award date, conditional on the Executive remaining a Qantas Group employee and on the achievement of specific performance hurdles set by the Board. These hurdles are set by reference to the percentile performance of Qantas (based upon average relative total shareholder return) within a modified S&P/ASX 200 Index and within an international airline peer group.

To the extent that any Entitlements vest, they may be converted into Qantas shares within eight years of award in proportion to the gain in share price from the date the Entitlements are awarded to the date they are converted to shares. Entitlements not converted to shares within eight years of award will expire.

During the 2002/03 financial year, the following movements in Entitlements took place:

| | Number of Entitlements | Number of Entitlements |
|---|---|---|
| Entitlements available for vesting at 30 June 2002 | | 37,601,500 |
| Entitlements issued | | – |
| Entitlements lapsed | | (1,180,500) |
| Entitlements vested | (5,193,595) | |
| Vested Entitlements lapsed | 125,083 | |
| Net vested Entitlements | | (5,068,512) |
| Entitlements available for vesting at 30 June 2003 | | 31,352,488 |

## DIRECTORS' REPORT continued
for the year ended 30 June 2003

The following Entitlements were outstanding at 30 June 2003:

| | | | Number of Entitlements[1] | | | | | |
|---|---|---|---|---|---|---|---|---|
| Expiry Date | Exercise Price | Value at Grant Date[2] | Net Vested 2003 | Unvested 2003 | Total 2003 | Net Vested 2002 | Unvested 2002 | Total 2002 |
| 17 Nov 2007 | $4.99 | $1.13 | 5,068,512 | 642,488 | 5,711,000 | – | 5,901,500 | 5,901,500 |
| 24 Nov 2008 | $3.44 | $0.82 | – | 29,600,000 | 29,600,000 | – | 30,590,000 | 30,590,000 |
| 20 Feb 2009 | $3.62 | $0.77 | – | 760,000 | 760,000 | – | 760,000 | 760,000 |
| 6 Dec 2009 | $3.25 | $1.14 | – | 350,000 | 350,000 | – | 350,000 | 350,000 |
| Total | | | 5,068,512 | 31,352,488 | 36,421,000 | – | 37,601,500 | 37,601,500 |

1 The Entitlements do not allow the holder to participate in any share issue of Qantas or the Qantas Group.

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

As the QL-TEIP has now terminated, there is no profit and loss impact of existing entitlements.

The following table shows the value of benefits accruing to Executive Directors and the five highest paid Senior Executives under the LTIDSP and the QL-TEIP in the 2002/03 financial year. The value of benefits is based upon an actuarial estimate at grant date and is accrued over the period in which the benefits are earned, being the period from grant date to the earliest date at which benefits could vest.

| Executive Directors | Qantas Long-Term Incentive Deferred Share Plan $ | Qantas Long-Term Executive Incentive Plan $ | Total $ |
|---|---|---|---|
| Geoff Dixon | 158,333 | 495,535 | 653,868 |
| Peter Gregg | 75,682 | 218,811 | 294,493 |
| **Executive Officers** | | | |
| John Borghetti | 38,000 | 131,344 | 169,344 |
| Denis Adams | 33,250 | 167,080 | 200,330 |
| Kevin Brown | 28,500 | 133,000 | 161,500 |
| David Forsyth | 28,500 | 203,719 | 232,219 |
| Paul Edwards | 28,500 | 131,344 | 159,844 |

In addition to the long-term incentive plans noted above, the service contracts of certain Executive Directors and Senior Executives provide for the payment of a bonus on the completion of five years service. This bonus is payable when the Executive Director or Senior Executive ceases employment with the Qantas Group and is included in remuneration at that time.

### Post-Retirement Benefits

A limited number of free of charge flights are available to Executive Directors and certain Senior Executives both whilst they are employed by the Qantas Group and after they have retired. The post-retirement benefit is determined on a cost to the company basis and is accrued over the period of service, taking into account historical and projected usage rates. The total post-retirement benefits accrued for current Executives was $1,755,000 at 30 June 2003, $312,000 of which was accrued during the year. The amount accrued during the current year for individual Executive Directors and the five highest paid Senior Executives is as follows:

| Executive Directors | Post Retirement Benefit $ |
|---|---|
| Geoff Dixon | 17,820 |
| Peter Gregg | 17,820 |
| **Executive Officers** | |
| John Borghetti | 8,910 |
| Denis Adams | 8,910 |
| Kevin Brown | 8,910 |
| David Forsyth | 17,820 |
| Paul Edwards | 8,910 |

DIRECTORS' REPORT continued
for the year ended 30 June 2003

## ENVIRONMENTAL OBLIGATIONS

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 Safety, Environment & Security Committee, 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 that those licences and permits are complied with. 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 financial year which are material in nature.

## INDEMNITIES AND INSURANCE

Under clause 12.1 of the Qantas Constitution, Qantas is required to indemnify, to the extent permitted by law, each officer of Qantas (subject to certain qualifications) against:

- liability to third parties (other than related Qantas Group companies) arising out of conduct undertaken in his or her capacity as a Qantas officer, unless the liability arises out of conduct involving a lack of good faith, wilful misconduct or reckless behaviour; and
- the costs and expenses of successfully defending legal proceedings arising out of conduct undertaken in his or her capacity as a Qantas officer.

The Directors listed on page 34 and the secretary of Qantas, being Brett Johnson, have the benefit of the indemnity in clauses 12.1 to 12.4 of the Qantas Constitution, which also applies to all Executive Officers of Qantas. Qantas has insured against amounts which it may be liable to pay on behalf of officers pursuant to clauses 12.1 to 12.4 of the Qantas Constitution or which it otherwise agrees to pay by way of indemnity.

During the financial 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.

## 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 the Concise Financial Report, Financial Report and Directors' Report have been rounded off 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

Sydney, 1 September 2003

# STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2003

| | Notes | Qantas Group 2003 $M | Qantas Group 2002 $M |
|---|---|---|---|
| **SALES AND OPERATING REVENUE** | | | |
| Net passenger revenue*# | | **8,992.8** | 8,718.5 |
| Net freight revenue* | | **511.3** | 518.8 |
| Tours and travel revenue | | **696.3** | 674.4 |
| Contract work revenue | | **530.9** | 479.1 |
| Other sources^** | | **643.6** | 578.0 |
| Sales and operating revenue | 3 | **11,374.9** | 10,968.8 |
| **EXPENDITURE** | | | |
| Manpower and staff related | | **3,017.7** | 2,689.2 |
| Selling and marketing* | | **546.6** | 608.2 |
| Aircraft operating – variable# | | **2,405.0** | 2,287.4 |
| Fuel and oil | | **1,540.4** | 1,570.0 |
| Property | | **286.5** | 264.3 |
| Computer and communication | | **412.3** | 408.4 |
| Depreciation and amortisation | | **891.4** | 693.5 |
| Non-cancellable operating lease rentals | | **283.9** | 255.7 |
| Tours and travel | | **564.0** | 584.4 |
| Capacity hire | | **381.6** | 499.9 |
| Other# | | **488.1** | 464.6 |
| Share of net profit of associates | | **(9.6)** | (36.1) |
| Expenditure | | **10,807.9** | 10,289.5 |
| **Earnings before interest and tax** | 7 | **567.0** | 679.3 |
| Borrowing costs | | **(172.4)** | (117.6) |
| Interest revenue | 3 | **107.7** | 69.3 |
| Net borrowing costs | | **(64.7)** | (48.3) |
| **Profit from ordinary activities before related income tax expense** | | **502.3** | 631.0 |
| Income tax expense relating to ordinary activities | | **(155.7)** | (201.7) |
| **Net profit** | | **346.6** | 429.3 |
| Outside equity interests in net profit | | **(3.1)** | (1.3) |
| **Net profit attributable to members of the Company** | | **343.5** | 428.0 |
| Non-owner transaction changes in equity: | | | |
| Increase in asset revaluation reserve on using the equity method for investments in associates | | **–** | 2.9 |
| Net decrease in retained profits on the initial adoption of AASB 1028 "Employee Benefits" | | **(3.7)** | – |
| Net exchange differences relating to self-sustaining foreign operations | | **(2.3)** | (0.9) |
| Total changes in equity from non-owner related transactions attributable to members of the Company | | **337.5** | 430.0 |
| Basic earnings per share | | **20.0 cents** | 29.1 cents |
| Diluted earnings per share | | **19.8 cents** | 28.9 cents |

* Passenger and freight revenue is now disclosed net of both sales discount and interline/IATA commission. Previously, only sales discount was netted against revenue, with interline/IATA commission being shown as an expense item. Comparatives have been adjusted accordingly. The impact of this change for the prior year is to decrease net passenger revenue by $505.7 million, net freight revenue by $44.8 million and selling and marketing expenditure by $550.5 million.

\# Passenger recoveries are now disclosed as part of net passenger revenue. Previously, passenger recoveries were netted against the relevant expenditure category. Comparatives have been adjusted accordingly. The impact of this change for the prior year is to increase net passenger revenue by $196.7 million, increase aircraft operating – variable expenditure by $86.5 million and increase other expenditure by $110.2 million.

** Excludes proceeds on sale of non-current assets of $36.7 million (2002: $52.0 million), and interest revenue of $107.7 million (2002: $69.3 million) which is included in net borrowing costs.

^ Revenue from "Other Sources" includes revenue from aircraft charters and leases, property income, Qantas Club and Frequent Flyer membership fees, freight terminal and service fees, commission revenue, and other miscellaneous income.

The Statement of Financial Performance should be read in conjunction with the Discussion and Analysis on pages 41 and 42 and the Notes to the Financial Statements on pages 47 to 53.

# DISCUSSION AND ANALYSIS OF THE STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2003

| | Unit | 2003 | 2002 | Increase/ (Decrease) % |
|---|---|---|---|---|
| **QANTAS GROUP OPERATIONAL STATISTICS AND PERFORMANCE INDICATORS*** | | | | |
| Passengers carried | 000 | **28,884** | 27,128 | 6.5 |
| Revenue passenger kilometres (RPKs) | M | **77,225** | 75,134 | 2.8 |
| Available seat kilometres (ASKs) | M | **99,509** | 95,944 | 3.7 |
| Revenue seat factor | % | **77.6** | 78.3 | (0.7) points |
| Passenger yield (passenger revenue per RPK) | cents | **11.15** | 11.34 | (1.7) |
| Average full-time equivalent employees | # | **34,872** | 33,044 | 5.5 |
| Aircraft in service at balance date | # | **196** | 193 | 3 aircraft |
| Return on total revenue | % | **3.0** | 3.9 | (0.9) points |
| Return on total assets | % | **2.0** | 2.9 | (0.9) points |
| Return on equity | % | **6.5** | 10.1 | (3.6) points |

* A glossary of terms appears on page 33.

## REVIEW OF FINANCIAL PERFORMANCE

- Profit from ordinary activities before tax was $502.3 million, a decrease of $128.7 million or 20.4 per cent. Net profit attributable to members of the company was $343.5 million.
- Earnings before interest and tax (EBIT) decreased by $112.3 million or 16.5 per cent to $567.0 million.
- International operations contributed EBIT of $221.6 million, an increase of $18.8 million versus the prior year. RPKs reduced by 3.3 per cent on reduced capacity (ASKs) of 3.4 per cent, leading to an improvement in seat factor of 0.1 percentage points. Yield, excluding the impact of adverse movements in foreign exchange, increased by 2.1 per cent. After a strong first half performance, international operations were adversely impacted as the demand for international air travel reduced due to the threat of global terrorism, the war in Iraq and the SARS virus.
- Domestic performance was adversely impacted by the effects of global events on the inbound market, and increasing competition. Domestic operations contributed $165.7 million in EBIT, a decrease of 44.4 per cent over the prior year. RPKs increased by 11.5 per cent while capacity grew by 13.3 per cent leading to a reduction in seat factor of 1.3 percentage points. Yield, excluding the impact of movements in foreign exchange rates, deteriorated by 5.8 per cent.
- EBIT for subsidiary businesses improved by $1.4 million or 0.8 per cent due to improved performance by Qantas Holidays, QantasLink and Qantas Flight Catering. Australian Airlines, which commenced operations during the year, recorded an EBIT loss $14.7 million after being severely impacted by the effects of the SARS virus on international air travel in the final quarter.

## REVIEW OF SALES AND OPERATING REVENUE

- Total revenue for the 2002/03 financial year rose by $406.1 million to $11.4 billion, an increase of 3.7 per cent versus the prior year. Excluding the unfavourable impact of foreign exchange movements, this increase amounted to $552.5 million or 5.0 per cent.
- Net passenger revenue rose by $274.3 million to $9.0 billion, an increase of 3.1 per cent. Excluding the unfavourable impact of exchange rate movements, this increase was 4.5 per cent and was due to growth in RPKs of 2.8 per cent offset by a deterioration in yield (excluding exchange) of 0.4 per cent. (Passenger yield is calculated as passenger revenue, excluding passenger recoveries, divided by RPKs.)
- Overall Group capacity increased by 3.7 per cent compared with the prior year.
- International capacity decreased by 3.4 per cent and domestic capacity increased by 13.3 per cent versus the prior year. This movement reflects the continued shift between networks that has occurred as a consequence of the September 11 terrorist attacks and the collapse of Ansett. This shift continued in the current year due to the reduction in international flying in the second half as a result of the war in Iraq and the impact of SARS.
- International capacity in the second half was 7.6 per cent down on the first half and 3.6 per cent down on the second half of 2001/02, as capacity was reduced to meet demand. International capacity is currently approximately 10 per cent below pre-SARS levels.
- Domestic capacity in the second half was 6.5 per cent lower than the first half but 3.1 per cent higher compared with the second half of 2001/02.
- Non-passenger revenue rose by $131.8 million to $2.4 billion, an increase of 5.9 per cent, primarily due to increases in engineering contract work revenue, improved tours and travel revenue and higher revenue from other sources such as aircraft leases and aircraft financing fees.

DISCUSSION AND ANALYSIS OF THE STATEMENT OF FINANCIAL PERFORMANCE continued
for the year ended 30 June 2003

## REVIEW OF EXPENDITURE

- Total expenditure, excluding net borrowing costs, increased by $518.4 million or 5.0 per cent to $10.8 billion. Excluding the favourable impact of movements in foreign exchange rates, this increase amounted to $771.6 million or 7.5 per cent. Increased expenditure was mainly due to costs associated with the 3.7 per cent increase in capacity, higher depreciation due to new aircraft deliveries and the write down of the 767-200 fleet, higher manpower costs following the settlement of Enterprise Bargaining Agreements (EBAs), higher superannuation contributions, and redundancy costs arising from the reorganisation program announced in April 2003.
- Cost per ASK decreased by 1.3 per cent. Excluding foreign exchange impacts, the cost per ASK increased by 1.2 per cent.
- Manpower and staff related expenditure increased by $328.5 million or 12.2 per cent due to an increase in full-time employees as a result of continued network shift towards the domestic market and greater activity, higher wages due to EBA settlements, additional superannuation contributions and increased redundancy costs, offset by the reduction in employee and executive bonus payments.
- Selling and marketing expenditure decreased by $61.6 million or 10.1 per cent as a result of reduced sales commissions due to reduced rates, network shift to the domestic network, reduced incentive payments due to lower international revenue, and increased internet bookings.
- Aircraft operating variable costs increased by $117.6 million mainly due to increased landing fees caused by increased activity and the full year impact of price increases at Australian airports, and increased passenger related expenses predominantly as a result of higher security costs.
- Fuel costs decreased by 1.9 per cent or $29.6 million. The underlying fuel price was 15.8 per cent higher than last year, increasing costs by $209.2 million. However, hedging benefits were $107.6 million better than the previous year. While flying hours increased, fuel efficiency gains from new fleet acquisitions reduced the number of litres consumed per hour, resulting in an overall activity saving of $5.3 million versus the prior year. Favourable foreign exchange rate movements also reduced fuel costs by $125.9 million.
- Property costs increased by $22.2 million or 8.4 per cent due to higher activity, rental increases, the extension of airport lounges, the lease of Terminal 2 at Sydney Airport, and the lease of former Ansett hangars. This was partly offset by the reduction in some international terminal charges.
- Depreciation and amortisation increased by $197.9 million or 28.5 per cent due to depreciation on aircraft acquisitions and accelerated depreciation of 767-200 aircraft.
- Non-cancellable lease rentals increased by 11.0 per cent or $28.2 million due to the full year impact of the 717-200 leases which were acquired as part of the Impulse Airlines Group purchase in November 2001.
- Tours and travel cost of sales decreased $20.4 million or 3.5 per cent due to a reduction in overseas sales and a switch towards cheaper domestic packages.
- Capacity hire reduced by $118.3 million or 23.7 per cent reflecting the termination of some wet-lease capacity entered into after the collapse of Ansett and the transfer of Impulse 717-200 costs to non-cancellable lease rentals following the acquisition of the Impulse Airlines Group. These were partly offset by increased codeshare costs.
- Other expenditure increased by $23.5 million or 5.1 per cent primarily as a result of increased insurance costs due to the full year impact of post September 11 insurance premiums.

## REVIEW OF OTHER STATEMENT OF FINANCIAL PERFORMANCE ITEMS

- Net borrowing costs increased by 34.0 per cent or $16.4 million. Average net debt was $2.5 billion, $0.7 billion higher than the prior year. Interest rates were lower and $82.7 million of interest was capitalised into aircraft progress payments (compared with $77.0 million in the previous year).
- The favourable net impact of foreign exchange rate movements on the overall profit before tax was $106.8 million.
- The effective tax rate decreased by 1.0 percentage point to 31.0 per cent.
- Earnings per share decreased by 31.3 per cent to 20.0 cents. Diluted earnings per share reduced by 31.5 per cent to 19.8 cents.

## STATEMENT OF FINANCIAL POSITION
as at 30 June 2003

| | Notes | Qantas Group 2003 $M | 2002 $M |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash | | **121.9** | 112.5 |
| Receivables | | **2,867.0** | 2,386.6 |
| Net receivables under hedge/swap contracts | | **330.9** | 697.7 |
| Inventories | | **430.3** | 385.4 |
| Other | | **204.3** | 173.5 |
| **Total current assets** | | **3,954.4** | 3,755.7 |
| **NON-CURRENT ASSETS** | | | |
| Receivables | | **176.5** | 240.0 |
| Net receivables under hedge/swap contracts | | **1,014.9** | 1,398.0 |
| Investments accounted for using the equity method | | **68.3** | 65.4 |
| Other investments | | **101.9** | 8.9 |
| Property, plant and equipment | | **11,432.5** | 9,109.5 |
| Intangible assets | | **119.6** | 161.0 |
| Deferred tax assets | | **44.7** | 34.7 |
| Other | | **61.0** | 28.3 |
| **Total non-current assets** | | **13,019.4** | 11,045.8 |
| **Total assets** | | **16,973.8** | 14,801.5 |
| **CURRENT LIABILITIES** | | | |
| Payables | | **2,109.1** | 2,382.3 |
| Interest-bearing liabilities | | **971.1** | 837.0 |
| Net payables under hedge/swap contracts | | **46.6** | 430.8 |
| Provisions | | **435.9** | 525.8 |
| Current tax liabilities/(receivable) | | **(4.7)** | 77.9 |
| Revenue received in advance | | **1,158.4** | 1,285.2 |
| Deferred lease benefits/income | | **50.6** | 42.4 |
| **Total current liabilities** | | **4,767.0** | 5,581.4 |
| **NON-CURRENT LIABILITIES** | | | |
| Payables | | **–** | 33.7 |
| Interest-bearing liabilities | | **5,391.9** | 3,569.9 |
| Net payables under hedge/swap contracts | | **340.9** | 150.8 |
| Provisions | | **354.1** | 351.0 |
| Deferred tax liabilities | | **603.0** | 524.7 |
| Deferred lease benefits/income | | **254.8** | 329.0 |
| Other | | **–** | 7.5 |
| **Total non-current liabilities** | | **6,944.7** | 4,966.6 |
| **Total liabilities** | | **11,711.7** | 10,548.0 |
| **Net assets** | | **5,262.1** | 4,253.5 |
| **EQUITY** | | | |
| Contributed equity | 6 | **3,757.9** | 2,946.6 |
| Reserves | | **54.0** | 56.3 |
| Retained profits | 4 | **1,435.9** | 1,239.1 |
| Equity attributable to members of the Company | | **5,247.8** | 4,242.0 |
| Outside equity interests in controlled entities | | **14.3** | 11.5 |
| **Total equity** | 6 | **5,262.1** | 4,253.5 |

The Statement of Financial Position should be read in conjunction with the Discussion and Analysis on page 44 and the Notes to the Financial Statements on pages 47 to 53.

# DISCUSSION AND ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION
as at 30 June 2003

The net assets of the Qantas Group increased by 23.7 per cent to $5,262.1 million during the financial year. The major items are discussed below.

## REVIEW OF ASSETS

- Current receivables increased by 20.1 per cent due to an increase in short-term money market securities resulting from funds generated through debt and equity raisings not yet utilised for aircraft and other capital projects, partially offset by a decrease in aircraft security deposits and lower trade debtors resulting from weaker trading conditions in June 2003 compared to the prior year.
- Net receivables/payables under hedge/swap contracts decreased by 36.7 per cent to $958.3 million mainly due to exchange rate movements partly offset by new swaps taken out to hedge aircraft funding.
- Inventory levels increased by 11.7 per cent due to the growth in the level of inventories required to support the increased fleet size and the introduction of new aircraft types such as the A330-200s and the 747-400ERs.
- Property, plant and equipment increased by 25.5 per cent due to aircraft acquisitions under the aircraft fleet plan (17 aircraft entered service during the financial year) and a consequent growth in spares. Significant investment was also made in airline product, aircraft reconfigurations, airport lounges and terminals.
- Other investments increased by $93.0 million primarily due to the acquisition of a 4.99 per cent interest in Air New Zealand during the year.

## REVIEW OF LIABILITIES

- Current payables decreased by 11.5 per cent to $2,109.1 million mainly due to a decrease in accrued expenditure for employee bonuses and fuel costs. This was partly offset by increases in trade creditors due to working capital improvement initiatives.
- Interest-bearing liabilities increased by 44.4 per cent to $6,363.0 million due to drawdowns on existing loan facilities and new bond financing to fund the expansion of the fleet.
- Provisions reduced by $86.8 million or 9.9 per cent primarily due to the requirements of AASB 1044 “Provisions, Contingent Liabilities and Contingent Assets”, which requires that dividends are not provided for until they are declared, determined or publicly recommended.
- Revenue received in advance decreased by 9.9 per cent to $1,158.4 million reflecting weaker trading conditions in June 2003 compared to the prior year.

## REVIEW OF EQUITY

- Contributed equity increased by $811.3 million due to the issue of 142.5 million shares as part of the Institutional Equity Placement, 28.4 million shares as part of the Shareholder Equity Placement, 31.4 million shares as part of the Qantas Dividend Reinvestment Plan and 8.0 million shares under the Qantas Profitshare Scheme.

## GEARING

Qantas Group gearing (including the notional capitalisation of non-cancellable operating leases) on a hedged basis at 30 June 2003 was 51:49 compared to 47:53 at 31 December 2002 and 49:51 at 30 June 2002. The increase in gearing was principally a result of the significant capital investment in product and fleet, partially offset by strong operating cash flows and equity raisings.

Gearing is determined by dividing the book value of the Qantas Group’s net debt (short and long-term plus the present value of non-cancellable operating leases less related hedge receivables and cash and cash equivalents) by the same amount plus the book value of total equity.

# STATEMENT OF CASH FLOWS
for the year ended 30 June 2003

| | Qantas Group | |
|---|---|---|
| | **2003 $M** | 2002 $M |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts in the course of operations | **12,567.3** | 12,043.9 |
| Cash payments in the course of operations | **(10,960.6)** | (10,647.7) |
| Interest received | **114.4** | 69.1 |
| Borrowing costs paid | **(268.1)** | (169.2) |
| Dividends received | **7.0** | 13.1 |
| Income taxes paid | **(169.2)** | (165.9) |
| **Net cash provided by operating activities** | **1,290.8** | 1,143.3 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Payments for property, plant and equipment | **(3,137.2)** | (2,463.4) |
| Receipts for aircraft security deposits | **197.7** | 124.6 |
| Total payments for purchases of property, plant, equipment and aircraft security deposits | **(2,939.5)** | (2,338.8) |
| Proceeds from sale of property, plant and equipment | **36.7** | 12.7 |
| Proceeds from sale of investments | **–** | 39.3 |
| Payments for investments, net of cash acquired | **(92.9)** | (19.3) |
| **Net cash used in investing activities** | **(2,995.7)** | (2,306.1) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayments of borrowings/swaps | **(798.3)** | (1,109.7) |
| Proceeds from borrowings | **3,205.2** | 2,269.9 |
| Net proceeds from the issue of shares | **701.0** | 652.7 |
| Dividends paid | **(172.3)** | (124.1) |
| **Net cash provided by financing activities** | **2,935.6** | 1,688.8 |
| **RECONCILIATION OF CASH PROVIDED BY/(USED IN):** | | |
| Operating activities | **1,290.8** | 1,143.3 |
| Investing activities | **(2,995.7)** | (2,306.1) |
| Financing activities | **2,935.6** | 1,688.8 |
| Net increase in cash held | **1,230.7** | 526.0 |
| Cash at the beginning of the financial year | **785.2** | 259.2 |
| **Cash at the end of the financial year** | **2,015.9** | 785.2 |

The Statement of Cash Flows is to be read in conjunction with the Discussion and Analysis on page 46 and the Notes to the Financial Statements on pages 47 to 53.

# DISCUSSION AND ANALYSIS OF THE STATEMENT OF CASH FLOWS
for the year ended 30 June 2003

For the purposes of the Statement of Cash Flows, cash includes cash at bank and on hand, bank overdrafts, cash at call, short-term money market securities and term deposits.

## REVIEW OF CASH FLOWS FROM OPERATING ACTIVITIES

- Cash flows provided by operations increased by 12.9 per cent to $1,290.8 million primarily due to favourable movements in working capital.
- Borrowing costs paid increased by 58.5 per cent due to higher debt levels, while interest received increased by 65.6 per cent due to higher cash held.
- Income taxes paid were higher due to the timing of payments.

## REVIEW OF CASH FLOWS FROM INVESTING ACTIVITIES

- Cash flows used in investing activities increased by $689.6 million to $2,995.7 million.
- Total capital expenditure of $3,137.2 million for the year predominantly related to the acquisition of aircraft under the aircraft fleet plan, aircraft progress payments, reconfigurations, product investment, engine modifications and spares.
- Payments for investments made during the year of $92.9 million mainly comprised the initial 4.99 per cent investment in Air New Zealand.
- Proceeds from the sale of property, plant and equipment mainly related to the sale of 12 Beechcraft 1900 aircraft which were originally purchased as part of the acquisition of the Impulse Airlines Group in November 2001.

## REVIEW OF CASH FLOWS FROM FINANCING ACTIVITIES

- Cash flows provided by financing activities increased by $1,246.8 million to $2,935.6 million.
- Repayments of borrowings/swaps of $798.3 million comprised repayments of short-term borrowings, swaps, loans and leases.
- Proceeds from borrowings of $3,205.2 million included drawdowns of a syndicated bank loan facility and bond financing required to purchase new aircraft under the fleet plan.
- Proceeds from the issue of shares of $701.0 million reflected the proceeds received from the Institutional and Shareholder Equity Placements.
- Dividend payments represent total dividends paid and is net of $110.3 million which was converted directly to shares via the Dividend Reinvestment Plan.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2003

# 1. Basis of preparation of the concise financial report

The Concise Financial Report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039 "Concise Financial Reports" and applicable Urgent Issues Group Consensus Views. The Financial Statements and specific disclosures required by AASB 1039 have been derived from the Qantas Group's full Financial Report for the financial year. Other information included in the Concise Financial Report is consistent with the Qantas Group's full Financial Report. The Concise Financial Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Qantas Group as the full Financial Report.

This Report has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the Qantas Group, being Qantas Airways Limited (Qantas) and its controlled entities, and except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

A full description of the accounting policies adopted by the Qantas Group may be found in the Qantas Group's full Financial Report for the financial year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

# 2. Change in accounting policies

## EMPLOYEE BENEFITS

The Qantas Group has applied AASB 1028 "Employee Benefits" for the first time from 1 July 2002.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates Qantas expects to pay as at each reporting date, not wage and salary rates current at reporting date.

The initial adjustments to the Consolidated Financial Statements as at 1 July 2002 as a result of this change are:

- $5.3 million increase in provision for employee benefits;
- $3.7 million decrease in opening retained profits; and
- $1.6 million increase in future income tax benefit.

There was no material impact on net profit for the financial year to 30 June 2003.

## PROVISIONS AND CONTINGENT LIABILITIES

The Qantas Group has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 July 2002.

Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of that financial year.

The adjustments to the Consolidated Financial Statements as at 1 July 2002 as a result of this change are:

- $140.7 million increase in opening retained profits; and
- $140.7 million decrease in provision for dividends.

There was no material impact on net profit for the financial year to 30 June 2003.

## AIRCRAFT LEASES

The Qantas Group has applied Urgent Issues Group Abstract 50 "Evaluating the Substance of Transactions involving the Legal Form of a Lease" (issued September 2002) for the first time from 1 July 2002. The application of this abstract had no impact on net profit for the prior year and an immaterial impact on net profit for the financial year to 30 June 2003.

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 30 June 2003

| | Qantas Group 2003 $M | Qantas Group 2002 $M |
|---|---|---|
| **3. Revenue from ordinary activities** | | |
| REVENUE FROM OPERATING ACTIVITIES | | |
| Sales and operating revenue | | |
| Related parties | | |
| – associates | **103.8** | 68.3 |
| – other related parties | **20.2** | 31.9 |
| Other parties | **11,250.6** | 10,868.3 |
| Dividend revenue | | |
| Other parties | **0.3** | 0.3 |
| **Sales and operating revenue** | **11,374.9** | 10,968.8 |
| REVENUE FROM OUTSIDE OPERATING ACTIVITIES | | |
| Interest revenue | | |
| Other parties | **107.7** | 69.3 |
| Proceeds from sale of property, plant and equipment | **36.7** | 12.7 |
| Proceeds from sale of investments | **–** | 39.3 |
| **Total revenue from ordinary activities** | **11,519.3** | 11,090.1 |

## 4. Retained profits

| | Qantas Group 2003 $M | Qantas Group 2002 $M |
|---|---|---|
| Retained profits at the beginning of the year | **1,239.1** | 1,078.0 |
| Net profit attributable to members of the Company | **343.5** | 428.0 |
| Net effect on initial adoption of AASB 1028 "Employee Benefits" | **(3.7)** | – |
| Net effect on dividends from: | | |
| Initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" | **140.7** | – |
| Dividends recognised during the year* | **(283.7)** | (266.9) |
| **Retained profits at the end of the year** | **1,435.9** | 1,239.1 |

* Includes dividends paid to outside equity interests.

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 30 June 2003

# 5. Dividends

Dividends recognised in the current year by Qantas are:

| Type | Cents per Share | Total Amount $M | Date of Payment | Franked Tax Rate % | Percentage Franked % |
|---|---|---|---|---|---|
| **2003** | | | | | |
| Interim – ordinary | **8.0** | **140.5** | 9 April 2003 | 30 | 100 |
| 2002 final ordinary dividend recognised when declared during the year (refer to Note 2). | **9.0** | **140.7** | 2 October 2002 | 30 | 100 |
| Total amount | **17.0** | **281.2** | | | |
| **2002** | | | | | |
| Interim – ordinary | 8.0 | 124.1 | 10 April 2002 | 30 | 100 |
| Final – ordinary | 9.0 | 140.7 | 2 October 2002 | 30 | 100 |
| | 17.0 | 264.8 | | | |

## SUBSEQUENT EVENTS

Since the end of the financial year ended 30 June 2003, the Directors have declared the following dividend:

| Type | Cents per Share | Total Amount $M | Date of Payment | Franked Tax Rate % | Percentage Franked % |
|---|---|---|---|---|---|
| Final – ordinary | **9.0** | **159.7** | 1 October 2003 | 30 | 100 |

| | Qantas Group 2003 $M | Qantas Group 2002 $M |
|---|---|---|
| Total franking account balance at 30 per cent (2002: 30 per cent) | **179.2** | 174.5 |

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 financial 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 franking credits is dependent upon there being sufficient available profits to declare dividends.

From 1 July 2002, the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after tax profits.

As a result, the "franking credits available" for the Qantas Group were converted from $407.1 million to $174.5 million as at 1 July 2002.

This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 30 June 2003

| | Qantas Group 2003 $M | 2002 $M |
|---|---|---|
| **6. Total equity reconciliation** | | |
| Total equity at the beginning of the year | **4,253.5** | 3,315.9 |
| Total changes in parent entity interest in equity recognised in the Statement of Financial Performance | **337.5** | 430.0 |
| Contributions of equity | **811.3** | 773.6 |
| Dividends | **(143.0)** | (266.9) |
| Total changes in outside equity interests | **2.8** | 0.9 |
| **Total equity at the end of the year** | **5,262.1** | 4,253.5 |
| Contributed equity 1,774,112,946 (2002: 1,563,858,757) ordinary shares, fully paid | **3,757.9** | 2,946.6 |

## 7. Segment information

Qantas operates predominantly in three business segments, being Aircraft Operations, Tours and Travel, and Catering:

- Aircraft Operations – operation of aircraft for passenger and freight services.
- Tours and Travel – sale of packaged holidays.
- Catering – production and distribution of meals.

| | Aircraft Operations 2003 $M | 2002 $M | Tours and Travel 2003 $M | 2002 $M | Catering 2003 $M | 2002 $M | Eliminations 2003 $M | 2002 $M | Consolidated 2003 $M | 2002 $M |
|---|---|---|---|---|---|---|---|---|---|---|
| **ANALYSIS BY BUSINESS SEGMENTS** | | | | | | | | | | |
| **SALES AND OPERATING REVENUE** | | | | | | | | | | |
| External segment revenue | **10,525.9** | 10,140.3 | **696.3** | 674.4 | **152.7** | 154.1 | **–** | – | **11,374.9** | 10,968.8 |
| Inter-segment revenue | **404.4** | 477.7 | **337.9** | 451.7 | **353.0** | 335.9 | **(1,095.3)** | (1,265.3) | **–** | – |
| **Total segment revenue** | **10,930.3** | 10,618.0 | **1,034.2** | 1,126.1 | **505.7** | 490.0 | **(1,095.3)** | (1,265.3) | **11,374.9** | 10,968.8 |
| Share of net profit of associates | **9.6** | 35.4 | **–** | 0.7 | **–** | – | **–** | – | **9.6** | 36.1 |
| Earnings before interest and tax | **450.1** | 567.3 | **43.6** | 42.4 | **73.3** | 69.6 | **–** | – | **567.0** | 679.3 |
| Net borrowing costs | | | | | | | | | **64.7** | 48.3 |
| Profit from ordinary activities before related income tax expense | | | | | | | | | **502.3** | 631.0 |
| Income tax expense relating to ordinary activities | | | | | | | | | **(155.7)** | (201.7) |
| **Net profit** | | | | | | | | | **346.6** | 429.3 |
| Depreciation and amortisation | **879.0** | 680.7 | **1.7** | 1.8 | **10.7** | 11.0 | **–** | – | **891.4** | 693.5 |
| Non-cash items | **(152.7)** | (45.8) | **(2.6)** | (1.6) | **0.2** | (1.8) | **–** | – | **(155.1)** | (49.2) |
| **ASSETS** | | | | | | | | | | |
| Segment assets | **16,204.9** | 14,336.2 | **344.8** | 307.7 | **174.6** | 176.7 | **181.2** | (84.5) | **16,905.5** | 14,736.1 |
| Equity accounted investments | **67.2** | 64.3 | **1.1** | 1.1 | **–** | – | **–** | – | **68.3** | 65.4 |
| **Consolidated total assets** | **16,272.1** | 14,400.5 | **345.9** | 308.8 | **174.6** | 176.7 | **181.2** | (84.5) | **16,973.8** | 14,801.5 |
| **LIABILITIES** | | | | | | | | | | |
| **Consolidated total liabilities** | **11,337.9** | 10,442.0 | **256.0** | 254.4 | **125.1** | 117.2 | **(7.3)** | (265.6) | **11,711.7** | 10,548.0 |
| **Acquisition of non-current assets** | **3,128.4** | 2,445.8 | **1.9** | 2.3 | **6.9** | 15.3 | **–** | – | **3,137.2** | 2,463.4 |

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 30 June 2003

## 7. Segment information continued

Passenger, freight and other services revenue from domestic services within Australia is attributed to the Australian area. Passenger, freight and other services revenue from inbound and outbound services between Australia and overseas are allocated proportionately to the area in which the sale was made. Other operating revenue is not allocated to a geographic area as it is impractical to do so.

| | Qantas Group | |
|---|---|---|
| | **2003 $M** | 2002 $M |
| **ANALYSIS OF TOTAL REVENUE BY GEOGRAPHIC REGION** | | |
| PASSENGER, FREIGHT AND OTHER SERVICES REVENUE | | |
| Australia | **6,449.0** | 5,987.8 |
| United Kingdom and Europe | **904.6** | 913.1 |
| Japan | **574.0** | 712.3 |
| South-East Asia/North-East Asia | **481.4** | 713.9 |
| The Americas and the Pacific | **813.2** | 872.9 |
| New Zealand | **404.0** | 357.8 |
| Other regions (Africa and South America) | **221.4** | 140.2 |
| | **9,847.6** | 9,698.0 |
| OTHER OPERATING REVENUE | | |
| Tours and travel revenue | **696.3** | 674.4 |
| Other unallocated revenue | **831.0** | 596.4 |
| **Sales and operating revenue** | **11,374.9** | 10,968.8 |
| REVENUE FROM OUTSIDE OPERATING ACTIVITIES | | |
| Interest revenue | **107.7** | 69.3 |
| Proceeds from sale of property, plant and equipment | **36.7** | 12.7 |
| Proceeds from sale of investments | **–** | 39.3 |
| **Total revenue from outside operating activities** | **144.4** | 121.3 |
| **Total revenue from ordinary activities** | **11,519.3** | 11,090.1 |

### SEGMENTAL ANALYSIS OF NET ASSETS AND PROFIT CONTRIBUTION

For the financial year ended 30 June 2003, the principal assets of the Qantas Group comprised the aircraft fleet all, except one, 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.

Operating profit resulting from turnover generated in each geographic area according to origin of sale is not disclosed as it is neither practical nor meaningful to allocate the Qantas Group's operating expenditure on that basis. Disclosure is made of a more appropriate measure of profit contributions in accordance with the Qantas Group's internal reporting system, being the earnings before interest and tax contributed by the international and domestic airline operations and subsidiary businesses.

| | Qantas Group | |
|---|---|---|
| | **2003 $M** | 2002 $M |
| **SEGMENTAL ANALYSIS OF EARNINGS BEFORE INTEREST AND TAX** | | |
| International airline operations | **221.6** | 202.8 |
| Domestic airline operations | **165.7** | 298.2 |
| | **387.3** | 501.0 |
| Subsidiary businesses | | |
| Qantas Holidays | **43.6** | 42.4 |
| QantasLink | **57.3** | 42.5 |
| Qantas Flight Catering | **73.3** | 69.6 |
| Australian Airlines | **(14.7)** | – |
| Equity accounted associates | **9.6** | 36.1 |
| Other subsidiaries | **10.6** | (12.3) |
| Total subsidiary businesses | **179.7** | 178.3 |
| **Earnings before interest and tax** | **567.0** | 679.3 |

Inter-segment pricing is determined on an arm's-length commercial basis.

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 30 June 2003

## 8. Contingent liabilities

Details of contingent liabilities arising outside the normal course of business, where the probability of future payments is not considered remote, are set out below. The Directors are of the opinion that provisions are not required in respect of 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 | |
|---|---|---|
| | **2003 $M** | 2002 $M |
| Guarantees and letters of comfort to support operating lease commitments and other arrangements entered into with other parties by controlled entities | **24.0** | 24.8 |
| Guarantees and letters of comfort to support leveraged and operating lease commitments to other parties on behalf of associated companies | **0.1** | 0.1 |
| General guarantees in the normal course of business | **130.7** | 134.2 |
| Contingent liabilities relating to current and threatened litigation | **56.6** | 49.8 |
| | **211.4** | 208.9 |

### TERMINAL FUEL FACILITIES

The Qantas Group, together with other airlines, has entered into various agreements in order to facilitate the funding and installation of jet turbine fuel hydrant systems and terminal equipment facilities at Los Angeles and Hawaii airports. The airlines have jointly and severally agreed to repay any unpaid balance (including interest) of the loans totalling $225.3 million (2002: $294.1 million) in the event the agreements are terminated prior to expiry of the loans.

### 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, Qantas Group may be required to make payments under these guarantees. The Qantas Group has guaranteed that the lessors will receive all of the funds due to them under the lease arrangements.

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.

### UNREALISED 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, this is deferred until the net revenue is realised. As at 30 June 2003, total unrealised exchange gains on hedges of net revenue designated to service long-term debt were $117.7 million (2002: $206.2 million loss).

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 30 June 2003

## 9. Capital expenditure commitments

| | Qantas Group 2003 $M | Qantas Group 2002 $M |
|---|---|---|
| Capital expenditure commitments contracted but not provided for in the Financial Statements: | | |
| Aircraft | **5,740.6** | 8,750.0 |
| Building works | **181.2** | 203.7 |
| Other | **325.0** | 516.2 |
| | **6,246.8** | 9,469.9 |
| Payable | | |
| Not later than one year | **1,788.2** | 2,986.7 |
| Later than one year but not later than five years | **3,535.1** | 4,362.1 |
| Later than five years | **923.5** | 2,121.1 |
| | **6,246.8** | 9,469.9 |

## 10. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Qantas Group, the results of those operations, or the state of affairs of the Qantas Group, in this financial year or in future financial years.

## DIRECTORS' DECLARATION
to the Members of Qantas Airways Limited

In the opinion of the Directors of Qantas Airways Limited, the accompanying Concise Financial Report of the consolidated entity, comprising Qantas Airways Limited and its controlled entities for the year ended 30 June 2003, set out on pages 40 to 53:

(a) has been derived from or is consistent with the full Financial Report for the financial year; and

(b) complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

Signed pursuant to a Resolution of the Directors:

**Margaret Jackson**
Chairman

**Geoff Dixon**
Chief Executive Officer

Sydney, 1 September 2003

## INDEPENDENT AUDIT REPORT ON THE CONCISE FINANCIAL REPORT
to the Members of Qantas Airways Limited

### SCOPE

We have audited the Concise Financial Report of Qantas Airways Limited ("the Company") and its controlled entities for the financial year ended 30 June 2003, consisting of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying notes, and the accompanying Discussion and Analysis on the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows (set out on pages 40 to 53) in order to express an opinion on it to the members of the Company. The Company's Directors are responsible for the Concise Financial Report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the Concise Financial Report is free of material misstatement. We have also performed an independent audit of the full Financial Report of Qantas Airways Limited and its controlled entities for the year ended 30 June 2003. Our audit report on the full Financial Report was signed on 1 September 2003, and was not subject to any qualification.

Our procedures in respect of the audit of the Concise Financial Report included testing that the information in the Concise Financial Report is consistent with the full Financial Report and examination, on a test basis, of evidence supporting the amounts, Discussion and Analysis, and other disclosures which were not directly derived from the full Financial Report. These procedures have been undertaken to form an opinion whether, in all material respects, the Concise Financial Report is presented fairly in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this Report has been formed on the above basis.

### AUDIT OPINION

In our opinion, the Concise Financial Report of Qantas Airways Limited and its controlled entities for the year ended 30 June 2003 complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

**KPMG**

**Mark Epper**
Partner

Sydney, 1 September 2003

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 28 August 2003.

## 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* | 24,077,045 | 44,686 | 1.37 |
| 1,001–5,000 | 270,092,170 | 114,950 | 15.22 |
| 5,001–10,000 | 104,210,567 | 14,606 | 5.87 |
| 10,001–100,000 | 139,646,024 | 6,682 | 7.87 |
| 100,001 and over | 1,236,087,140 | 262 | 69.67 |
| | 1,774,112,946 | 181,186 | 100.00 |

* 5,463 shareholders hold less than a marketable parcel of shares in Qantas Airways Limited.

## ON-MARKET BUY-BACKS

There is no current on-market buy-back.

## TWENTY LARGEST SHAREHOLDERS

| Shareholders | Ordinary Shares Held | % of Issued Shares |
|---|---|---|
| British Airways Investments (Australia) Pty Ltd | 332,588,055 | 18.75 |
| J P Morgan Nominees Australia Ltd | 271,980,451 | 15.33 |
| Westpac Custodian Nominees Ltd | 169,164,952 | 9.54 |
| National Nominees Limited | 123,096,584 | 6.94 |
| ANZ Nominees Limited | 47,897,026 | 2.70 |
| RBC Global Services Australia Nominees Pty Limited | 45,186,253 | 2.55 |
| Citicorp Nominees Pty Limited | 27,433,109 | 1.55 |
| Queensland Investment Corporation | 20,229,531 | 1.14 |
| AMP Life Limited | 16,066,309 | 0.90 |
| Commonwealth Custodial Services Limited | 13,466,844 | 0.76 |
| HSBC Custody Nominees (Australia) Limited | 12,166,589 | 0.69 |
| Westpac Financial Services Ltd | 12,072,481 | 0.68 |
| Fortis Clearing Nominees P/L | 8,981,949 | 0.51 |
| Cogent Nominees Pty Limited | 8,967,894 | 0.50 |
| Zurich Investment Management Limited | 5,650,000 | 0.32 |
| Invia Custodian Pty Limited | 5,430,403 | 0.31 |
| Government Superannuation Office | 5,189,152 | 0.29 |
| Merrill Lynch (Australia) Nominees Pty Ltd | 4,506,977 | 0.25 |
| UBS Warburg Private Clients Nominees Pty Ltd | 4,323,886 | 0.24 |
| Bond Street Custodians Limited | 4,322,042 | 0.24 |
| | 1,138,720,487 | 64.19 |

## SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Qantas Airways Limited:

| Shareholders | Ordinary Shares Held | % of Issued Shares |
|---|---|---|
| British Airways Investments (Australia) Pty Limited | 332,588,055 | 18.75 |
| The Capital Group Companies[1] | 105,743,594 | 6.14 |

[1] Notified to Qantas Airways Limited on 19 May 2003.

# QANTAS GROUP FIVE-YEAR SUMMARY
for the year ended 30 June

| | Unit | 2003^** | 2002^** | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| **STATEMENT OF FINANCIAL PERFORMANCE** | | | | | | |
| Sales and operating revenue* | $M | **11,374.9** | 10,968.8 | 10,188.2 | 9,106.8 | 8,448.7 |
| Expenditure | $M | **(10,807.9)** | (10,289.5) | (9,492.4) | (8,232.8) | (7,686.1) |
| Earnings before interest and tax | $M | **567.0** | 679.3 | 695.8 | 874.0 | 762.6 |
| Net borrowing costs | $M | **(64.7)** | (48.3) | (98.7) | (111.2) | (100.1) |
| Profit from ordinary activities before tax | $M | **502.3** | 631.0 | 597.1 | 762.8 | 662.5 |
| Income tax expense | $M | **(155.7)** | (201.7) | (177.4) | (244.9) | (241.6) |
| Net profit | $M | **346.6** | 429.3 | 419.7 | 517.9 | 420.9 |
| Outside equity interests in net (profit)/loss | $M | **(3.1)** | (1.3) | (4.3) | (0.6) | 0.7 |
| **Net profit attributable to members of the Company for the year** | $M | **343.5** | 428.0 | 415.4 | 517.3 | 421.6 |
| **Net profit attributable to members of the Company for the six months to 31 December** | $M | **352.5** | 153.5 | 262.9 | 337.8 | 222.9 |
| **Net profit/(loss) attributable to members of the Company for the six months to 30 June** | $M | **(9.0)** | 274.5 | 152.5 | 179.5 | 198.7 |
| **SHARE INFORMATION** | | | | | | |
| Earnings per share | cents | **20.0** | 29.1 | 33.0 | 42.8 | 35.4 |
| Dividends per share | cents | **17.0** | 17.0 | 20.0 | 59.0 | 32.5 |
| Dividend payout ratio | % | **85.0** | 58.4 | 60.6 | 137.9 | 91.8 |
| Share price – high | $ | **4.88** | 4.92 | 4.25 | 5.28 | 5.00 |
| Share price – low | $ | **2.85** | 2.60 | 2.36 | 3.12 | 2.27 |
| Share price – closing | $ | **3.27** | 4.60 | 3.50 | 3.38 | 4.99 |
| Weighted average number of ordinary shares | M | **1,721.2** | 1,469.4 | 1,258.5 | 1,209.3 | 1,189.7 |
| Net tangible asset backing per share | $ | **2.89** | 2.61 | 2.51 | 2.34 | 2.52 |
| **EARNINGS BEFORE INTEREST AND TAX** | | | | | | |
| International airline operations | $M | **221.6** | 202.8 | 458.7 | 374.8 | 308.3 |
| Domestic airline operations | $M | **165.7** | 298.2 | 127.4 | 272.0 | 256.8 |
| Subsidiary businesses | $M | **179.7** | 178.3 | 109.7 | 169.4 | 136.7 |
| Items previously shown as abnormal | $M | **–** | – | – | 57.8 | 60.8 |
| **Earnings before interest and tax** | $M | **567.0** | 679.3 | 695.8 | 874.0 | 762.6 |
| **PERFORMANCE INDICATORS** | | | | | | |
| Interest cover | times | **8.8** | 14.1 | 7.0 | 7.9 | 7.6 |
| Return on equity (excl. operating leases) | % | **6.5** | 10.1 | 12.6 | 18.1 | 13.8 |
| Return on equity (incl. operating leases) | % | **8.9** | 12.0 | 10.6 | 18.3 | 14.6 |
| **STATEMENT OF CASH FLOWS** | | | | | | |
| Net cash provided by operating activities | $M | **1,290.8** | 1,143.3 | 1,100.7 | 1,599.8 | 1,208.3 |
| Net cash used in investing activities | $M | **(2,995.7)** | (2,306.1) | (871.3) | (262.7) | (628.9) |
| Net cash provided by/(used in) financing activities | $M | **2,935.6** | 1,688.8 | (659.0) | (1,542.0) | (396.4) |
| **Net increase/(decrease) in cash held** | $M | **1,230.7** | 526.0 | (429.6) | (204.9) | 183.0 |
| **Capital expenditure** | $M | **3,137.2** | 2,463.4 | 995.5 | 1,141.8 | 1,233.3 |
| **STATEMENT OF FINANCIAL POSITION** | | | | | | |
| Total assets | $M | **16,973.8** | 14,801.5 | 12,513.6 | 12,007.1 | 11,226.6 |
| Total liabilities | $M | **11,711.7** | 10,548.0 | 9,197.7 | 9,142.7 | 8,166.7 |
| **Net assets** | $M | **5,262.1** | 4,253.5 | 3,315.9 | 2,864.4 | 3,059.9 |
| Contributed equity | $M | **3,757.9** | 2,946.6 | 2,173.0 | 1,882.0 | 1,882.0 |
| Reserves | $M | **54.0** | 56.3 | 54.3 | 54.0 | 52.8 |
| Retained profits | $M | **1,435.9** | 1,239.1 | 1,078.0 | 926.8 | 1,124.1 |
| Outside equity interests in controlled entities | $M | **14.3** | 11.5 | 10.6 | 1.6 | 1.0 |
| **Total equity** | $M | **5,262.1** | 4,253.5 | 3,315.9 | 2,864.4 | 3,059.9 |

* Excludes proceeds on sale of non-current assets, and interest revenue which is included in net borrowing costs.

** Passenger recoveries are now disclosed as part of net passenger revenue. Previously, passenger recoveries were netted against the relevant expenditure category. Comparatives for 2002 have been adjusted accordingly.

^ Passenger and freight revenue is now disclosed net of both sales discount and interline/IATA commission. Previously, only sales discount was netted against revenue, with interline/IATA commission being shown as an expense item. Comparatives for 2002 have been adjusted accordingly.

QANTAS GROUP FIVE-YEAR SUMMARY continued
for the year ended 30 June

| | Unit | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| **STATEMENT OF FINANCIAL POSITION STATISTICS** | | | | | | |
| Net debt on balance sheet | $M | **3,075.9** | 1,904.6 | 1,316.4 | 925.8 | 782.8 |
| Net debt including off balance sheet debt | $M | **5,181.5** | 4,110.0 | 3,793.9 | 2,503.6 | 2,134.7 |
| Net debt including off balance sheet debt and revenue hedge receivables | $M | **5,299.2** | 3,903.8 | 3,464.3 | 2,128.9 | 1,862.5 |
| Net debt to net debt plus equity | ratio | **37:63** | 31:69 | 28:72 | 24:76 | 20:80 |
| Net debt to net debt plus equity including off balance sheet debt | ratio | **50:50** | 50:50 | 55:45 | 48:52 | 42:58 |
| Net debt to net debt plus equity including off balance sheet debt and revenue hedge receivables | ratio | **51:49** | 49:51 | 53:47 | 44:56 | 39:61 |
| **OPERATIONAL STATISTICS** | | | | | | |
| **DOMESTIC – SCHEDULED SERVICES** | | | | | | |
| *Traffic and capacity* | | | | | | |
| Passengers carried | 000 | **16,789** | 15,063 | 11,218 | 10,646 | 10,111 |
| Revenue passenger kilometres (RPKs) | M | **22,496** | 20,168 | 14,790 | 13,959 | 12,956 |
| Available seat kilometres (ASKs) | M | **28,754** | 25,373 | 18,695 | 17,369 | 16,554 |
| Revenue seat factor | % | **78.2** | 79.5 | 79.1 | 80.4 | 78.3 |
| **INTERNATIONAL – SCHEDULED SERVICES** | | | | | | |
| *Traffic and capacity* | | | | | | |
| Passengers carried | 000 | **8,296** | 8,424 | 7,763 | 6,953 | 6,581 |
| Revenue passenger kilometres (RPKs) | M | **50,859** | 52,609 | 53,682 | 48,236 | 45,178 |
| Available seat kilometres (ASKs) | M | **64,920** | 67,237 | 71,247 | 64,879 | 62,679 |
| Revenue seat factor | % | **78.3** | 78.2 | 75.3 | 74.3 | 72.1 |
| Revenue freight tonne kilometres (RFTKs) | M | **1,530** | 1,598 | 1,859 | 1,718 | 1,783 |
| Available freight tonne kilometres (AFTKs) | M | **2,421** | 2,437 | 2,617 | 2,398 | 2,565 |
| **CORE AIRLINE PERFORMANCE STATISTICS** | | | | | | |
| *Traffic and capacity* | | | | | | |
| Passengers carried | 000 | **25,085** | 23,487 | 18,981 | 17,599 | 16,692 |
| Revenue passenger kilometres (RPKs) | M | **73,355** | 72,777 | 68,472 | 62,195 | 58,134 |
| Available seat kilometres (ASKs) | M | **93,674** | 92,610 | 89,942 | 82,248 | 79,233 |
| Revenue seat factor | % | **78.3** | 78.6 | 76.1 | 75.6 | 73.4 |
| Average passenger journey length | km | **2,924** | 3,099 | 3,607 | 3,534 | 3,483 |
| Available tonne kilometres (ATKs) | M | **12,506** | 12,317 | 12,187 | 11,117 | 10,928 |
| *Financial* | | | | | | |
| Passenger yield (per RPK) | cents | **10.74** | 10.84 | 10.84 | 10.42 | 10.34 |
| *Productivity* | | | | | | |
| Average full-time employee strength | # | **27,966** | 26,768 | 25,604 | 24,304 | 23,411 |
| RPK per employee | 000 | **2,623** | 2,719 | 2,674 | 2,559 | 2,483 |
| ASK per employee | 000 | **3,350** | 3,460 | 3,513 | 3,384 | 3,384 |
| Aircraft utilisation (average per day) | hrs | **10.7** | 11.3 | 11.5 | 11.6 | 11.6 |
| **QANTAS GROUP PERFORMANCE STATISTICS** | | | | | | |
| *Traffic and capacity* | | | | | | |
| Passengers carried | 000 | **28,884** | 27,128 | 22,147 | 20,485 | 19,236 |
| Revenue passenger kilometres (RPKs) | M | **77,225** | 75,134 | 70,540 | 64,149 | 59,863 |
| Available seat kilometres (ASKs) | M | **99,509** | 95,944 | 92,943 | 85,033 | 81,765 |
| Revenue seat factor | % | **77.6** | 78.3 | 75.9 | 75.4 | 73.2 |
| Aircraft in service at balance date | # | **196** | 193 | 178 | 147 | 135 |
| *Financial* | | | | | | |
| Passenger yield (per RPK) | cents | **11.15** | 11.34 | 11.26 | 10.87 | 10.75 |
| *Productivity* | | | | | | |
| Average full-time equivalent employees | # | **34,872** | 33,044 | 31,632 | 29,217 | 28,226 |
| RPK per employee | 000 | **2,215** | 2,274 | 2,230 | 2,196 | 2,121 |
| ASK per employee | 000 | **2,854** | 2,904 | 2,938 | 2,910 | 2,897 |

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# CORPORATE DIRECTORY

## REGISTERED OFFICE

Qantas Airways Limited
ABN 16 009 661 901

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Mascot NSW 2020
Australia

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Facsimile 61 2 9691 3339

Website www.qantas.com

## QANTAS SHARE REGISTRY

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580 George Street
Sydney NSW 2000
Australia

or

Locked Bag A14
Sydney South NSW 1235
Australia

Free call 1800 177 747
International 61 2 8280 7390
Facsimile 61 2 9261 8489

Email registry@qantas.com
Website www.qantas.com

## STOCK EXCHANGE

Australian Stock Exchange
20 Bridge Street
Sydney NSW 2000
Australia

## DEPOSITARY FOR AMERICAN DEPOSITARY RECEIPTS

The Bank of New York
ADR Division
22nd floor
101 Barclay Street
New York NY 10286
USA

Telephone 1 212 815 2218
Facsimile 1 212 815 3050

## GENERAL COUNSEL & COMPANY SECRETARY

Brett Johnson

# FINANCIAL CALENDAR

## 2003

| | |
|---|---|
| 20 February | Half year result announcement |
| 12 March | Record date for interim dividend |
| 9 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, Adelaide |

## 2004

| | |
|---|---|
| 19 February | Half year result announcement |
| 10 March | Record date for interim dividend |
| 7 April | Interim dividend payable |
| 30 June | Year end |
| 19 August | Preliminary final result announcement |
| 1 September | Record date for final dividend |
| 29 September | Final dividend payable |
| 21 October | Annual General Meeting, Brisbane |

## NOTICE OF MEETING

The Annual General Meeting of Qantas Airways Limited will be held at 2.00 pm on Thursday, 16 October 2003 in Hall G of the Adelaide Convention Centre, Adelaide.

## FINANCIAL REPORT

Shareholders seeking a copy of the Financial Report, which will be provided free of charge, should contact the Qantas Share Registry.

QANTAS

Qantas Airways Limited ABN 16 009 661 901

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