Qantas Financial Report 2004

QANTAS

Contents

Statements of Financial Performance

for the year ended 30 June 2004

	Notes	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
SALES AND OPERATING REVENUE					
Net passenger revenue[1,2]		**8,978.3**	8,992.8	**8,182.7**	8,242.5
Net freight revenue[1]		**469.7**	511.3	**467.3**	508.9
Tours and travel revenue		**711.1**	696.3	**–**	–
Contract work revenue		**502.6**	530.9	**276.5**	281.0
Other sources[3,4]		**692.0**	643.6	**943.3**	930.9
Sales and operating revenue	2	**11,353.7**	11,374.9	**9,869.8**	9,963.3
EXPENDITURE					
Manpower and staff related		**2,938.5**	3,017.7	**2,501.9**	2,587.7
Selling and marketing		**466.1**	546.6	**434.7**	517.0
Aircraft operating – variable		**2,226.8**	2,405.0	**2,150.9**	2,352.1
Fuel and oil		**1,355.6**	1,540.4	**1,232.8**	1,423.8
Property		**309.8**	286.5	**284.8**	262.6
Computer and communication		**439.1**	412.3	**411.6**	387.7
Depreciation and amortisation		**1,005.6**	891.4	**871.0**	774.2
Non-cancellable operating lease rentals		**263.5**	283.9	**237.3**	233.2
Tours and travel		**570.9**	564.0	**–**	–
Capacity hire		**287.4**	381.6	**255.5**	350.4
Other[5]		**411.9**	488.1	**424.0**	551.0
Share of net profit of associates and joint ventures	30	**(19.7)**	(9.6)	**–**	–
Expenditure	3	**10,255.5**	10,807.9	**8,804.5**	9,439.7
Earnings before interest and tax	34	**1,098.2**	567.0	**1,065.3**	523.6
Borrowing costs	3	**(259.5)**	(172.4)	**(263.5)**	(173.6)
Interest revenue	2	**125.9**	107.7	**112.3**	93.5
Net borrowing costs		**(133.6)**	(64.7)	**(151.2)**	(80.1)
Profit from ordinary activities before related income tax expense		**964.6**	502.3	**914.1**	443.5
Income tax expense relating to ordinary activities	4	**(315.8)**	(155.7)	**(238.1)**	(71.0)
Net profit		**648.8**	346.6	**676.0**	372.5
Outside equity interests in net profit		**(0.4)**	(3.1)	**–**	–
Net profit attributable to members of the Company	20	**648.4**	343.5	**676.0**	372.5
Non-owner transaction changes in equity:					
Net decrease in retained profits on the initial adoption of AASB 1028 "Employee Benefits"		**–**	(3.7)	**–**	(3.7)
Net exchange differences relating to self-sustaining foreign operations		**0.4**	(2.3)	**–**	–
Total changes in equity from non-owner related transactions attributable to members of the Company	21	**648.8**	337.5	**676.0**	368.8
Basic earnings per share	35	**35.7 cents**	20.0 cents		
Diluted earnings per share	35	**35.5 cents**	19.8 cents		

1 Passenger and freight revenue is disclosed net of both sales discount and interline/IATA commission.

2 Passenger recoveries are disclosed as part of net passenger revenue.

3 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.

4 Excludes interest revenue of $125.9 million (2003: $107.7 million) which is included in net borrowing costs. Also excluded are proceeds on sale and operating leaseback of non-current assets of $221.8 million (2003: $36.7 million), which are offset against the relevant asset's written down value before recognition of the profit or loss on sale. Net loss on sale of non-current assets was $0.5 million (2003: $12.4 million).

5 "Other expenditure" includes contract work materials, printing, stationery, insurance and other miscellaneous expenses.

The Statements of Financial Performance are to be read in conjunction with the Notes to the Financial Statements on pages 5 to 60.

Statements of Financial Position

as at 30 June 2004

	Notes	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
CURRENT ASSETS					
Cash	7	**335.9**	121.9	**254.7**	99.6
Receivables	8	**2,116.3**	2,867.0	**2,203.4**	2,875.2
Net receivables under hedge/swap contracts		**302.1**	330.9	**301.8**	331.2
Inventories	9	**375.5**	430.3	**348.4**	400.9
Other	11	**192.2**	204.3	**210.5**	143.7
Total current assets		**3,322.0**	3,954.4	**3,318.8**	3,850.6
NON-CURRENT ASSETS					
Receivables	8	**304.6**	176.5	**1,977.9**	1,879.9
Net receivables under hedge/swap contracts		**997.0**	1,014.9	**952.3**	958.2
Investments accounted for using the equity method	30	**339.7**	68.3	**–**	–
Other investments	10	**110.1**	101.9	**777.2**	374.8
Property, plant and equipment	12	**12,256.6**	11,432.5	**10,673.0**	9,548.5
Intangible assets	13	**152.4**	119.6	**47.2**	–
Deferred tax assets		**0.9**	44.7	**–**	14.6
Other	11	**90.9**	61.0	**64.9**	24.9
Total non-current assets		**14,252.2**	13,019.4	**14,492.5**	12,800.9
Total assets		**17,574.2**	16,973.8	**17,811.3**	16,651.5
CURRENT LIABILITIES					
Payables	14	**2,167.5**	2,109.1	**2,078.9**	1,984.2
Interest-bearing liabilities	15	**821.9**	971.1	**826.4**	980.2
Net payables under hedge/swap contracts		**250.8**	46.6	**262.9**	44.2
Provisions	16	**381.6**	435.9	**328.8**	372.5
Current tax liabilities/(receivables)	17	**30.1**	(4.7)	**27.2**	(32.2)
Revenue received in advance		**1,493.3**	1,158.4	**1,348.1**	1,056.3
Deferred lease benefits/income		**45.0**	50.6	**40.2**	45.9
Total current liabilities		**5,190.2**	4,767.0	**4,912.5**	4,451.1
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	15	**5,081.8**	5,391.9	**6,134.3**	6,055.6
Net payables under hedge/swap contracts		**131.6**	340.9	**131.6**	340.9
Provisions	16	**331.7**	354.1	**302.3**	324.4
Deferred tax liabilities		**806.9**	603.0	**788.3**	489.4
Deferred lease benefits/income		**191.7**	254.8	**166.2**	221.5
Total non-current liabilities		**6,543.7**	6,944.7	**7,522.7**	7,431.8
Total liabilities		**11,733.9**	11,711.7	**12,435.2**	11,882.9
Net assets		**5,840.3**	5,262.1	**5,376.1**	4,768.6
EQUITY					
Contributed equity	18	**3,994.9**	3,757.9	**3,994.9**	3,757.9
Reserves	19	**54.4**	54.0	**82.9**	82.9
Retained profits	20	**1,776.3**	1,435.9	**1,298.3**	927.8
Equity attributable to members of the Company		**5,825.6**	5,247.8	**5,376.1**	4,768.6
Outside equity interests in controlled entities	22	**14.7**	14.3	**–**	–
Total equity	21	**5,840.3**	5,262.1	**5,376.1**	4,768.6

The Statements of Financial Position are to be read in conjunction with the Notes to the Financial Statements on pages 5 to 60.

Statements of Cash Flows

for the year ended 30 June 2004

	Notes	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		**12,328.5**	12,567.3	**10,111.3**	10,995.0
Cash payments in the course of operations		**(10,128.6)**	(10,960.6)	**(8,396.0)**	(9,891.7)
Interest received		**126.0**	114.4	**112.3**	98.9
Borrowing costs paid		**(305.6)**	(268.1)	**(312.1)**	(277.2)
Dividends received		**12.4**	7.0	**222.6**	220.7
Income taxes paid		**(33.3)**	(169.2)	**134.8**	(61.0)
Net cash provided by operating activities	37	**1,999.4**	1,290.8	**1,872.9**	1,084.7
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		**(2,007.0)**	(3,137.2)	**(1,210.8)**	(1,625.3)
Receipts for aircraft security deposits		**63.1**	197.7	**59.3**	162.0
Net payments for purchases of property, plant, equipment and aircraft security deposits		**(1,943.9)**	(2,939.5)	**(1,151.5)**	(1,463.3)
Proceeds from sale of property, plant and equipment		**50.1**	36.7	**46.6**	6.0
Proceeds from sale and leaseback of non-current assets		**171.7**	–	**171.7**	–
Payments for investments, net of cash acquired		**(271.9)**	(92.9)	**(271.7)**	(3.2)
Advances of investment loans		**(128.2)**	–	**(128.2)**	–
Payments for other intangibles		**(47.3)**	–	**(47.3)**	–
Net cash used in investing activities		**(2,169.5)**	(2,995.7)	**(1,380.4)**	(1,460.5)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayments of borrowings/swaps		**(1,822.9)**	(798.3)	**(2,834.9)**	(678.1)
Proceeds from borrowings/swaps		**1,413.2**	3,205.2	**1,701.4**	2,167.5
Net proceeds from the issue of shares		**90.6**	701.0	**90.6**	701.0
Dividends paid		**(161.4)**	(172.3)	**(159.1)**	(170.9)
Net cash provided by/(used in) financing activities		**(480.5)**	2,935.6	**(1,202.0)**	2,019.5
RECONCILIATION OF CASH PROVIDED BY/(USED IN):					
Operating activities		**1,999.4**	1,290.8	**1,872.9**	1,084.7
Investing activities		**(2,169.5)**	(2,995.7)	**(1,380.4)**	(1,460.5)
Financing activities		**(480.5)**	2,935.6	**(1,202.0)**	2,019.5
Net increase/(decrease) in cash held		**(650.6)**	1,230.7	**(709.5)**	1,643.7
Cash at the beginning of the financial year		**2,015.9**	785.2	**1,993.6**	349.9
Cash at the end of the financial year	37	**1,365.3**	2,015.9	**1,284.1**	1,993.6

The Statements of Cash Flows are to be read in conjunction with the Notes to the Financial Statements on pages 5 to 60.

Notes to the Financial Statements

for the year ended 30 June 2004

1. Statement of significant accounting policies

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

(a) BASIS OF PREPARATION

The Financial Report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

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 or the Company) and its controlled entities and are consistent with those of the prior year.

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

(b) PRINCIPLES OF CONSOLIDATION

CONTROLLED ENTITIES

The Qantas Group Financial Statements comprise the Financial Statements of Qantas and the Qantas Group. Results of controlled entities which were acquired or disposed of during the year are included in the Statements of Financial Performance from the date control commenced or up to the date control ceased. The consolidation process eliminates balances and transactions with or between Qantas and its controlled entities. Outside interests in the equity and results of controlled entities are shown as a separate item in the Qantas Group Financial Statements.

ASSOCIATES AND JOINT VENTURES

Associates and joint ventures are those entities over which the Qantas Group exercises significant influence or is jointly controlled, but not controlled, and which are not intended for sale in the near future.

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

(c) FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions, except those subject to specific hedging arrangements, are translated to Australian currency at the rates of exchange ruling at the date of each transaction. At balance date, amounts receivable and payable in foreign currencies are translated at the rates of exchange ruling at that date. Resulting exchange differences are brought to account as exchange gains or losses in the Statements of Financial Performance in the financial year in which the exchange rates change.

TRANSLATION OF CONTROLLED FOREIGN ENTITIES

All controlled entities incorporated overseas are self-sustaining foreign operations and as such, their assets and liabilities are translated at the rates of exchange ruling at balance date. Equity items are translated at historical rates. The Statements of Financial Performance of controlled foreign entities are translated at the average exchange rate for the year. Exchange differences arising on translation are recorded in the foreign currency translation reserve. The balance of the foreign currency translation reserve relating to a controlled entity that is disposed of, or partially disposed of, is transferred to retained profits in the year of disposal.

HEDGING OF FOREIGN CURRENCY COMMITMENTS

Gains and losses on derivatives used to hedge the specific purchase or sale of capital equipment and goods and services are deferred in the Statements of Financial Position and included in the measurement of the related purchase or sale. Net deferred gains/losses associated with hedges of foreign currency revenue relating to future transportation services are included in the Statements of Financial Position as payables/receivables. These gains/losses will be included in the measurement of the relevant future foreign currency revenue at the time the transportation services are provided. As at 30 June 2004, net deferred losses were $19.2 million (2003: gains $117.7 million).

Revenues and expenses from cross-currency swap transactions and amounts owing to/from swap counterparties are set off and disclosed on a net basis where the requirements of AASB 1014 "Set-off and Extinguishment of Debt" are satisfied.

Notes to the Financial Statements continued
for the year ended 30 June 2004

1. Statement of significant accounting policies continued

(d) DERIVATIVE FINANCIAL INSTRUMENTS

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

Principal amounts outstanding under individual cross-currency swaps are disclosed as a net asset or liability. Interest payments and receipts under cross-currency swaps are recognised on an accruals basis in the Statements of Financial Performance. Premiums paid on interest rate options are included in "Other assets" and are amortised over the period of the hedge.

Gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying exposures to which they relate. Accordingly, hedge gains and losses are included in the Statements of Financial Performance when the gains and losses arising on the related hedged position are recognised in the Statements of Financial Performance. Further details are outlined in Note 31.

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

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

(e) REVENUE RECOGNITION

PASSENGER, FREIGHT AND TOURS AND TRAVEL SALES REVENUE

Passenger, freight and tours and travel sales revenue is included in the Statements of Financial Performance at the fair value of the consideration received net of sales discounts, passenger and freight interline/IATA commissions, and goods and services tax (GST). Tours and travel sales commissions are treated as a cost of sale. Passenger, freight and tours and travel sales are credited to revenue received in advance and subsequently transferred to revenue when tickets and land content are utilised or freight uplifted.

CATERING REVENUE

Revenue from the sale of catering products is recognised when control of the goods passes to the customer.

CONTRACT WORK REVENUE

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

INTEREST REVENUE

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

ASSET SALES

The gross proceeds of asset sales are included as revenue at the date control of the asset passes to the buyer, usually when the purchaser takes delivery of the asset. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

AIRCRAFT FINANCING FEES

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

DIVIDENDS

Revenue from distributions from controlled entities is recognised by Qantas when dividends are declared by the controlled entities. Revenue from dividends from associates and other investments is recognised when dividends are received.

Dividend revenue is recognised net of any franking credits.

Notes to the Financial Statements continued

for the year ended 30 June 2004

1. Statement of significant accounting policies continued

(f) GOODS AND SERVICES TAX

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

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

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

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

(g) TAXATION

The Qantas Group adopts the income statement liability method of tax-effect accounting.

Income tax expense is calculated on profit from ordinary activities adjusted for permanent differences between taxable and accounting income.

The tax effect of timing differences, which arise from items being brought to account in different years for income tax and accounting purposes, is carried forward in the Statements of Financial Position as a deferred tax asset or a deferred tax liability.

Future income tax benefits relating to timing differences are not brought to account as an asset unless realisation is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account as an asset when their realisation is considered to be virtually certain.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

Qantas is taxed as a public company and provides for income tax in overseas jurisdictions where a liability exists. Generally, these taxes are assessed on a formula or percentage of sales basis.

(h) TAX CONSOLIDATION

Qantas is the head entity in the tax-consolidated group comprising all the Australian wholly-owned entities set out in Note 28. The implementation date for the tax-consolidated group is 1 July 2003. The Australian Taxation Office has not yet been notified of any decision to form a tax-consolidated group. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (including intra-group transactions as allowed for in the financial year ended 30 June 2004). The Qantas Group determined that wholly-owned entities will recognise an income tax expense referable to the tax arising on their profits adjusted for permanent differences with a consequential adjustment to intercompany assets and liabilities.

The tax-consolidated group has entered into a tax sharing agreement given the joint and several income tax-related liability assumed by all entities comprising the tax-consolidated group. In the opinion of the Directors, the tax sharing agreement is also a valid agreement under the Tax Consolidation legislation and limits the joint and several income tax-related liability of the wholly-owned entities of the tax-consolidated group in the case of default by Qantas.

(i) RECEIVABLES

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

(j) INVENTORIES

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

(k) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS

The carrying amounts of non-current assets valued on the cost basis are reviewed regularly to determine whether they are in excess of their recoverable amount at reporting date. Assets which primarily generate cash flows, such as aircraft, are assessed on an individual basis whereas infrastructure assets are examined on a class-by-class basis, and compared to net surplus cash inflows. Expected net cash flows used in determining recoverable amounts have been discounted to their net present value, using a rate reflecting the cost of funds.

An appropriate write-down is made if the carrying amount of a non-current asset exceeds its recoverable amount. The write-down is expensed in the financial year in which it occurs.

Notes to the Financial Statements continued

for the year ended 30 June 2004

1. Statement of significant accounting policies continued

(l) INVESTMENTS

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

(m) ACQUISITION OF ASSETS

Items of property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Major modifications to aircraft and the costs associated with placing the aircraft into service are capitalised as part of the cost of the asset to which they relate. All aircraft maintenance costs are expensed as incurred. Borrowing costs associated with the acquisition of qualifying assets such as aircraft and the acquisition, construction or production of significant items of other property, plant and equipment are capitalised as part of the cost of the asset to which they relate.

Expenditure on internally generated assets, other than software development costs, is only recognised as an asset when the Qantas Group controls future economic benefits as a result of the costs incurred and it is probable that those future economic benefits will eventuate, and the costs can be measured reliably.

(n) DEPRECIATION AND AMORTISATION

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

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

	Years	Residual Value %
Buildings and leasehold improvements	10 – 50	0
Plant and equipment	3 – 20	0
Jet aircraft and engines	20	0 – 20
Non-jet aircraft and engines	10 – 20	0 – 20
Aircraft spare parts	15 – 20	0 – 20

These rates are in line with those for the prior year, with the exception of the residual value assumption on wide-bodied aircraft (Boeing 747 and 767 and Airbus A330 aircraft) which was revised from 25 per cent to 20 per cent.

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

(o) LEASED AND HIRE PURCHASE ASSETS

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

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

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

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

Payments made under operating leases are expensed in the financial year in which they are incurred.

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

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

Notes to the Financial Statements continued

for the year ended 30 June 2004

1. Statement of significant accounting policies continued

(p) INTANGIBLE ASSETS

GOODWILL

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair values of identifiable net assets acquired, is amortised on a straight line basis over the period in which future benefits are expected to arise, or 20 years, whichever is the shorter.

The unamortised balance of goodwill is reviewed at least each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the Statements of Financial Performance.

For associates and joint ventures, the consolidated Financial Statements include the carrying amount of goodwill in the equity accounted investments' carrying amounts.

OTHER INTANGIBLES

Airport landing slots represent the purchase consideration of the identifiable intangibles acquired, and are amortised on a straight-line basis over the asset's estimated useful life, not exceeding 20 years. The unamortised balance of other intangibles is reviewed at least each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the Statements of Financial Performance.

(q) PAYABLES

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Qantas Group.

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

(r) FREQUENT FLYER ACCOUNTING

The Qantas Group receives revenue from the sale of Frequent Flyer points to third parties. This revenue is recognised in the Statements of Financial Performance when it is received. The obligation to provide travel rewards to members of the Qantas Frequent Flyer program is progressively accrued as points are accumulated. This accrual is based on the incremental cost (being the cost of meals, fuel and passenger expenses) of providing the travel rewards. The accrual is reduced as members redeem awards or their entitlements expire.

(s) EMPLOYEE BENEFITS

WAGES AND SALARIES, ANNUAL LEAVE AND SICK LEAVE

Liabilities for employee benefits for wages, salaries, annual leave (including leave loading), and sick leave vesting to employees expected to be settled within 12 months of the year end represent present obligations resulting from employees' services provided to reporting date. These are calculated at undiscounted amounts based on remuneration wage and salary rates that the Qantas Group expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

LONG SERVICE LEAVE

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

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

PROFIT SHARING AND BONUS PLANS

A liability is recognised for profit sharing and bonus plans, including benefits based on the future value of equity instruments and benefits under plans allowing the Qantas Group to settle in either cash or shares.

SUPERANNUATION

The Qantas Group contributes to employee superannuation funds. Contributions to these funds are recognised in the Statements of Financial Performance as they are made. Further details are disclosed in Note 27.

Notes to the Financial Statements continued
for the year ended 30 June 2004

1. Statement of significant accounting policies continued

(t) PROVISIONS

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

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

DIVIDENDS

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

EMPLOYEE TERMINATION BENEFITS

Provisions for termination benefits are only recognised when a detailed plan has been approved and the termination benefit has either commenced or been publicly announced, or firm contracts related to the termination benefit have been entered into. Costs related to ongoing activities are not provided for.

SURPLUS LEASED PREMISES

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less than the operating lease rentals.

The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

INSURANCE AND OTHER

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

(u) EARNINGS PER SHARE

Basic earnings per share is determined by dividing the Qantas Group's net profit attributable to members of the Company by the weighted average number of shares on issue during the current financial year (refer Note 35).

Diluted earnings per share is calculated after taking into account the number of ordinary shares to be issued for no consideration in relation to dilutive potential ordinary shares (refer Note 35).

(v) STATEMENTS OF CASH FLOWS

For the purposes of the Statements of Cash Flows, cash includes cash on hand, cash at bank and money market investments readily convertible to cash, net of outstanding bank overdrafts and short-term cash borrowings (refer Note 37).

(w) BORROWING COSTS

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or swap.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed generally, borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities being 6.6 per cent per annum (2003: 6.7 per cent) in the current year. During the year, borrowing costs totalling $49.2 million (2003: $82.7 million) were capitalised into the cost of qualifying assets.

(x) EXPENDITURE CARRIED FORWARD

Material items of expenditure are deferred to the extent that the Qantas Group considers it is probable that future economic benefits embodied in the expenditure will eventuate and can be measured reliably, do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the Qantas Group. Deferred expenditure items include guarantee fees, bank fees and other fees associated with the establishment of lending facilities as well as option premiums, and are amortised over the period that the future economic benefits will be received. The deferred expenditure in the Qantas Group Statement of Financial Position at 30 June 2004 is $88.1 million (2003: $58.3 million).

Notes to the Financial Statements continued

for the year ended 30 June 2004

1. Statement of significant accounting policies continued

(y) INTEREST-BEARING LIABILITIES

Bank and other loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Other creditors and accruals".

(z) USE AND REVISION OF ACCOUNTING ESTIMATES

The preparation of the Financial Report requires the making of estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. Revenue from ordinary activities

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
REVENUE FROM OPERATING ACTIVITIES				
Sales and operating revenue				
Related parties				
– controlled entities	**–**	–	**177.3**	147.4
– associates and joint ventures	**90.1**	103.8	**87.6**	108.3
– other related parties	**25.3**	20.2	**16.8**	11.7
Other parties	**11,237.8**	11,250.6	**9,428.4**	9,475.2
Dividend revenue				
Related parties				
– controlled entities	**–**	–	**156.3**	219.2
– associates	**–**	–	**1.7**	1.2
Other parties	**0.5**	0.3	**1.7**	0.3
Sales and operating revenue	**11,353.7**	11,374.9	**9,869.8**	9,963.3
REVENUE FROM OUTSIDE OPERATING ACTIVITIES				
Interest revenue				
Related parties				
– controlled entities	**–**	–	**1.3**	0.7
– joint ventures	**5.1**	–	**5.1**	–
Other parties	**120.8**	107.7	**105.9**	92.8
Proceeds from sale of property, plant and equipment	**50.1**	36.7	**46.6**	6.0
Proceeds from sale and leaseback of non-current assets	**171.7**	–	**171.7**	–
Total revenue from ordinary activities	**11,701.4**	11,519.3	**10,200.4**	10,062.8

Notes to the Financial Statements continued

for the year ended 30 June 2004

3. Items included within profit from ordinary activities before related income tax expense

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Profit from ordinary activities before related income tax expense includes the charging/(crediting) of the following items:				
Borrowing costs				
Related parties				
– controlled entities	**–**	–	**72.9**	50.6
Other parties				
– finance charges on capitalised leases	**16.9**	29.7	**15.2**	25.2
– other borrowing costs	**291.8**	225.4	**224.6**	180.5
Less: capitalised borrowing costs	**(49.2)**	(82.7)	**(49.2)**	(82.7)
Total borrowing costs	**259.5**	172.4	**263.5**	173.6
Depreciation				
Buildings	**6.2**	5.9	**4.4**	3.8
Plant and equipment	**120.5**	124.2	**102.3**	104.3
Aircraft and engines – normal depreciation	**409.8**	319.0	**375.2**	285.5
Aircraft and engines – accelerated depreciation	**61.4**	91.4	**61.4**	91.4
Aircraft spare parts	**75.4**	73.4	**70.8**	72.5
Total depreciation	**673.3**	613.9	**614.1**	557.5
Amortisation				
Leasehold buildings	**7.1**	1.5	**0.9**	0.9
Leasehold improvements	**50.0**	45.5	**28.5**	22.9
Leased plant and equipment	**1.4**	0.4	**–**	–
Leased and hire purchased aircraft and engines	**257.5**	216.0	**225.7**	191.7
Leased aircraft spare parts	**1.8**	1.4	**1.8**	1.2
Goodwill	**14.4**	12.7	**–**	–
Airport landing slots	**0.1**	–	**0.1**	–
Total amortisation	**332.3**	277.5	**257.0**	216.7
Net foreign currency loss	**40.9**	71.9	**31.7**	72.2
Loss on sale of aircraft, engines and spares	**4.0**	12.4	**3.0**	12.6
Loss/(profit) on sale of property, plant and equipment	**(3.5)**	–	**(2.5)**	0.1
Bad and doubtful debts	**3.0**	2.4	**3.0**	2.3
Operating lease charges				
Non-cancellable operating leases	**263.5**	283.9	**237.3**	233.2
Cancellable operating leases	**166.3**	149.6	**162.1**	149.4
Capacity hire – aircraft	**287.4**	381.6	**255.5**	350.4

Notes to the Financial Statements continued

for the year ended 30 June 2004

4. Income tax

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
The prima facie income tax on profit from ordinary activities differs from the income tax charged in the Statements of Financial Performance and is calculated as follows:				
Profit from ordinary activities	**964.6**	502.3	**914.1**	443.5
Prima facie income tax expense at 30 per cent (2003: 30 per cent) on profit from ordinary activities	**289.4**	150.7	**274.2**	133.1
Add/(less) adjustments for:				
Non-assessable income				
Deferred lease benefits	**0.1**	(0.2)	**0.1**	(0.2)
Imputation gross-up on dividends received	**1.3**	–	**20.2**	28.2
Franking credits on dividends received	**(4.4)**	–	**(67.5)**	(94.1)
Share of associates' and joint ventures' net profit	**(5.9)**	(2.9)	**–**	–
Other non-assessable income	**(0.5)**	–	**(0.5)**	–
Non-deductible expenditure				
Depreciation on buildings	**0.6**	0.6	**0.7**	0.7
Amortisation of goodwill and other intangibles	**4.4**	3.8	–	–
Amortisation of lease residual values	**0.8**	0.6	**0.8**	0.6
Other non-deductible expenditure	**18.2**	10.1	**5.5**	7.3
Other assessable/(deductible) items	**13.1**	(7.6)	**7.8**	(2.7)
Under/(over) provision in prior years	**(1.3)**	0.6	**(3.2)**	(1.9)
Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group	**–**	–	**73.0**	–
Recovery of income tax expense from wholly-owned subsidiaries in the tax-consolidated group	**–**	–	**(73.0)**	–
Income tax expense relating to ordinary activities	**315.8**	155.7	**238.1**	71.0
Comprising:				
Australian income tax expense	**313.3**	144.3	**238.0**	63.4
Overseas income tax expense	**2.5**	11.4	**0.1**	7.6
	315.8	155.7	**238.1**	71.0
Future income tax benefit arising from tax losses, not recognised as an asset because recovery is not virtually certain	**24.5**	20.5	**14.9**	11.4

The future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefits to be realised or the benefit can be utilised by another entity in the Qantas Group in accordance with Division 170 of the Income Tax Assessment Act 1997;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the ability of the Qantas Group to realise the benefit.

As a consequence of the enactment of the Tax Consolidation legislation the Company, as the head entity in a tax-consolidated group, expects to implement tax consolidation from 1 July 2003. Accordingly, the Qantas Group has applied UIG 52 "Income Tax Accounting under the Tax Consolidation System" in preparing this Financial Report.

The subsidiary-related deferred tax balances recognised in the Company and the Qantas Group have been determined based on the existing timing differences at the tax-consolidated group level.

Qantas is currently obtaining market valuations in support of its transition into the tax consolidation regime and intends to request a Private Binding Ruling from the Australian Taxation Office in relation to key aspects of the transition. As such, no amount has been recognised in the Financial Statements for the year ended 30 June 2004 for any adjustment to current and deferred tax balances that may arise as a consequence of implementing tax consolidation.

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures

ELEMENTS OF REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and Senior Executives.

Set out below is an overview of the elements of remuneration provided to the Directors of Qantas (Specified Directors) and the Executives throughout the year that had the greatest authority (Specified Executives) other than Executive Directors:

		Specified Directors		Specified
	Elements of Remuneration	Non-Executive	Executive	Executives
Minimum salary level	Fees	✓	–	–
	Fixed Annual Remuneration (FAR)	–	✓	✓
	Superannuation contributions	✓	✓	✓
	Travel entitlements	✓	✓	✓
	Other benefits	✓	✓	✓
Short-term incentives	Performance Cash Plan (PCP) – Cash incentive	–	✓	✓
Medium-term incentives	Performance Share Plan (PSP)	–	✓	✓
Long-term incentives	Performance Rights Plan (PRP)	–	✓	✓
Closed/suspended incentive plans	Deferred Share Plan (DSP) interim 2002/03 award only	–	✓	✓
	Qantas Long-Term Executive Incentive Plan (QLTEIP) suspended 2002	–	✓	✓
	Stock Performance Rights (SPRs) closed 30 June 2004	–	✓	–
	Long-Term Incentive Plan (LTIP) closed 30 June 2004	–	✓	✓
Post employment	End of service payments	–	✓	✓
	Travel entitlements	✓	✓	✓

Notes to the Financial Statements continued
for the year ended 30 June 2004

5. Director and executive disclosures continued

ELEMENTS OF REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES continued

Description	Rationale
PRIMARY BENEFITS	
Fees Non-Executive Director (NED) fees are determined within an aggregate Directors' fee pool limit. An annual pool of $1.5 million, allocated between Directors' Fees and Committee Fees was approved by shareholders on 17 October 2002. Shareholder approval will be sought at the 2004 AGM to increase this pool. Cash Fees are the fees remaining after salary sacrifice components such as motor vehicles and superannuation have been deducted.	Fees and payments to NEDs reflect the demands and responsibilities which are made of Directors and reflects the advice of independent remuneration consultants to ensure NED fees and payments are appropriate. The level of NED fees are reviewed annually.
Effective 1 July 2003, each Director was paid an annual Fee of $100,000 and the Chairman $400,000. Committee fees were $20,000 per Committee Membership and $30,000 per Committee Chairmanship. Effective 1 July 2004, the annual fee for each Committee Chairmanship will increase to $40,000.	
Fixed Annual Remuneration (FAR) Guaranteed salary level from which superannuation and other benefits are deducted through salary sacrifice. Cash FAR is the FAR remaining after salary sacrifice components such as motor vehicles and superannuation have been deducted.	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. Total remuneration is reviewed annually and the policy is to reflect a middle of the market approach for the top 50 ASX listed entities.
Performance Cash Plan (PCP)[1] – Cash Incentive The cash incentive is set as a percentage of FAR and is payable on achievement of 90% of the target Return on Total Gross Assets (RoTGA) and non-financial performance conditions relating to customer, operational and people goals.	The performance condition of RoTGA being Earnings before Depreciation, Rentals, Interest and Tax (EBDRIT) divided by Total Gross Assets was chosen as it measures financial performance that reflects an appropriate return on capital. Non-financial measures ensure appropriate balance is reflected in the executive's performance.
Long-Term Incentive, Share Based Plans	
Stock Performance Rights (SPR) Plan – closed in 2004 The cash benefit payable to Executive Directors on termination after contract end date, or otherwise as determined by the Board. The benefit was related to growth in the Qantas share price. The scheme was terminated early at 30 June 2004.	This performance condition linked remuneration and growth in shareholder value.
Long-Term Incentive Program (LTIP) – suspended 1999 and closed in 2004 The LTIP granted a notional entitlement to shares. Vesting was based on Qantas' Relative Total Shareholder Return (TSR) compared to ASX 100 entities and global airlines. The value on termination of employment is based on the number of vested entitlements and the share price.	This performance condition linked remuneration and growth in shareholder value.
Non-Cash benefits	
Travel Entitlements Directors and Specified Executives and their eligible beneficiaries are entitled to receive a number of international and domestic flights annually at no cost.	Provides an effective form of remuneration as the value to the individual is high and the cost to the company is minimal as the only cash outflow from the company is for the associated taxes and the marginal cost of carrying the passenger.
Other Benefits Includes salary sacrifice components such as motor vehicles, memberships of appropriate professional associations and the accrual of statutory long service leave.	Reflects market practice.

1 Refer footnote 1 on page 16.

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

ELEMENTS OF REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES continued

Description	Rationale
POST EMPLOYMENT BENEFITS	
End of Service Payments Executive Directors and Specified Executives are entitled to service payments on termination, generally based on FAR, as set out in individual employment contracts.	End of service payments are considered effective retention mechanisms. These are payable upon cessation of employment and provide compensation for constraints regarding working for a competitor for up to 12 months.
Superannuation Contributions Statutory and salary sacrifice superannuation payments made on behalf of the Directors and Specified Executives.	Statutory requirement.
Travel Entitlements See commentary on travel entitlements under non-cash benefits on page 15.	
EQUITY BENEFITS	
Deferred Share Plan (DSP) The DSP Terms & Conditions were approved by Shareholders on 17 October 2002. The DSP governs the provision of equity benefits.	The provision of equity benefits establishes a link between shareholder value creation, financial performance and executive remuneration.
Performance Share Plan (PSP)[1] Deferred shares are awarded, with the value being a percentage of FAR, based on performance against balanced scorecard conditions relating to customer, operational, people and financial performance. Shares are held in trust and are subject to holding locks. Upon expiry of the relevant holding lock, shares will be transferred to the Executive. If the Executive terminates employment before the holding lock is lifted, the shares are forfeited.	The performance condition aligns remuneration and growth in shareholder value.
Performance Rights Plan (PRP) Executive Directors and Specified Executives may be granted rights to acquire shares in Qantas at a future date for no payment. Vesting is based on the achievement of annual RoTGA targets over the three years to 30 June 2006. Vested rights may be converted into ordinary shares after three years. If the target is not met or the Executive ceases employment prior to 30 June 2006, all of the rights granted will lapse.	The performance condition of target RoTGA was chosen in 2003 as it measures financial performance that reflects an appropriate return on capital. This aligns remuneration and growth in shareholder value. Future grants will be assessed against a relative TSR performance condition.
Qantas Long-Term Executive Incentive Plan (QLTEIP) – suspended in 2002 QLTEIP granted entitlements to unissued shares in Qantas in the years ended 30 June 2000 and 2001. Vesting is based on Qantas Relative Total Shareholder Return (TSR) compared to ASX 200 entities and global airlines. Entitlements vest between three and five years following award date and are conditional on the Executive remaining employed. To the extent that Entitlements vest, they may be converted into ordinary shares within eight years of the grant date in proportion to the gain in share price after which entitlements will lapse.	This performance condition aligns remuneration and growth in shareholder value.

1 The Board can exercise its discretion to adjust the PCP or PSP if the company does not meet its target as approved by the Board. This discretionary element is in place to take into account adverse external factors that may impact the airline. The rationale for this is the Executive Directors and Specified Executives have no control over external global events, however, they are accountable for the ability of the airline to cope with external events. To date, the Board has not exercised this discretion in relation to any of the plans in operation.

Notes to the Financial Statements continued
for the year ended 30 June 2004

5. Director and executive disclosures continued

Set out in the following tables are the remuneration for the Specified Directors and Specified Executives of Qantas during the financial year ended 30 June 2004.

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2004

Specified Directors

	Primary Benefits				Post Employment Benefits				Equity Benefits	Total
	Cash Fees/ Cash FAR[1] $	Incentives $	Non-Cash Benefits $	Total $	End of Service $	Super-annuation $	Travel $	Total $	$	$
Margaret Jackson, Chairman	371,756[2]	–	92,656	464,412	–	11,002	9,300	20,302	–	484,714
Paul Anderson, Non-Executive Director	100,000	–	285	100,285	–	–	4,650	4,650	–	104,935
Mike Codd, Non-Executive Director	66,641[2]	–	25,685	92,326	–	91,149	4,650	95,799	–	188,125
Patricia Cross, Non-Executive Director (1 January 2004 – 30 June 2004)	65,000[3]	–	–	65,000	–	5,501	2,325	7,826	–	72,826
Trevor Eastwood, Non-Executive Director	140,000	–	5,756	145,756	–	11,002	4,650	15,652	–	161,408
Jim Kennedy, Non-Executive Director	150,000	–	13,916	163,916	–	11,002	4,650	15,652	–	179,568
Trevor Kennedy, Non-Executive Director (1 July 2003 – 17 November 2003)	38,250	–	3,855	42,105	–	3,443	1,938	5,381	–	47,486
Roger Maynard, Non-Executive Director	120,000[4]	–	–	120,000	–	10,800	4,650	15,450	–	135,450
James Packer, Non-Executive Director (1 March 2004 – 30 June 2004)	33,333	–	–	33,333	–	3,000	1,550	4,550	–	37,883
John Schubert, Non-Executive Director	120,000	–	14,845	134,845	–	10,800	4,650	15,450	–	150,295
Nick Tait, Non-Executive Director	140,000	–	7,071	147,071	–	11,002	4,650	15,652	–	162,723
Geoff Dixon, Chief Executive Officer	1,640,856[1]	1,593,435[5]	354,077	3,588,368	1,466,232	72,000	18,600	1,556,832	946,072[9]	6,091,272
Peter Gregg, Chief Financial Officer	988,833[1]	868,605[6]	340,941	2,198,379	844,209	17,800	18,600	880,609	532,572[9]	3,611,560
Total remuneration for Specified Directors	3,974,669[7]	2,462,040[8]	859,087	7,295,796	2,310,441	258,501	84,863	2,653,805	1,478,644	11,428,245

1 Executive Directors receive Cash FAR and do not receive Director fees. Mr Dixon's FAR for the year was $1,800,000 (2003: $1,600,000) less salary sacrificed components of $159,144. Mr Gregg's FAR for the year was $1,080,000 (2003: $960,000) less salary sacrificed components of $91,167.
2 Fees are stated after deducting $28,244 in salary sacrifice for Ms Jackson and $83,359 for Mr Codd.
3 Includes payments for services rendered as Chairman of the Qantas Superannuation Limited.
4 Director's fees for Roger Maynard are paid directly to British Airways Plc.
5 Comprises Cash incentive of $1,310,000 and Long-term incentive of $283,435. For Long-term incentive plans, refer to page 19.
6 Comprises Cash incentive of $675,000 and Long-term incentive of $193,605. For Long-term incentive plans, refer to page 19.
7 Total NED Fees paid inclusive of salary sacrificed elements was $1,456,583. Cash Fees totalled $1,344,980 and Cash FAR totalled $2,629,689.
8 Comprises Cash incentives totalling $1,985,000 and Long-term incentives totalling $477,040.
9 Equity Benefits

	PSP $	PRP $	QLTEIP $	DSP $	Total $
Geoff Dixon	326,750	71,250	170,833	377,239	946,072
Peter Gregg	209,120	45,600	85,417	192,435	532,572

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

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

REMUNERATION OF SPECIFIED EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2004

Specified Executives and the Highest Remunerated Executives

	Primary Benefits				Post Employment Benefits				Equity Benefits	Other Benefits	Total
	Cash FAR $	Incentives $	Non-Cash Benefits $	Total $	End of Service $	Super-annuation $	Travel $	Total $	$	Termin-ation $	$
Denis Adams, Executive General Manager Associated Businesses	574,310	231,000	108,860	914,170	142,500	82,054	9,300	233,854	151,491[3]	–	1,299,515
Fiona Balfour, Chief Information Officer and Executive General Manager Qantas Business Services	506,862	190,000	190,143	887,005	158,175	56,172	9,300	223,647	92,891[3]	–	1,203,543
John Borghetti, Executive General Manager Qantas	658,321	290,000	193,285	1,141,606	133,428	110,209	9,300	252,937	166,350[3]	–	1,560,893
Kevin Brown, Executive General Manager People	630,289	221,000	131,810	983,099	166,299	36,754	9,300	212,353	223,772[3]	–	1,419,224
Grant Fenn, Executive General Manager Airports and Catering	629,561	221,000	174,560	1,025,121	135,622	11,918	9,300	156,840	140,598[3]	–	1,322,559
David Forsyth, Executive General Manager Aircraft Operations (1 July 2003 – 15 December 2003)	314,911	3,587[1]	83,828	402,326	130,000	38,878	9,300	178,178	100,291[3]	328,500	1,009,295
Total remuneration for Specified Executives	3,314,254	1,156,587[2]	882,486	5,353,327	866,024	335,985	55,800	1,257,809	875,393[3]	328,500	7,815,029

The Corporations Act requires the disclosure of the five most highly remunerated Executive Officers of the Company. One Qantas Executive, who did not meet the definition of a Specified Executive, is one of the five most highly remunerated Executives for the year, due to the payment of service and other leave benefits on termination. His remuneration is set out below on the same basis as the Specified Executives.

John Anderson, Group General Manager Airports (1 July 2003 – 31 December 2003)	364,067	–	18,097	382,164	61,000	32,428	4,650	98,078	64,672[3]	413,000	957,914

In addition to the remuneration earned in the current year, Mr Anderson received payment of $656,813 resulting from service termination provisions within his employment contract and accrued long service leave, which were earned and accrued prior to 1 July 2003. Mr Anderson has 518,000 entitlements under the QLTEIP which will lapse 12 months after his termination date unless converted.

1 For Long-term incentive plans refer to page 19.

2 Comprises Cash incentives totalling $1,153,000 and Long-term incentives totalling $3,587.

3 Equity Benefits

	PRP $	QLTEIP $	DSP $	Total $
Denis Adams	22,122	48,972	80,397	151,491
Fiona Balfour	18,961	23,917	50,013	92,891
John Borghetti	25,282	48,972	92,096	166,350
Kevin Brown	18,961	133,000	71,811	223,772
Grant Fenn	22,122	48,972	69,504	140,598
David Forsyth	–	74,028	26,263	100,291
John Anderson	–	48,972	15,700	64,672

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

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

ADDITIONAL DISCLOSURES UNDER CORPORATIONS ACT REQUIREMENTS

The Corporations Act requires specific disclosures regarding the nature and amount of each element of remuneration of each Director and each of the five named Executive Officers of Qantas receiving the highest remuneration. It is the view of the Directors that the disclosures in this note, supplemented by the information below, meet the Corporations Act requirements.

Differences in Disclosure of Amounts of Remuneration

The measurement basis of three elements of remuneration are different to that used by Qantas in its previous Directors' Report disclosures under the Corporations Act. The impact of the differences are set out below:

Post Employment Benefits – End of Service Payments	Geoff Dixon $	Peter Gregg $	Denis Adams $	Fiona Balfour $	John Borghetti $	Kevin Brown $	Grant Fenn $	David Forsyth $
Earned in the current year	1,466,232	844,209	142,500	158,175	133,428	166,299	135,622	130,000
Earned in prior years	4,314,983	2,020,290	907,500	152,169	838,138	195,360	497,281	570,000
Paid in the current year	–	–	–	–	–	–	–	(700,000)
Total value of end of service payments provided for up to 30 June 2004	5,781,215	2,864,499	1,050,000	310,344	971,566	361,659	632,903	–

These benefits are payable upon termination of employment, if at least five years of service has been rendered under a fixed term contract. These benefits have been historically disclosed in remuneration at termination of employment.

Primary Benefit – Long-Term Incentives	Geoff Dixon $	Peter Gregg $	David Forsyth $
Earned in the current year	283,435	193,605	3,587
Earned in prior years	528,904	43,445	36,653
Paid in the current year	–	–	(40,240)
Total value of long-term incentives provided for up to 30 June 2004	812,339	237,050	–

The benefits above were accrued under the LTIP and SPR plans as well as a vested end of service payment for Mr Dixon. Previously, these amounts were disclosed in remuneration at the time of payment. Mr Forsyth received payment under the LTIP on termination of his employment. Pursuant to employment contract renegotiations the amounts provided for Mr Dixon and Mr Gregg will be paid early and the Plans closed.

Primary Benefit – Long Service Leave	Geoff Dixon $	Peter Gregg $	Denis Adams $	Fiona Balfour $	John Borghetti $	Kevin Brown $	Grant Fenn $	David Forsyth $
Earned in the current year	144,384	212,926	33,813	45,303	57,723	21,515	50,333	38,167
Earned in prior years	377,534	731,704	103,886	118,712	583,562	25,567	131,332	329,333
Paid in the current year	–	–	–	–	–	–	–	(367,500)
Total value of long service leave provided for up to 30 June 2004	521,918	944,630	137,699	164,015	641,285	47,082	181,665	–

Long service leave benefit has historically been disclosed in remuneration when taken or when paid as a termination payment.

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

SUMMARY OF KEY CONTRACT TERMS

Non-Executive Directors

In addition to Director's Fees and the associated superannuation contributions, all Non-Executive Directors and eligible beneficiaries receive travel entitlements. The Chairman is entitled to 4 international trips and 12 domestic trips per calendar year and all other Non-Executive Directors are entitled to 2 international trips and 6 domestic trips each calendar year. These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement relates. Post employment, the Chairman is entitled to 2 international trips and 6 domestic trips per year of service and all other Non-Executive Directors are entitled to 1 international and 3 domestic trips per year of service.

Executive Directors

The key contract and other terms of the two Executive Directors are set out below. The two Executive Directors have renewed/revised their contracts effective 1 July 2004. The term of Mr Dixon's contract extends beyond the current contract in place at 30 June 2004 as noted below. Mr Gregg's tenure remains the same. The impact of the change in contracts has been noted in the relevant categories below:

Contract details	Geoff Dixon	Peter Gregg
Length of existing contract	1 January 2002 to 31 December 2005 New contract 1 July 2004 to 1 July 2007	1 January 2002 to 31 December 2006
Date of review of contract	Number of months prior to the end of contract: 6 months (New contract nil months)	6 months
Fixed Annual Remuneration (FAR)	$2,000,000	$1,200,000
	FAR can be taken as cash or non-cash components such as motor vehicles and superannuation contributions. In addition, Mr Dixon and Mr Gregg receive allowances for financial planning and preventative healthcare.	
End of service payments	Number of months FAR and other payments available on early termination of contract: 24 months plus $500,000	18 months plus $120,000
	Additional months FAR and other payments available on termination: 13.2 months after 31 December 2005	18 months plus $275,000 after 31 December 2006
	Mr Dixon was entitled to a payment of $100,000 on termination or otherwise on 31 December 2004. This was paid early as part of Mr Dixon's contract renegotiation.	
	Stock Performance Rights (SPRs) held by Mr Dixon and Mr Gregg, payable on conclusion of contract term, will be paid early as part of contract renegotiation/revision. The benefit was related to growth in the Qantas share price. No SPRs are included in the new/revised contracts.	
	575,000 SPRs paid early at $316,250	431,000 SPRs paid early at $237,050
Termination of employment	Termination without notice: employment can be terminated immediately without notice (or payment in lieu of notice) if, in the opinion of the CEO (or the Board in the case of the CEO), the Executive is or has been engaged in serious misconduct, becomes bankrupt or makes an arrangement or composition with creditors, or wilfully and persistently breaches their employment contract.	
	Termination with notice: employment can be terminated during the contract period with 12 months written notice.	
	Voluntary termination: voluntary termination requires written notice of 6 months.	
	Mr Gregg is entitled to 12 months FAR (in addition to existing end of service arrangements), if his employment is not required by an incoming CEO or he is offered a position which is significantly diminished in terms of responsibility. Mr Gregg is also entitled to 6 months FAR (in addition to existing end of service arrangements) if he voluntarily terminates after a change in CEO.	

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

SUMMARY OF KEY CONTRACT TERMS continued

Executive Directors continued

Contract details	Geoff Dixon	Peter Gregg
Travel benefits	Available to the executive and eligible beneficiaries:	
	Each calendar year throughout contract term and post employment:	
	4 international 12 domestic	4 international 12 domestic
Performance Cash Plan – Cash incentive	Target of 60% of FAR	Target of 50% of FAR
	May be greater than or less than the target amount. Performance targets are in relation to people, operational, customer and financial performance.	
Deferred Share Plan	250,000 deferred shares and 27,777 share rights vesting on 31 December 2005	150,000 deferred shares and 16,666 share rights vesting on 20 August 2006
	These deferred shares and share rights were approved by shareholders at the 2002 AGM. The shares are held in Trust. Whilst the shares remain in Trust, the Trustee may resolve to distribute as cash to Mr Dixon or Mr Gregg any dividends paid to the Trustee as the registered holder of the shares. These are reported as an Equity Benefit in the period the dividend is declared and distribution paid.	

Specified Executives

Contract details	Denis Adams	Fiona Balfour	John Borghetti
Length of Contract	10 February 2003 to 31 December 2006	1 November 2001 to 1 November 2006	1 January 2003 to 31 December 2007
Fixed Annual Remuneration (FAR)	$700,000 $730,000 effective 1 July 2004	$625,000 $650,000 effective 1 July 2004	$850,000 $900,000 effective 1 July 2004
	FAR can be taken as cash or non-cash components such as motor vehicles and superannuation contributions.		
End of Service Payments	Number of months FAR if completed at least five years service under a fixed term contract:		
	18 months	12 months	12 months
	Mr Borghetti receives an additional 6 months FAR if he remains in employment with Qantas until 31 December 2007.		
Termination of Employment	Termination without notice: employment can be terminated immediately without notice (or payment in lieu of notice) if, in the opinion of the CEO, the Executive is or has been engaged in serious misconduct, becomes bankrupt or makes an arrangement or composition with creditors, or wilfully and persistently breaches their employment contract.		
	Termination with notice: employment can be terminated during the contract period with 12 months written notice or payment in lieu.		
	Voluntary termination: voluntary termination requires written notice. The contract notice periods are between 3 and 6 months, however Qantas may choose to make payment in lieu.		
Travel Entitlements	Executive's and eligible beneficiaries are entitled to between 2 & 4 international and 6 & 12 domestic flights, at no cost, throughout the year. Post employment the entitlements are 2 international and 6 domestic flights.		
Performance Cash Plan – Cash incentive	Annual target cash incentive is 30% of FAR. Performance targets are in relation to people, operational, customer and financial performance.		

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

SUMMARY OF KEY CONTRACT TERMS continued

Specified Executives

Contract details	Kevin Brown	Grant Fenn	David Forsyth
Length of contract	22 October 2001 to 21 October 2006	1 November 1999 to 31 October 2004	20 December 1999 to 15 December 2003
Fixed Annual Remuneration (FAR)	$700,000 $730,000 effective 1 July 2004	$700,000 $730,000 effective 1 July 2004	$700,000 Not applicable
	FAR can be taken as cash or non-cash components such as motor vehicles and superannuation contributions.		
End of Service Payments	Number of months FAR if completed at least five years service under a fixed term contract:		
	12 months	12 months	12 months
Termination of Employment	Termination without notice: employment can be terminated immediately without notice (or payment in lieu of notice) if, in the opinion of the CEO, the Executive is or has been engaged in serious misconduct, becomes bankrupt or makes an arrangement or composition with creditors, or wilfully and persistently breaches their employment contract.		
	Termination with notice: employment can be terminated during the contract period with 12 months written notice or payment in lieu.		
	Voluntary termination: voluntary termination requires written notice. The contract notice periods are between 3 and 6 months, however Qantas may choose to make payment in lieu.		
	Mr Brown is entitled to 6 months FAR (in addition to existing end of service arrangements) if his employment is not required by an incoming CEO or he is offered a position which is significantly diminished in terms of responsibility.		
Travel Entitlements	Executive's and eligible beneficiaries are entitled to between 2 & 4 international and 6 & 12 domestic flights, at no cost, throughout the year. Post employment the entitlements are 2 international and 6 domestic flights.		
Performance Cash Plan – Cash incentive	Annual target cash incentive is 30% of FAR. Performance targets are in relation to people, operational, customer and financial performance.		

EQUITY INSTRUMENTS

Set out in the following tables are the holdings of equity instruments granted as remuneration to Executive Directors and Specified Executives. No other Director, Specified Executive or personally related entities directly or beneficially held any other shares, options or rights in the Qantas Group other than as set out below.

Performance Share Plan (PSP)

Details of entitlements over shares in Qantas provided as remuneration during the financial year to Executive Directors are set out below. No performance shares were granted to Specified Executives during the 30 June 2004 year. For more information on the operation of the PSP, see page 16.

	Grant Date	Value at Grant Date	Balance at 30 June 2003	Number of Performance Shares Granted during the Year	Number of Performance Shares Vested and Transferred to the Executive during the Year	Balance at 30 June 2004
Executive Directors						
Geoff Dixon	16 Oct 03	$3.62	–	125,000	(62,500)	62,500
Peter Gregg	16 Oct 03	$3.62	–	80,000	(40,000)	40,000

No amount has been paid, or is payable in relation to these performance shares.

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

EQUITY INSTRUMENTS continued

Performance Rights Plan (PRP)

Details of rights over ordinary shares and vesting criteria for each Executive Director and Specified Executive are set out below. They are provided on a one right to one share ratio and included as remuneration. They are subject to a performance hurdle being achievement of an annual RoTGA target over the 3 years to 30 June 2006. For more information on the operation of the PRP see page 16.

	Grant Date	Value at Grant Date[1]	Balance at 30 June 2003	Number of Performance Rights Granted during the Year	Number of Performance Rights Vested and Transferred to the Executive during the Year	Balance at 30 June 2004
Executive Directors						
Geoff Dixon	16 Oct 03	$3.04	–	125,000	–	125,000
Peter Gregg	16 Oct 03	$3.04	–	80,000	–	80,000
Specified Executives						
Denis Adams	15 Oct 03	$3.09	–	35,000	–	35,000
Fiona Balfour	15 Oct 03	$3.09	–	30,000	–	30,000
John Borghetti	15 Oct 03	$3.09	–	40,000	–	40,000
Kevin Brown	15 Oct 03	$3.09	–	30,000	–	30,000
Grant Fenn	15 Oct 03	$3.09	–	35,000	–	35,000
David Forsyth	–	–	–	–	–	–

1 The fair value of Entitlements is calculated at the date of grant using a Black-Scholes Option Valuation methodology.

The rights were granted with a nil exercise price. No amount has been paid, or is payable, in relation to these rights. They are tested on 30 June 2006 and any unvested rights will lapse immediately. At 30 June 2004, no rights had vested and none had lapsed.

Deferred Share Plan (DSP)

The number of securities over shares in Qantas provided as remuneration under the DSP to each Executive Director and Specified Executive is set out below. No securities were granted under this Plan in the year ended 30 June 2004. All securities listed below remain unvested at 30 June 2004. For more information on the operation of the DSP, see page 16.

	Grant Date	Balance at 30 June 2003	Lapsed	Balance at 30 June 2004
Executive Directors				
Geoff Dixon	17 Oct 02	280,834	–	280,834
Peter Gregg	17 Oct 02	168,720	–	168,720
Specified Executives				
Denis Adams	31 Dec 02	71,054	–	71,054
Fiona Balfour	31 Dec 02	42,751	–	42,751
John Borghetti	31 Dec 02	81,317	–	81,317
Kevin Brown	31 Dec 02	62,433	–	62,433
Grant Fenn	31 Dec 02	61,216	–	61,216
David Forsyth	31 Dec 02	63,294	(63,294)	–

Securities will vest if the Executive Director or Specified Executive remains employed through the relevant vesting period. No amounts have been paid or are payable by the Executive Directors or Specified Executives in relation to the securities.

Notes to the Financial Statements continued

for the year ended 30 June 2004

5. Director and executive disclosures continued

EQUITY INSTRUMENTS continued

Qantas Long-Term Executive Incentive Plan (QLTEIP)

Details of entitlements over shares in Qantas provided as remuneration under the QLTEIP to each Executive Director and Specified Executive are set out below. For more information on the operation of the QLTEIP, see page 16.

	Number of Entitlements Granted	Balance at 30 June 2003	Expired	Balance at 30 June 2004	Number Vested at 30 June 2004	Number Unvested at 30 June 2004
Executive Directors						
Geoff Dixon	2,045,000	2,045,000	–	2,045,000	(1,738,693)	306,307
Peter Gregg	838,000	838,000	–	838,000	(705,603)	132,397
Specified Executives						
Denis Adams	518,000	518,000	–	518,000	(437,869)	80,131
Fiona Balfour	210,000	210,000	–	210,000	(175,701)	34,299
John Borghetti	518,000	518,000	–	518,000	(437,869)	80,131
Kevin Brown	350,000	350,000	–	350,000	–	350,000
Grant Fenn	496,000	496,000	–	496,000	(418,344)	77,656
David Forsyth	816,000	816,000	–	816,000	(691,161)	124,839

No further vesting occurred for Executive Directors and Specified Executives in the year to 30 June 2004. All vested entitlements are exercisable. David Forsyth's entitlements will expire 15 December 2004 being 12 months after termination.

Equity Holdings and Transactions

The movement during the year in the number of ordinary shares of Qantas held directly, indirectly or beneficially, by each Specified Director and Specified Executive, including their personally related entities, is as follows:

	Interest in Shares at 30 June 2003	Acquired as Remuneration[1]	Acquired through DRP[2]	Purchased/ (Sold)	Lapsed	Interest in Shares at 30 June 2004
Directors						
Margaret Jackson	147,338	–	–	–	–	147,338
Geoff Dixon	326,711	125,000	3,290	–	–	455,001
Peter Gregg	173,460	80,000	1,216	–	–	254,676
Paul Anderson	25,000	–	–	–	–	25,000
Mike Codd	11,007	–	570	–	–	11,577
Patricia Cross	–	–	47	2,000	–	2,047
Trevor Eastwood	12,434	–	644	–	–	13,078
Jim Kennedy	1,975	–	–	–	–	1,975
Trevor Kennedy	122,750	–	–	(71,775)	–	50,975
Roger Maynard	–	–	–	–	–	–
James Packer	–	–	–	–	–	–
John Schubert	34,753	–	–	–	–	34,753
Nick Tait	1,592	–	83	–	–	1,675
Specified Executives						
Denis Adams	95,998	–	1,130	(9,167)	–	87,961
Fiona Balfour	71,618	–	1,483	–	–	73,101
John Borghetti	95,380	–	796	–	–	96,176
Kevin Brown	81,901	–	–	–	–	81,901
Grant Fenn	75,566	–	807	–	–	76,373
David Forsyth	93,648	–	1,743	–	(60,000)	35,391

1 See details of the PSP on page 22 in this Note.

2 Dividend Reinvestment Plan (DRP).

LOANS AND OTHER TRANSACTIONS WITH SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

Loans

No Specified Director or Specified Executive held any loans from the Qantas Group during or at the end of the year.

Other Transactions with the Qantas Group

A number of Specified Directors and Specified Executives, or their personally related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The Publishing and Broadcasting (PBL) group is a related entity to Mr Packer. During the year PBL purchased air travel of $11.8 million from Qantas. All transactions were conducted on normal commercial terms.

Notes to the Financial Statements continued

for the year ended 30 June 2004

6. Auditors' remuneration

	Qantas Group		Qantas	
	2004 $000	2003 $000	**2004 $000**	2003 $000
Audit services:				
Auditors of Qantas – KPMG	**1,965**	1,810	**1,497**	1,358
Other services:				
Auditors of Qantas – KPMG				
Other audit work	**497**	531	**475**	426
Financial reporting assistance	**177**	186	**177**	166
Due diligence	**207**	817	**207**	586
Tax compliance	**617**	354	**567**	309
User acceptance testing	**–**	73	**–**	73
Total other services	**1,498**	1,961	**1,426**	1,560
KPMG related practices	**152**	75	**152**	56
Total fees paid to KPMG	**3,615**	3,846	**3,075**	2,974

	2004 $M	2003 $M	**2004 $M**	2003 $M

7. Cash

Cash on hand	**3.3**	3.8	**3.2**	3.9
Cash at bank	**107.5**	84.8	**26.8**	62.8
Cash at call	**225.1**	33.3	**224.7**	32.9
	335.9	121.9	**254.7**	99.6

8. Receivables

CURRENT

Trade debtors	**958.3**	715.6	**901.7**	672.3
Less: provision for doubtful debts	**18.0**	34.1	**16.7**	31.9
	940.3	681.5	**885.0**	640.4
Trade debtors				
Related parties				
– controlled entities	**–**	–	**116.1**	65.6
– associates and joint ventures	**11.8**	18.4	**11.7**	19.3
– other related parties	**58.2**	59.5	**58.2**	58.6
	70.0	77.9	**186.0**	143.5
Loans owing from				
Related parties				
– controlled entities	**–**	–	**38.9**	19.8
Short-term money market securities and term deposits	**1,029.4**	1,894.0	**1,029.4**	1,894.0
Aircraft security deposits	**9.4**	65.9	**6.3**	59.0
Sundry debtors				
Related parties				
– controlled entities	**–**	–	**2.5**	1.8
Other parties	**67.2**	147.7	**55.3**	116.7
	2,116.3	2,867.0	**2,203.4**	2,875.2

Notes to the Financial Statements continued

for the year ended 30 June 2004

8. Receivables continued

	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
NON-CURRENT				
Loans owing from				
Related parties				
– controlled entities	**–**	–	**1,699.0**	1,731.0
– associates and joint ventures	**128.2**	–	**128.2**	–
Other parties	**15.4**	17.8	**–**	–
Aircraft security deposits	**125.5**	129.1	**125.3**	128.9
Sundry debtors				
Other parties	**35.5**	29.6	**25.4**	20.0
	304.6	176.5	**1,977.9**	1,879.9

Current and non-current aircraft security deposits have been pledged as security to providers of aircraft finance.

9. Inventories

	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
CURRENT				
At cost				
Engineering expendables	**304.9**	329.7	**287.7**	309.4
Consumable stores	**36.8**	40.1	**28.5**	36.1
Work in progress	**32.6**	59.2	**31.0**	54.1
	374.3	429.0	**347.2**	399.6
At net realisable value				
Aircraft spare parts held for sale	**1.2**	1.3	**1.2**	1.3
	375.5	430.3	**348.4**	400.9

10. Other investments

	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
NON-CURRENT				
Unlisted investments				
Controlled entities at cost (refer Note 28)	**–**	–	**472.5**	331.7
Associates and joint ventures at cost (refer Note 30)	**–**	–	**284.3**	31.0
Other corporations at cost	**110.1**	101.9	**20.4**	12.1
	110.1	101.9	**777.2**	374.8

11. Other assets

	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
CURRENT				
Advances, prepayments and other	**133.6**	157.2	**162.0**	107.8
Deferred expenditure	**58.6**	47.1	**48.5**	35.9
	192.2	204.3	**210.5**	143.7
NON-CURRENT				
Deferred expenditure	**88.1**	58.3	**63.3**	23.3
Other	**2.8**	2.7	**1.6**	1.6
	90.9	61.0	**64.9**	24.9

Notes to the Financial Statements continued

for the year ended 30 June 2004

12. Property, plant and equipment

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
NON-CURRENT				
Freehold land – owned				
At cost	**59.4**	59.4	**47.2**	47.2
Leasehold land				
At cost	**0.1**	0.2	**–**	–
Total land at cost	**59.5**	59.6	**47.2**	47.2
Buildings – owned				
At cost	**155.2**	152.3	**110.5**	107.8
Less: accumulated depreciation	**63.1**	56.8	**48.1**	43.8
	92.1	95.5	**62.4**	64.0
Buildings – leased				
At cost	**61.2**	61.2	**29.0**	29.0
Less: accumulated amortisation	**42.2**	35.1	**17.9**	17.0
	19.0	26.1	**11.1**	12.0
Total buildings				
At cost	**216.4**	213.5	**139.5**	136.8
Less: accumulated depreciation and amortisation	**105.3**	91.9	**66.0**	60.8
Total buildings at net book value	**111.1**	121.6	**73.5**	76.0
Leasehold improvements				
At cost	**1,351.9**	1,263.7	**771.9**	681.5
Less: accumulated amortisation	**728.5**	686.7	**372.3**	349.0
Total leasehold improvements at net book value	**623.4**	577.0	**399.6**	332.5
Plant and equipment – owned				
At cost	**1,681.5**	1,608.0	**1,298.4**	1,217.8
Less: accumulated depreciation	**1,055.0**	970.1	**722.0**	642.8
	626.5	637.9	**576.4**	575.0
Plant and equipment – leased				
At cost	**7.0**	7.0	**–**	–
Less: accumulated amortisation	**6.1**	5.5	**–**	–
	0.9	1.5	**–**	–
Total plant and equipment				
At cost	**1,688.5**	1,615.0	**1,298.4**	1,217.8
Less: accumulated depreciation and amortisation	**1,061.1**	975.6	**722.0**	642.8
Total plant and equipment at net book value	**627.4**	639.4	**576.4**	575.0

Notes to the Financial Statements continued

for the year ended 30 June 2004

12. Property, plant and equipment continued

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Aircraft and engines – owned				
At cost	**9,143.5**	8,639.3	**6,532.7**	6,130.2
Less: accumulated depreciation	**3,029.9**	2,466.0	**2,581.3**	2,171.6
	6,113.6	6,173.3	**3,951.4**	3,958.6
Aircraft and engines – hire purchased				
At cost	**3,351.9**	2,777.1	**5,158.1**	4,205.0
Less: accumulated amortisation	**601.8**	784.6	**735.3**	785.2
	2,750.1	1,992.5	**4,422.8**	3,419.8
Aircraft and engines – leased				
At cost	**863.5**	1,107.6	**455.5**	737.0
Less: accumulated amortisation	**357.4**	489.4	**183.7**	298.8
	506.1	618.2	**271.8**	438.2
Total aircraft and engines				
At cost	**13,358.9**	12,524.0	**12,146.3**	11,072.2
Less: accumulated depreciation and amortisation	**3,989.1**	3,740.0	**3,500.3**	3,255.6
Total aircraft and engines at net book value	**9,369.8**	8,784.0	**8,646.0**	7,816.6
Aircraft spare parts – owned				
At cost	**729.9**	757.8	**646.3**	684.3
Less: accumulated depreciation	**363.8**	356.0	**345.5**	339.6
	366.1	401.8	**300.8**	344.7
Aircraft spare parts – leased				
At cost	**20.8**	23.5	**20.8**	19.8
Less: accumulated amortisation	**3.0**	3.9	**3.0**	1.3
	17.8	19.6	**17.8**	18.5
Total aircraft spare parts				
At cost	**750.7**	781.3	**667.1**	704.1
Less: accumulated depreciation and amortisation	**366.8**	359.9	**348.5**	340.9
Total aircraft spare parts at net book value	**383.9**	421.4	**318.6**	363.2
Manufacturers' deposits				
Progress payments at cost	**1,081.5**	829.5	**611.7**	338.0
Total property, plant and equipment				
At cost	**18,507.4**	17,286.6	**15,682.1**	14,197.6
Less: accumulated depreciation and amortisation	**6,250.8**	5,854.1	**5,009.1**	4,649.1
Total property, plant and equipment at net book value	**12,256.6**	11,432.5	**10,673.0**	9,548.5

The Qantas Group has historically depreciated aircraft on a straight-line basis over a period not exceeding 20 years with a residual value not exceeding 25 per cent of the original cost.

During the year, Qantas changed the residual value assumption on wide-bodied aircraft (Boeing 747 and 767 and Airbus A330 aircraft) from 25 per cent to 20 per cent. This reduction in residual value is more closely aligned to the likely future resale value of the aircraft. The effect of the revision in residual value assumption was to increase depreciation expense by $24.0 million for the year.

Notes to the Financial Statements continued

for the year ended 30 June 2004

12. Property, plant and equipment continued

QANTAS GROUP	Opening Written Down Value 2004 $M	Additions 2004 $M	Disposals 2004 $M	Transfers 2004 $M	Depreciation 2004 $M	Other* 2004 $M	Closing Written Down Value 2004 $M
RECONCILIATIONS							
Freehold land – owned	59.4	–	–	–	–	–	59.4
Leasehold land	0.2	0.1	(0.2)	–	–	–	0.1
Total land	59.6	0.1	(0.2)	–	–	–	59.5
Buildings – owned	95.5	3.0	(0.2)	–	(6.2)	–	92.1
Buildings – leased	26.1	–	–	–	(7.1)	–	19.0
Total buildings	121.6	3.0	(0.2)	–	(13.3)	–	111.1
Leasehold improvements	577.0	108.3	(0.7)	–	(50.0)	(11.2)	623.4
Plant and equipment – owned	637.9	106.7	(8.8)	–	(120.5)	11.2	626.5
Plant and equipment – leased	1.5	1.2	(0.1)	–	(1.4)	(0.3)	0.9
Total plant and equipment	639.4	107.9	(8.9)	–	(121.9)	10.9	627.4
Aircraft and engines – owned	6,173.3	391.6	(62.8)	72.9	(471.2)	9.8	6,113.6
Aircraft and engines – hire purchased	1,992.5	148.9	(17.1)	827.1	(202.4)	1.1	2,750.1
Aircraft and engines – leased	618.2	65.4	(118.3)	3.9	(55.1)	(8.0)	506.1
Total aircraft and engines	8,784.0	605.9	(198.2)	903.9	(728.7)	2.9	9,369.8
Aircraft spare parts – owned	401.8	63.9	(1.5)	–	(75.4)	(22.7)	366.1
Aircraft spare parts – leased	19.6	1.1	(1.1)	–	(1.8)	–	17.8
Total aircraft spare parts	421.4	65.0	(2.6)	–	(77.2)	(22.7)	383.9
Manufacturers' deposits	829.5	1,116.8	–	(903.9)	–	39.1	1,081.5
Total property, plant and equipment	11,432.5	2,007.0	(210.8)	–	(991.1)	19.0	12,256.6

* "Other" for the Qantas Group includes transfers to inventories and interest capitalised in manufacturers' deposits.

QANTAS	$M	$M	$M	$M	$M	$M	$M
RECONCILIATIONS							
Freehold land – owned	47.2	–	–	–	–	–	47.2
Buildings – owned	64.0	2.8	–	–	(4.4)	–	62.4
Buildings – leased	12.0	–	–	–	(0.9)	–	11.1
Total buildings	76.0	2.8	–	–	(5.3)	–	73.5
Leasehold improvements	332.5	107.5	(0.7)	–	(28.5)	(11.2)	399.6
Plant and equipment – owned	575.0	102.0	(7.8)	–	(102.3)	9.5	576.4
Total plant and equipment	575.0	102.0	(7.8)	–	(102.3)	9.5	576.4
Aircraft and engines – owned	3,958.6	328.3	(53.8)	154.9	(436.6)	–	3,951.4
Aircraft and engines – hire purchased	3,419.8	148.9	–	1,053.8	(199.7)	–	4,422.8
Aircraft and engines – leased	438.2	–	(140.4)	–	(26.0)	–	271.8
Total aircraft and engines	7,816.6	477.2	(194.2)	1,208.7	(662.3)	–	8,646.0
Aircraft spare parts – owned	344.7	54.2	–	(0.7)	(70.8)	(26.6)	300.8
Aircraft spare parts – leased	18.5	1.1	–	–	(1.8)	–	17.8
Total aircraft spare parts	363.2	55.3	–	(0.7)	(72.6)	(26.6)	318.6
Manufacturers' deposits	338.0	466.0	–	(231.4)	–	39.1	611.7
Total property, plant and equipment	9,548.5	1,210.8	(202.7)	976.6	(871.0)	10.8	10,673.0

* "Other" for Qantas includes transfers to inventories and interest capitalised in manufacturers' deposits.

Notes to the Financial Statements continued

for the year ended 30 June 2004

12. Property, plant and equipment continued

Independent valuations of property and aircraft assets (excluding aircraft spare parts) were obtained as at 30 June 2004.

With the exception of aircraft and engines, the valuations for each asset class were in excess of their carrying amounts. However, no additional revaluations have been recognised. Details of the valuations obtained for the Qantas Group were:

	Qantas Group					
	2004			2003		
	Valuation Amount $M	Carrying Amount $M	Excess/ (Deficit) $M	Valuation Amount $M	Carrying Amount $M	Excess/ (Deficit) $M
ASSET CLASS						
Freehold land and buildings[1]	**252.7**	**151.5**	**101.2**	241.4	154.9	86.5
Leasehold buildings and improvements	**907.8**	**642.4**	**265.4**	836.7	603.1	233.6
Aircraft and engines	**6,800.6**	**9,369.8**	**(2,569.2)**	6,692.7	8,784.0	(2,091.3)
	7,961.1	**10,163.7**	**(2,202.6)**	7,770.8	9,542.0	(1,771.2)

1 Freehold land and buildings for Qantas have been independently valued at $219.3 million (2003: $208.3 million).

The 2004 independent valuation of land, buildings and leasehold improvements was carried out by Mr Russell Cowell FVLE AREI, of Knight Frank Valuations (NSW) Pty Limited. Valuations were performed primarily on a desktop "sight unseen" basis with physical inspections carried out for significant additions. The property valuations were performed using the open market or special use value to the Qantas Group.

The 2004 independent valuation of aircraft and engines was carried out by Mr John Vitale ISTAT Certified Appraiser, of AVITAS Inc. The valuations of aircraft and engines were expressed in United States dollars and converted to their Australian dollar equivalents based on an exchange rate of 0.68759 as at 30 June 2004 (2003: 0.66895). Due to the current state of the international aviation industry and the appreciation of the Australian dollar, the market value of the fleet has declined during the financial year, and at 30 June 2004 there is a deficit between carrying amount and market valuation.

At 30 June 2004, the carrying amount of all individual aircraft is supported by an in-use valuation. This in-use valuation takes into account future cash flows arising from the use of the aircraft assets and is in line with the requirements of AASB 1010 "Recoverable Amount of Non-Current Assets". In establishing the in-use valuations, the relevant cash flows have been discounted.

Qantas will continue to assess the carrying value of the aircraft fleet by reference to both future cash flows and current market values. However, at the current time no write down is considered necessary.

SECURED ASSETS

Certain aircraft and engines act as security against related financings. Under the terms of certain financing facilities entered into by the Qantas Group, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters. The total carrying amount of assets under pledge was $5,257.4 million as at 30 June 2004 (2003: $4,612.0 million).

Notes to the Financial Statements continued

for the year ended 30 June 2004

13. Intangible assets

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
NON-CURRENT				
Goodwill at cost	**151.3**	151.3	**–**	–
Less: accumulated amortisation	**46.1**	31.7	**–**	–
	105.2	119.6	**–**	–
Airport landing slots	**47.3**	–	**47.3**	–
Less: accumulated amortisation	**0.1**	–	**0.1**	–
	47.2	–	**47.2**	–
	152.4	119.6	**47.2**	–

14. Payables

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
CURRENT				
Trade creditors				
Related parties				
– controlled entities	**–**	–	**167.3**	74.7
– associates and joint ventures	**25.6**	8.2	**25.6**	8.2
– other related parties	**99.5**	102.4	**99.5**	102.4
Other parties	**1,572.7**	1,492.5	**1,460.9**	1,409.9
	1,697.8	1,603.1	**1,753.3**	1,595.2
Other creditors and accruals				
Other parties	**218.1**	236.4	**74.0**	119.4
Frequent Flyer points liability	**251.6**	269.6	**251.6**	269.6
	2,167.5	2,109.1	**2,078.9**	1,984.2

During the year, the incremental cost of Frequent Flyer points accrued was revised in line with the Qantas Group's reduction in unit costs, which reflects the impact of cost and efficiency savings delivered under the Sustainable Future program. The effect of the revision in the incremental cost of accrued Frequent Flyer points was to reduce selling and marketing costs in the Statements of Financial Performance by $38.8 million.

Redeemed Frequent Flyer revenue passenger kilometres as a percentage of available seat kilometres was 7.8 per cent for the financial year (2003: 7.5 per cent). The number of passenger flight segments redeemed by Frequent Flyers during the year was 3.3 million (2003: 3.1 million).

Notes to the Financial Statements continued

for the year ended 30 June 2004

15. Interest-bearing liabilities

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
CURRENT				
Bank loans				
– secured	**196.4**	270.7	**81.7**	185.2
– unsecured	**133.3**	133.3	**133.3**	133.3
Other loans				
Related parties – unsecured				
– associates and joint ventures	**14.2**	12.2	**14.2**	12.2
Other parties				
– secured	**–**	2.2	**–**	–
– unsecured	**418.1**	289.8	**418.1**	289.8
Finance lease and hire purchase liabilities (refer Note 23)	**59.9**	262.9	**179.1**	359.7
	821.9	971.1	**826.4**	980.2
NON-CURRENT				
Bank loans				
– secured	**2,558.5**	1,885.8	**1,083.2**	653.0
– unsecured	**364.1**	1,266.7	**364.1**	1,266.7
Other loans				
Related parties – unsecured				
– controlled entities	**–**	–	**592.6**	478.6
Other parties				
– unsecured	**1,283.5**	1,744.6	**1,283.5**	1,744.6
Finance lease and hire purchase liabilities (refer Note 23)	**875.7**	494.8	**2,810.9**	1,912.7
	5,081.8	5,391.9	**6,134.3**	6,055.6

Certain current and non-current loans relate to specific financings of aircraft and engines and are secured by the aircraft to which they relate (refer Note 12).

16. Provisions

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
CURRENT				
Dividends	**1.4**	1.3	**–**	–
Employee benefits (refer Note 32)				
– annual leave	**317.7**	313.5	**281.0**	277.7
– long service leave	**28.8**	32.2	**23.2**	26.4
– staff redundancy	**0.4**	51.9	**–**	44.4
Under recovery of rentals on sub-let premises	**7.5**	5.7	**6.8**	4.0
Insurance and other	**25.8**	31.3	**17.8**	20.0
	381.6	435.9	**328.8**	372.5
NON-CURRENT				
Employee benefits (refer Note 32)				
– long service leave	**257.7**	276.7	**235.4**	253.4
Under recovery of rentals on sub-let premises	**15.8**	18.8	**13.9**	18.6
Insurance and other	**58.2**	58.6	**53.0**	52.4
	331.7	354.1	**302.3**	324.4

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' service provided to reporting date. In determining the estimated future value of long service leave entitlements, a number of assumptions are made including the likely increase in wages and salary rates in the future.

During the year, the assumption for wage and salary rate rises was revised to reflect wage and salary increases negotiated and agreed in recent years under various Enterprise Bargaining Agreements entered into by the Qantas Group. The effect of revising this assumption was to reduce manpower and staff related costs in the Statements of Financial Performance by $29.4 million.

Notes to the Financial Statements continued

for the year ended 30 June 2004

16. Provisions continued

	Qantas Group 2004 $M	Qantas 2004 $M
RECONCILIATIONS		
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:		
DIVIDENDS		
Carrying amount at the beginning of the financial year	1.3	–
Provisions made during the year	308.0	305.5
Payments made during the year	(161.4)	(159.0)
Dividends settled in shares under the Dividend Reinvestment Plan	(146.5)	(146.5)
Carrying amount at the end of the financial year	1.4	–
UNDER RECOVERY OF RENTALS ON SUB-LET PREMISES		
Carrying amount at the beginning of the financial year	24.5	22.6
Provisions made during the year	9.5	8.9
Payments made during the year	(10.7)	(10.8)
Carrying amount at the end of the financial year	23.3	20.7
Included in the Financial Statements as follows:		
Current	7.5	6.8
Non-current	15.8	13.9
Total provision for under recovery of rentals on sub-let premises	23.3	20.7
INSURANCE AND OTHER		
Carrying amount at the beginning of the financial year	89.9	72.4
Provisions made during the year	19.2	17.6
Payments made during the year	(25.1)	(19.2)
Carrying amount at the end of the financial year	84.0	70.8
Included in the Financial Statements as follows:		
Current	25.8	17.8
Non-current	58.2	53.0
Total provision for insurance and other	84.0	70.8

Notes to the Financial Statements continued

for the year ended 30 June 2004

17. Current tax liabilities/(receivables)

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Income tax				
– Australia	**25.8**	(11.7)	**25.1**	(36.2)
– overseas	**4.3**	7.0	**2.1**	4.0
	30.1	(4.7)	**27.2**	(32.2)

18. Contributed equity

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Issued and paid up capital 1,845,115,040 (2003: 1,774,112,946) ordinary shares, fully paid as at 30 June	**3,994.9**	3,757.9	**3,994.9**	3,757.9

Movements in the share capital of Qantas during the financial year were as follows:

Date	Details	Number of Shares M	2004 $M
1 July 2003	Balance at the beginning of the financial year	**1,774.1**	**3,757.9**
1 October 2003	Institutional Equity Placement	**26.9**	**90.5**
1 October 2003	Dividend Reinvestment Plan	**21.2**	**69.2**
7 April 2004	Dividend Reinvestment Plan	**22.9**	**77.3**
30 June 2004	Balance at the end of the financial year	**1,845.1**[1]	**3,994.9**

1 Includes the conversion of 10,470 QLTEIP shares on 19 February 2004.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up, Qantas ordinary shareholders rank after all creditors and are fully entitled to any residual proceeds on liquidation.

Notes to the Financial Statements continued
for the year ended 30 June 2004

19. Reserves

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Asset revaluation reserve	**55.5**	55.5	**82.9**	82.9
Foreign currency translation reserve	**(1.1)**	(1.5)	**–**	–
	54.4	54.0	**82.9**	82.9

MOVEMENTS IN RESERVES

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
ASSET REVALUATION RESERVE				
Balance at the beginning of the financial year	**55.5**	55.5	**82.9**	82.9
Balance at the end of the financial year	**55.5**	55.5	**82.9**	82.9
FOREIGN CURRENCY TRANSLATION RESERVE				
Balance at the beginning of the financial year	**(1.5)**	0.8	**–**	–
Net exchange differences relating to self-sustaining foreign operations	**0.4**	(2.3)	**–**	–
Balance at the end of the financial year	**(1.1)**	(1.5)	**–**	–

NATURE AND PURPOSE OF RESERVES

ASSET REVALUATION RESERVE

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets measured at fair value in accordance with AASB 1041 "Revaluation of Non-Current Assets" in prior financial years. An amount for the Qantas Group and Qantas of $52.6 million (2003: $52.6 million) is not available for future asset write-downs as a result of using the deemed cost election for land when adopting AASB 1041.

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the Qantas Group's net investment in a foreign operation, or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation. Refer to Note 1(c).

20. Retained profits

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Retained profits at the beginning of the financial year	**1,435.9**	1,239.1	**927.8**	699.5
Net profit attributable to members of the Company	**648.4**	343.5	**676.0**	372.5
Net effect on initial adoption of AASB 1028 "Employee Benefits"	**–**	(3.7)	**–**	(3.7)
Net effect on dividends from:				
Initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	**–**	140.7	**–**	140.7
Dividends recognised during the year	**(308.0)**	(283.7)	**(305.5)**	(281.2)
Retained profits at the end of the financial year	**1,776.3**	1,435.9	**1,298.3**	927.8

Notes to the Financial Statements continued

for the year ended 30 June 2004

21. Total equity reconciliation

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Total equity at the beginning of the financial year	**5,262.1**	4,253.5	**4,768.6**	3,729.0
Total changes in equity from non-owner related transactions attributable to members of the Company	**648.8**	337.5	**676.0**	368.8
Contributions of equity	**237.0**	811.3	**237.0**	811.3
Dividends	**(308.0)**	(143.0)	**(305.5)**	(140.5)
Total changes in outside equity interests	**0.4**	2.8	**–**	–
Total equity at the end of the financial year	**5,840.3**	5,262.1	**5,376.1**	4,768.6

22. Outside equity interests

	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
Ordinary share capital of controlled entities issued to outside equity interests	**0.1**	0.1	**–**	–
Outside equity interests in retained profits of controlled entities	**14.6**	14.2	**–**	–
	14.7	14.3	**–**	–

23. Finance lease and hire purchase commitments

	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
Included in the Financial Statements as finance lease and hire purchase liabilities are the present values of future rentals of the following:				
Aircraft and engines	**935.4**	757.4	**2,990.0**	2,272.4
Computer and communications equipment	**0.2**	0.3	**–**	–
	935.6	757.7	**2,990.0**	2,272.4
Payable				
Not later than one year	**99.2**	309.0	**301.3**	461.9
Later than one year but not later than five years	**606.6**	581.6	**1,488.0**	1,163.3
Later than five years	**394.0**	9.6	**1,887.6**	1,180.7
	1,099.8	900.2	**3,676.9**	2,805.9
Less: future lease and hire purchase finance charges	**164.2**	142.5	**686.9**	533.5
	935.6	757.7	**2,990.0**	2,272.4
Lease and hire purchase liabilities provided for in the Financial Statements				
Current liability (refer Note 15)	**59.9**	262.9	**179.1**	359.7
Non-current liability (refer Note 15)	**875.7**	494.8	**2,810.9**	1,912.7
Total lease and hire purchase liabilities	**935.6**	757.7	**2,990.0**	2,272.4

Notes to the Financial Statements continued

for the year ended 30 June 2004

24. Operating lease and hire commitments

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Future net operating lease and hire commitments not provided for in the Financial Statements	**2,189.9**	2,042.8	**1,973.7**	1,927.7
Payable				
Not later than one year	**457.2**	360.0	**386.6**	326.5
Later than one year but not later than five years	**1,255.2**	1,085.5	**1,110.0**	1,006.1
Later than five years	**500.8**	621.8	**497.8**	617.7
	2,213.2	2,067.3	**1,994.4**	1,950.3
Less: provision for potential under recovery of rentals on unused premises available for sub-lease (refer Note 16)	**23.3**	24.5	**20.7**	22.6
	2,189.9	2,042.8	**1,973.7**	1,927.7
Operating lease commitments represent:				
Cancellable operating leases	**988.6**	1,005.2	**982.7**	994.2
Non-cancellable operating leases:				
– Aircraft leases	**1,201.3**	1,037.6	**991.0**	933.5
	2,189.9	2,042.8	**1,973.7**	1,927.7
Non-cancellable operating lease commitments, excluding unguaranteed residual payments, not provided for in the Financial Statements:				
Payable				
Not later than one year	**308.1**	233.4	**239.3**	202.6
Later than one year but not later than five years	**864.4**	702.8	**722.9**	629.5
Later than five years	**28.8**	101.4	**28.8**	101.4
	1,201.3	1,037.6	**991.0**	933.5

The Qantas Group leases aircraft, buildings and plant and equipment under finance and operating leases with expiry dates between one and 15 years. All finance leases contain purchase options exercisable at the end of the lease term. The Qantas Group has the right to negotiate extensions on most leases.

If all aircraft operating leases were capitalised on inception, then at balance date total lease liabilities would increase by $2,068.2 million and assets under operating leases would have an implied carrying value of $1,881.3 million at 30 June 2004.

25. Capital expenditure commitments

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Capital expenditure commitments contracted but not provided for in the Financial Statements:				
Aircraft	**5,130.1**	5,740.6	**5,120.0**	5,656.5
Building works	**224.3**	181.2	**222.0**	181.2
Other	**190.1**	223.8	**169.1**	207.8
	5,544.5	6,145.6	**5,511.1**	6,045.5
Payable				
Not later than one year	**1,710.8**	1,719.1	**1,692.4**	1,693.8
Later than one year but not later than five years	**3,833.7**	3,503.0	**3,818.7**	3,428.2
Later than five years	**–**	923.5	**–**	923.5
	5,544.5	6,145.6	**5,511.1**	6,045.5

The above amounts exclude uncommitted aircraft purchase payments that may be made if cancellable aircraft options are exercised.

Notes to the Financial Statements continued

for the year ended 30 June 2004

26. 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		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Guarantees and letters of comfort to support operating lease commitments and other arrangements entered into with other parties by controlled entities	**24.2**	24.0	**–**	–
Guarantees and letters of comfort to support leveraged and operating lease commitments to other parties on behalf of associated companies	**11.1**	11.2	**11.0**	11.1
General guarantees in the normal course of business	**126.6**	130.7	**126.6**	130.7
Contingent liabilities relating to current and threatened litigation	**10.6**	56.6	**9.6**	50.5
	172.5	222.5	**147.2**	192.3

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 $214.1 million (2003: $225.3 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, the 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 2004, total unrealised exchange losses on hedges of net revenue designated to service long-term debt were $19.2 million (2003: $117.7 million gains).

27. Superannuation commitments

The Qantas Group maintains two superannuation plans covering Australian-based employees. The Qantas Group also maintains a number of superannuation and retirement plans for local staff in overseas countries. Plan trustees, who are appointed by Qantas, are indemnified by the Qantas Group against actions, claims and demands arising from their lawful administration of the superannuation plans.

The superannuation plans for Australian-based current and former employees of Qantas (including employees of certain controlled entities) provide accumulation benefits, defined benefits or a combination of both. Qantas is committed to making contributions to the superannuation plans, after allowing for employee contributions. In addition, the Qantas Group is required to provide a minimum level of contributions under the Australian Superannuation Guarantee legislation.

Notes to the Financial Statements continued
for the year ended 30 June 2004

27. Superannuation commitments continued

The various Plans were last actuarially assessed as detailed in the table below. The actuarial valuations confirmed that the value of the assets of the Plans were sufficient to meet all anticipated liabilities, including vested benefits in the event of termination of the Plans and voluntary or compulsory termination of employment of each employee at balance date.

The last actuarial reviews of the Plans were as follows:

Plan	Type of Plan	Name and Qualifications of Actuary[1]	Date
Qantas Superannuation Plan (QSP)	Defined benefit	Mr Mark Thompson BSc FIAA	30 June 2002
	Accumulation	Not applicable	
Australian Airlines Flight Engineers' Superannuation Plan	Defined benefit	Mr Mark Thompson BSc FIAA	30 June 2003

1 Actuarial valuations performed by actuaries employed by Towers Perrin in Australia.

Certain controlled entities have a legally enforceable obligation under various awards to contribute to industry plans on behalf of some employees. These Plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement or death.

As at 30 June 2004, the net market value of the Qantas Superannuation Plan assets was in excess of the vested benefits of the Plan.

The following defined benefit superannuation plans are sponsored by the Qantas Group:

	Qantas Group 2004				
Plan	Present Value of Accrued Benefits $M	Net Market Value of Plan Assets as at 30 June 2003[2] $M	Excess/ (Deficit) $M	Employer Contributions to Plan for Year Ended 30 June 2003[2] $M	Vested Benefits as at 30 June 2003[2] $M
Qantas Superannuation Plan[1]	**3,636.5**	**3,612.0**	**(24.5)**	**230.0**	**3,512.0**
Australian Airlines Flight Engineers' Superannuation Plan[3]	**7.8**	**16.7**	**8.9**	**–**	**7.8**
Total	**3,644.3**	**3,628.7**	**(15.6)**	**230.0**	**3,519.8**

1 The most recent actuarial valuation of the QSP was at 30 June 2002. The most recent audited Financial Statements prepared by the QSP were as at 30 June 2003. Accordingly, comparison of accrued benefits as at 30 June 2002 to the net market value of Plan assets as at 30 June 2003 is inappropriate due to the different dates.

2 Extracted from the most recent audited Financial Statements of the Plans. The Net Market Value of Plan Assets does not represent the actuarial value of assets, as it does not include allowance for fluctuations in the value of Plan assets.

3 The most recent actuarial valuation was undertaken as at 30 June 2003.

	Qantas Group 2003				
Plan	Present Value of Accrued Benefits as at 30 June 2002 $M	Net Market Value of Plan Assets as at 30 June 2002[2] $M	Excess $M	Employer Contributions to Plan for Year Ended 30 June 2002[2] $M	Vested Benefits as at 30 June 2002[2] $M
Qantas Superannuation Plan[1]	3,636.5	3,666.0	29.5	121.9	3,488.9
Australian Airlines Flight Engineers' Superannuation Plan[3]	7.0	17.4	10.4	–	7.4
Total	3,643.5	3,683.4	39.9	121.9	3,496.3

1 The most recent actuarial valuation of the QSP was at 30 June 2002. The most recent audited Financial Statements prepared by the QSP were also as at 30 June 2002.

2 Extracted from the most recent audited Financial Statements of the Plans. The Net Market Value of Plan Assets does not represent the actuarial value of assets, as it does not include allowance for fluctuations in the value of plan assets.

3 The last actuarial valuation was undertaken as at 30 June 2000.

Vested benefits are benefits that are not conditional upon continued membership of the Plans and include benefits which members were entitled to receive had they terminated their membership of the Plans as at balance date.

The Directors, based on the advice of the Trustees of the Plans, are not aware of any changes in circumstances since the date of the most recent Financial Statements of the Plans that would have a material impact on the overall financial position of the Plans, unless otherwise disclosed.

Notes to the Financial Statements continued

for the year ended 30 June 2004

28. Particulars in relation to controlled entities

	Notes	ACN/ABN	Country of Incorporation	Qantas Group Ownership Interest 2004 %	2003 %
738 Leasing 1 Pty Limited		33 099 119 641	Australia	**100**	100
738 Leasing 2 Pty Limited		71 099 119 801	Australia	**100**	100
AAL Aviation Limited	i	83 008 642 886	Australia	**100**	100
Star Handling Services Pty Limited	i	32 010 434 296	Australia	**100**	100
Australian Airlines Express Courier Pty Limited	i	010 435 202	Australia	**100**	100
ARANS Superannuation Pty Limited		064 235 892	Australia	**100**	100
AAFE Superannuation Pty Limited		064 186 214	Australia	**100**	100
TAA Superannuation Pty. Ltd.		065 318 461	Australia	**100**	100
Australian Regional Airlines Pty. Ltd.	i	25 006 783 633	Australia	**100**	100
Australian Wetleasing Operations Pty Limited	i	15 094 477 077	Australia	**100**	100
Sunstate Airlines (Qld) Pty Limited	i	82 009 734 703	Australia	**100**	100
Southern Australia Airlines Pty Ltd	i	38 006 604 217	Australia	**100**	100
Airlink Pty Limited	i	76 010 812 316	Australia	**100**	100
Australian Regional Airlines (Qld) Pty. Ltd.	i	010 795 347	Australia	**100**	100
Air Queensland Pty. Ltd.		009 656 599	Australia	**100**	100
Eastern Australia Airlines Pty. Limited	i	77 001 599 024	Australia	**100**	100
ACN 000 199 468 Pty Limited	i	000 199 468	Australia	**100**	100
Impulse Airlines Holdings Proprietary Limited	i	67 090 590 024	Australia	**100**	100
Impulse Airlines Australia Pty Ltd	i	17 090 379 285	Australia	**100**	100
Jetstar Airways Pty Limited	i, viii	33 069 720 243	Australia	**100**	100
Impulse Communications Pty Limited	i	64 003 901 353	Australia	**100**	100
First Brisbane Airport Proprietary Limited	i	60 006 912 116	Australia	**100**	100
First Brisbane Airport Unit Trust			n/a	**100**	100
Second Brisbane Airport Proprietary Limited	i	49 006 912 072	Australia	**100**	100
Second Brisbane Airport Unit Trust			n/a	**100**	100
TAA Aviation Pty. Ltd.	i	17 008 596 825	Australia	**100**	100
Nostam Pty. Limited		003 337 497	Australia	**100**	100
In Tours Airline Unit Trust No 1			n/a	**100**	100
Denmell Pty. Limited	i	24 008 636 093	Australia	**100**	100
Denmint Pty. Limited	i	22 008 636 084	Australia	**100**	100
Denmost Pty. Limited	i	41 008 636 100	Australia	**100**	100
Denold Pty. Limited	i	64 008 636 262	Australia	**100**	100
Denpen Pty. Limited	i	66 008 636 271	Australia	**100**	100
Denpet Pty. Limited	i	60 008 636 244	Australia	**100**	100
Denpost Pty. Limited	i	58 008 636 235	Australia	**100**	100
Denrac Pty. Limited	i	56 008 636 226	Australia	**100**	100
Densale Pty. Limited	i	45 008 636 182	Australia	**100**	100
Denseed Pty. Limited	i	39 008 636 155	Australia	**100**	100
Denshore Pty. Limited	i	37 008 636 146	Australia	**100**	100
Densip Pty. Limited	i	35 008 636 137	Australia	**100**	100
Densound Pty. Limited	i	33 008 636 128	Australia	**100**	100
oneworld Handling Services Pty Limited	i	30 008 606 960	Australia	**100**	100
Engine No. 9 Pty. Ltd.	i	24 008 606 997	Australia	**100**	100
A.C.N 009 864 546 Pty Limited	ix	009 864 546	Australia	**100**	100
Airconnex Pty Limited	i	23 095 093 011	Australia	**100**	100
Asia Pacific Distribution Limited	i	70 003 696 973	Australia	**100**	100
Australian Airlines Limited	i	85 099 625 304	Australia	**100**	100
AVBA Holdings Pty Limited	ii	108 623 123	Australia	**100**	–
BD No 1 Limited			Cayman Islands	**100**	100
Express Ground Handling Pty Limited	iii	19 107 638 326	Australia	**100**	–

Notes to the Financial Statements continued

for the year ended 30 June 2004

28. Particulars in relation to controlled entities continued

	Note	ACN/ABN	Country of Incorporation	Qantas Group Ownership Interest 2004 %	2003 %
Jetconnect Limited			New Zealand	**100**	100
Qantas Investments (NZ) Limited			New Zealand	**100**	100
Kurrajong Limited			Cayman Islands	**100**	100
Mitokal Pty. Limited	i	98 008 658 722	Australia	**100**	100
Q.H. Tours Limited	i	81 001 262 433	Australia	**100**	100
Holiday Tours and Travel Pte Limited			Singapore	**75**	75
Jetabout Holidays Pte Limited			Singapore	**75**	75
Tour East Singapore (1996) Pte Limited			Singapore	**75**	75
Tour East (Hong Kong) Limited			Hong Kong	**75**	75
PT Tour East Indonesia			Indonesia	**60**	60
PT Pacto Holiday Tours			Indonesia	**52.5**	52.5
Holiday Tours and Travel Limited (Taiwan)			Taiwan	**75**	75
Holiday Tours and Travel Limited			Hong Kong	**75**	75
Holiday Tours and Travel (Korea) Limited			Korea	**56.25**	56.25
QH International Co, Limited			Japan	**100**	100
Jetabout Japan Inc			Japan	**100**	100
QH Tours (UK) Limited			United Kingdom	**100**	100
Qantas Holidays Limited	i	24 003 836 459	Australia	**100**	100
Qantas Viva! Holidays Limited		82 003 857 332	Australia	**100**	100
QH Cruises Pty. Limited.	i	13 003 895 556	Australia	**100**	100
Qanfad Pty Limited	i	071 955 578	Australia	**100**	100
Qanlease Limited	i	78 064 157 839	Australia	**100**	100
Qantair Ltd	i	44 000 090 639	Australia	**100**	100
Qantas Airline Systems and Research Limited	i	28 055 910 962	Australia	**100**	100
Qantas Cabin Crew (UK) Limited	iv		United Kingdom	**100**	–
Qantas Defence Services Pty Limited	i	53 090 673 466	Australia	**100**	100
QDS Richmond Pty Ltd		58 092 691 140	Australia	**100**	100
Qantas Flight Catering Holdings Limited	i	34 003 836 440	Australia	**100**	100
Qantas Flight Catering Limited	i	35 003 530 685	Australia	**100**	100
Caterair Airport Services Pty. Limited	i	51 008 646 302	Australia	**100**	100
Caterair Airport Services (Sydney) Pty Limited		37 062 648 140	Australia	**51**	51
Airport Infrastructure Finance Pty. Limited		14 011 071 248	Australia	**100**	100
Waruda Holdings Pty Limited	i	47 072 876 503	Australia	**100**	100
Cairns Wholesale Bakery and Patisserie Pty Limited	i	28 072 876 487	Australia	**100**	100
Qantas Information Technology Ltd	i	99 000 005 372	Australia	**100**	100
Qantas Limited	i	73 003 613 465	Australia	**100**	100
Qantas Superannuation Limited		47 003 806 960	Australia	**100**	100
QF 738 Leasing 5 Pty Limited		75 100 511 706	Australia	**100**	100
QF 738 Leasing 6 Pty Limited		83 100 511 742	Australia	**100**	100
QF 744 Leasing 1 Pty Limited		41 100 511 564	Australia	**100**	100
QF 744 Leasing 2 Pty Limited		54 100 511 617	Australia	**100**	100
QF 744 Leasing 3 Pty Limited		18 100 511 466	Australia	**100**	100
QF 744 Leasing 4 Pty Limited		24 100 511 493	Australia	**100**	100
QF 744 Leasing 5 Pty Limited		12 100 511 439	Australia	**100**	100
QF 744 Leasing 6 Pty Limited		16 100 511 457	Australia	**100**	100
QF A332 Leasing 1 Pty Limited		11 100 511 813	Australia	**100**	100
QF A332 Leasing 2 Pty Limited		13 100 511 886	Australia	**100**	100
QF A332 Leasing 3 Pty Limited		86 100 510 503	Australia	**100**	100
QF A332 Leasing 4 Pty Limited		84 100 510 558	Australia	**100**	100
QF A332 Leasing 5 Pty Limited		22 100 510 674	Australia	**100**	100
QF A332 Leasing 6 Pty Limited		35 100 510 727	Australia	**100**	100

Notes to the Financial Statements continued
for the year ended 30 June 2004

28. Particulars in relation to controlled entities continued

	Note	ACN/ABN	Country of Incorporation	Qantas Group Ownership Interest 2004 %	2003 %
QF A333 Leasing 1 Pty Limited		49 100 510 790	Australia	**100**	100
QF A333 Leasing 2 Pty Limited		56 100 510 816	Australia	**100**	100
QF A333 Leasing 3 Pty Limited	vi	50 100 510 352	Australia	**100**	100
QF A333 Leasing 4 Pty Limited	vii	44 100 510 389	Australia	**100**	100
QF A388 Leasing 1 Pty Limited		62 100 510 843	Australia	**100**	100
QF A388 Leasing 2 Pty Limited		66 100 510 861	Australia	**100**	100
QF Dash 8 Leasing Pty Limited	v	86 107 164 750	Australia	**100**	–
Snap Fresh Pty Limited	i	55 092 536 475	Australia	**100**	100
Southern Cross Insurances Pte Limited			Singapore	**100**	100

i. Pursuant to ASIC Class Order 98/1418, these controlled entities are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports.
ii. AVBA Holdings Pty Limited was incorporated on 5 April 2004.
iii. Express Ground Handling Pty Limited was incorporated on 27 January 2004.
iv. Qantas Cabin Crew (UK) Limited was incorporated on 18 June 2004.
v. QF Dash 8 Leasing Pty Limited was incorporated on 25 November 2003.
vi. QF 738 Leasing 3 Pty Limited changed its name to QF A333 Leasing 3 Pty Limited on 1 December 2003.
vii. QF 738 Leasing 4 Pty Limited changed its name to QF A333 Leasing 4 Pty Limited on 1 December 2003.
viii. Impulse Airlines Pty Limited changed its name to Jetstar Airways Pty Limited on 23 December 2003.
ix. This company was voluntarily deregistered on 14 September 2001 but was reinstated in accordance with Section 601AH(l) of the Corporations Act 2001 on 10 July 2002.

29. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries identified in Note 28 are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of Financial Reports, and Directors' Reports.

It is a condition of the Class Order that Qantas and each of the controlled entities in the Class Order enter into a Deed of Cross Guarantee. The effect of the Deed is that Qantas guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, Qantas will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that Qantas is wound up.

The Deed was first entered into by the controlled entities on 4 June 2001 and subsequently additional controlled entities became party to the Deed by way of an Assumption Deed on 17 June 2002.

A consolidated Statement of Financial Performance and consolidated Statement of Financial Position, comprising Qantas and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2004 are set out below:

	Consolidated 2004 $M	2003 $M
STATEMENT OF FINANCIAL PERFORMANCE		
Profit from ordinary activities before related income tax expense	**948.7**	473.0
Income tax expense relating to ordinary activities	**(311.0)**	(149.5)
Net profit	**637.7**	323.5
Retained profits at the beginning of the financial year	**1,395.8**	1,216.5
Adjustment to retained profits at beginning of year on initial adoption of:		
AASB 1028 "Employee Benefits"	**–**	(3.7)
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	**–**	140.7
Dividends recognised during the year	**(305.3)**	(281.2)
Retained profits at the end of the financial year	**1,728.2**	1,395.8

Notes to the Financial Statements continued

for the year ended 30 June 2004

29. Deed of cross guarantee continued

	Consolidated 2004 $M	2003 $M
STATEMENT OF FINANCIAL POSITION		
CURRENT ASSETS		
Cash	**280.4**	93.5
Receivables	**2,131.5**	2,877.8
Net receivables under hedge/swap contracts	**302.1**	331.1
Inventories	**375.1**	430.0
Other	**178.9**	190.9
Total current assets	**3,268.0**	3,923.3
NON-CURRENT ASSETS		
Receivables	**1,255.8**	1,404.6
Net receivables under hedge/swap contracts	**997.0**	1,014.9
Investments accounted for using the equity method	**328.5**	68.1
Other investments	**21.0**	12.8
Property, plant and equipment	**11,768.3**	10,618.4
Intangible assets	**155.1**	119.4
Deferred tax assets	**(0.1)**	43.9
Other	**68.4**	29.0
Total non-current assets	**14,594.0**	13,311.1
Total assets	**17,862.0**	17,234.4
CURRENT LIABILITIES		
Payables	**2,291.2**	2,111.7
Interest-bearing liabilities	**707.2**	999.1
Net payables under hedge/swap contracts	**250.8**	46.4
Provisions	**375.1**	428.2
Current tax liabilities	**27.2**	(11.5)
Revenue received in advance	**1,492.1**	1,156.6
Deferred lease benefits/income	**44.8**	50.5
Total current liabilities	**5,188.4**	4,781.0
NON-CURRENT LIABILITIES		
Interest-bearing liabilities	**5,446.9**	5,694.9
Net payables under hedge/swap contracts	**131.6**	340.9
Provisions	**328.9**	351.2
Deferred tax liabilities	**806.6**	602.6
Deferred lease benefits/income	**191.7**	254.8
Total non-current liabilities	**6,905.7**	7,244.4
Total liabilities	**12,094.1**	12,025.4
Net assets	**5,767.9**	5,209.0
EQUITY		
Contributed equity	**3,984.0**	3,757.9
Reserves	**55.7**	55.3
Retained profits	**1,728.2**	1,395.8
Total equity	**5,767.9**	5,209.0

Notes to the Financial Statements continued

for the year ended 30 June 2004

30. Investments accounted for using the equity method

	Qantas Group 2004 $M	Qantas Group 2003 $M
Share of net profits accounted for using the equity method included in the Statements of Financial Performance		
– associates	**8.1**	6.9
– joint ventures	**11.6**	2.7
	19.7	9.6

(a) INVESTMENTS IN ASSOCIATES

Details of interests in associates are as follows:

Name	Principal Activity	Balance Date	Ownership Interest – Qantas Group 2004 %	Ownership Interest – Qantas Group 2003 %	Ownership Interest – Qantas 2004 %	Ownership Interest – Qantas 2003 %	Amount of Investment – Qantas Group 2004 $M	Amount of Investment – Qantas Group 2003 $M
Air Pacific Limited	Air transport	31 Mar	**46.3**	46.3	**46.3**	46.3	**45.0**	38.5
AVBA Pte Limited	Air transport	30 Jun	**49.99**	–	**–**	–	**9.8**	–
Hallmark Aviation Services LP	Passenger handling services	31 Dec	**49.0**	49.0	**49.0**	49.0	**2.7**	2.5
Holiday Tours and Travel (Thailand) Limited	Tours and travel	31 Dec	**36.8**	36.8	**–**	–	**1.0**	1.0
Jupiter Air Oceania Limited	Freight services	31 Dec	**47.6**	47.6	**47.6**	47.6	**0.2**	0.2
TET Limited	Tours and travel	31 Dec	**36.8**	36.8	**–**	–	**0.1**	0.1
Travel Software Solutions Pty Limited	Reservations systems	30 Jun	**50.0**	50.0	**25.0**	25.0	**10.9**	13.2
Total associates							**69.7**	55.5

Dividends received from associates for the year ended 30 June 2004 by the Qantas Group amounted to $4.1 million (2003: $1.2 million) and by Qantas $2.9 million (2003: $1.2 million).

	Qantas Group 2004 $M	Qantas Group 2003 $M
RESULTS OF ASSOCIATES		
Share of associates' profit from ordinary activities before related income tax expense	**11.7**	10.3
Share of associates' income tax expense relating to ordinary activities	**(3.6)**	(3.4)
Share of associates' net profit as disclosed by associates	**8.1**	6.9
SHARE OF POST-ACQUISITION RETAINED PROFITS AND RESERVES ATTRIBUTABLE TO ASSOCIATES		
Retained profits		
Share of associates' retained profits at the beginning of the financial year	**21.1**	15.4
Share of net profit of associates accounted for using the equity method	**8.1**	6.9
Dividends from associates	**(4.1)**	(1.2)
Share of associates' retained profits at the end of the financial year	**25.1**	21.1
Asset Revaluation Reserve		
Share of associates' asset revaluation reserve at the beginning of the financial year	**2.9**	2.9
Share of associates' asset revaluation reserve at the end of the financial year	**2.9**	2.9

Notes to the Financial Statements continued

for the year ended 30 June 2004

30. Investments accounted for using the equity method continued

	Qantas Group 2004 $M	Qantas Group 2003 $M
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENTS IN ASSOCIATES		
Carrying amount of investments in associates at the beginning of the financial year	**55.5**	49.8
Investments in associates acquired during the financial year	**10.2**	–
Share of net profit of associates	**8.1**	6.9
Dividends received from associates	**(4.1)**	(1.2)
Carrying amount of investments in associates at the end of the financial year	**69.7**	55.5
SUMMARY FINANCIAL POSITION OF ASSOCIATES		
The Qantas Group's share of aggregate assets and liabilities of associates is as follows:		
Current assets	**87.9**	87.9
Non-current assets	**115.3**	102.7
Total assets	**203.2**	190.6
Current liabilities	**66.6**	67.3
Non-current liabilities	**70.1**	71.5
Total liabilities	**136.7**	138.8
Net assets	**66.5**	51.8
Adjustment arising from equity accounting:		
Goodwill (net of amortisation)	**3.2**	3.7
Net assets – equity accounting adjusted	**69.7**	55.5

(b) INTERESTS IN JOINT VENTURES

Details of interests in joint ventures are as follows:

			Ownership Interest				Amount of Investment	
			Qantas Group		Qantas		Qantas Group	
Name	Principal Activity	Balance Date	**2004 %**	2003 %	**2004 %**	2003 %	**2004 $M**	2003 $M
Australian Air Express Pty Limited	Air cargo	30 Jun	**50.0**	50.0	**–**	–	**17.8**	12.6
Harvey Holidays Pty Ltd	Tours and travel	30 Jun	**50.0**	50.0	**50.0**	50.0	**0.7**	0.2
Jet Turbine Services Pty Limited	Maintenance services	30 Jun	**50.0**	–	**50.0**	–	**2.4**	–
Star Track Express Holdings Pty Limited	Express road freight	30 Jun	**50.0**	–	**50.0**	–	**249.1**	–
Total joint ventures							**270.0**	12.8

	Qantas Group 2004 $M	Qantas Group 2003 $M
RESULTS OF JOINT VENTURES		
Revenues from ordinary activities	**333.1**	207.7
Expenses from ordinary activities	**(313.0)**	(203.6)
Profit from ordinary activities before income tax expense	**20.1**	4.1
Income tax expense relating to ordinary activities	**(8.5)**	(1.4)
Share of joint ventures net profit as disclosed by joint ventures	**11.6**	2.7

Notes to the Financial Statements continued

for the year ended 30 June 2004

30. Investments accounted for using the equity method continued

(b) INTERESTS IN JOINT VENTURES continued

	Qantas Group 2004 $M	Qantas Group 2003 $M
SUMMARY FINANCIAL POSITION OF JOINT VENTURES		
The Qantas Group's share of aggregate assets and liabilities of joint ventures is as follows:		
Current assets	**75.9**	31.9
Non-current assets	**391.9**	12.2
Total assets	**467.8**	44.1
Current liabilities	**62.5**	30.2
Non-current liabilities	**135.8**	1.7
Total liabilities	**198.3**	31.9
Net assets	**269.5**	12.2
Adjustment arising from equity accounting:		
Goodwill (net of amortisation)	**0.5**	0.6
Net assets – equity accounting adjusted	**270.0**	12.8
SHARE OF POST-ACQUISITION RETAINED PROFITS AND RESERVES ATTRIBUTABLE TO JOINT VENTURES		
Retained profits		
Share of joint ventures' retained profits at the beginning of the financial year	**5.1**	7.9
Share of net profit of joint ventures accounted for using the equity method	**11.6**	2.7
Drawings from joint ventures	**(7.8)**	(5.5)
Share of joint ventures' retained profits at the end of the financial year	**8.9**	5.1
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENTS IN JOINT VENTURES		
Carrying amount of investments in joint ventures at the beginning of the financial year	**12.8**	15.6
Investments in joint ventures acquired during the financial year	**253.4**	–
Share of net profit of joint ventures	**11.6**	2.7
Drawings from joint ventures	**(7.8)**	(5.5)
Carrying amount of investments in joint ventures at the end of the financial year	**270.0**	12.8

Notes to the Financial Statements continued

for the year ended 30 June 2004

31. Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Qantas Group is subject to interest rate, foreign currency, fuel price and credit risks. The Qantas Group manages these risk exposures using various financial instruments, using a set of policies approved by the Board of Directors. Qantas Group policy is not to enter, issue or hold derivative financial instruments for speculative trading purposes.

(a) INTEREST RATE RISK

The Qantas Group manages interest rate risk by reference to a duration target, being a measure of the sensitivity of the borrowing portfolio to changes in interest rates. The relative mix of fixed and floating interest rate funding is managed by using interest rate swaps, forward rate agreements and options. Interest payments and receipts under interest rate swaps are recognised on an accruals basis in the Statement of Financial Performance. Premiums paid on interest rate options are amortised over the period of the hedge. The Qantas Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities are set out below:

2004	Notes	Weighted Average Interest Rate (% pa)	Floating Rate $M	Fixed Rate Maturing in: Less than 1 Year $M	1 to 5 Years $M	More than 5 Years $M	Non-Interest-Bearing $M	Total $M
RECOGNISED FINANCIAL ASSETS								
Cash	7	**5.06**	**335.9**	**–**	**–**	**–**	**–**	**335.9**
Trade debtors	8	**–**	**–**	**–**	**–**	**–**	**1,010.3**	**1,010.3**
Short-term money market securities and term deposits	8	**5.50**	**–**	**1,029.4**	**–**	**–**	**–**	**1,029.4**
Aircraft security deposits	8	**4.83**	**58.0**	**0.5**	**58.8**	**14.3**	**3.3**	**134.9**
Sundry debtors	8	**–**	**–**	**–**	**–**	**–**	**102.7**	**102.7**
Loans receivable	8	**–**	**–**	**–**	**15.4**	**128.2**	**–**	**143.6**
Net receivables under hedge/swap contracts[1]		**–**	**373.9**	**(51.1)**	**71.0**	**503.7**	**–**	**897.5**
Other investments	10	**–**	**–**	**–**	**–**	**–**	**20.4**	**20.4**
Convertible loan notes	10	**–**	**–**	**–**	**–**	**–**	**89.7**	**89.7**
			767.8	**978.8**	**145.2**	**646.2**	**1,226.4**	**3,764.4**
RECOGNISED FINANCIAL LIABILITIES								
Trade creditors	14	**–**	**–**	**–**	**–**	**–**	**1,697.8**	**1,697.8**
Other creditors and accruals	14	**–**	**–**	**–**	**–**	**–**	**218.1**	**218.1**
Bank loans – secured	15	**3.83**	**1,855.2**	**65.9**	**309.8**	**524.0**	**–**	**2,754.9**
Bank loans – unsecured	15	**5.17**	**186.8**	**310.6**	**–**	**–**	**–**	**497.4**
Other loans – unsecured	15	**6.97**	**956.8**	**250.0**	**509.0**	**–**	**–**	**1,715.8**
Finance lease and hire purchase liabilities	15	**6.97**	**425.9**	**11.5**	**401.9**	**96.3**	**–**	**935.6**
			3,424.7	**638.0**	**1,220.7**	**620.3**	**1,915.9**	**7,819.6**
Net financial liabilities			**(2,656.9)**	**340.8**	**(1,075.5)**	**25.9**	**(689.5)**	**(4,055.2)**
UNRECOGNISED FINANCIAL LIABILITIES								
Interest rate swaps[2]			**224.6**	**(247.0)**	**(38.8)**	**61.2**	**–**	**–**

1 Notional principal amounts. Interest payable/receivable has been included in the calculation of the effective interest rate of the underlying financial liability or asset. Excludes unrealised amounts on revenue back-to-back hedges. As at 30 June 2004, the amount of deferred or unrecognised losses on hedges of net revenue designated to service long-term debt is $19.2 million.

2 Notional principal amounts.

Notes to the Financial Statements continued

for the year ended 30 June 2004

31. Financial instruments continued

(a) INTEREST RATE RISK continued

2003	Notes	Weighted Average Interest Rate (% pa)	Floating Rate $M	Fixed Rate Maturing in: Less than 1 Year $M	1 to 5 Years $M	More than 5 Years $M	Non-Interest-Bearing $M	Total $M
RECOGNISED FINANCIAL ASSETS								
Cash	7	4.75	121.9	–	–	–	–	121.9
Trade debtors	8	–	–	–	–	–	759.4	759.4
Short-term money market securities and term deposits	8	4.68	–	1,894.0	–	–	–	1,894.0
Aircraft security deposits	8	6.25	64.0	50.8	58.8	14.6	6.8	195.0
Sundry debtors	8	–	–	–	–	–	177.3	177.3
Loans receivable	8	9.20	–	–	17.8	–	–	17.8
Net receivables under hedge/swap contracts[1]		–	103.6	179.5	127.9	665.0	–	1,076.0
Other investments	10	–	–	–	–	–	12.1	12.1
Convertible loan notes	10	–	–	–	–	–	89.7	89.7
			289.5	2,124.3	204.5	679.6	1,045.3	4,343.2
RECOGNISED FINANCIAL LIABILITIES								
Trade creditors	14	–	–	–	–	–	1,603.1	1,603.1
Other creditors and accruals	14	–	–	–	–	–	236.4	236.4
Bank loans – secured	15	3.14	1,256.5	57.9	273.1	569.0	–	2,156.5
Bank loans – unsecured	15	5.11	300.0	–	1,100.0	–	–	1,400.0
Other loans – secured	15	–	–	–	–	–	2.2	2.2
Other loans – unsecured	15	7.35	863.6	289.8	370.0	523.2	–	2,046.6
Finance lease and hire purchase liabilities	15	6.51	143.4	197.1	417.2	–	–	757.7
			2,563.5	544.8	2,160.3	1,092.2	1,841.7	8,202.5
Net financial liabilities			(2,274.0)	1,579.5	(1,955.8)	(412.6)	(796.4)	(3,859.3)
UNRECOGNISED FINANCIAL LIABILITIES								
Interest rate swaps[2]			425.2	(250.2)	–	(175.0)	–	–

1 Notional principal amounts. Interest payable/receivable has been included in the calculation of the effective interest rate of the underlying financial liability or asset. Excludes unrealised amounts on revenue back-to-back hedges. As at 30 June 2003, the amount of deferred or unrecognised gains as hedges of net revenue designated to service long-term debt is $117.7 million.

2 Notional principal amounts.

(b) FOREIGN EXCHANGE RISK

Cross-currency swaps are used to convert long-term foreign currency borrowings (both recognised and unrecognised) to currencies in which the Qantas Group has forecast sufficient surplus net revenue to meet the principal and interest obligations under the swaps. These foreign currency borrowings have a maturity of between one and 12 years. Where this has occurred, back-to-back forward foreign exchange contracts have been used to hedge 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. Forward foreign exchange contracts and currency options are used to hedge a portion of remaining net foreign currency revenue or expenditure in accordance with Qantas Group policy. Net foreign currency revenue and expenditure out to five years may be hedged within specific parameters, with any hedging outside these parameters requiring approval by the Board of Directors. Purchases and sales of property, plant and equipment denominated in a foreign currency are hedged using a combination of forward foreign exchange contracts and currency options at the date a firm commitment is entered into to buy or sell unless otherwise approved by the Board of Directors.

(c) FUEL PRICE RISK

The Qantas Group uses options and swaps on aviation fuel and crude oil to hedge the exposure to movements in the price of aviation fuel. Hedging is conducted in accordance with Qantas Group policy. Up to 100 per cent of estimated fuel costs out to 12 months may be hedged and up to 50 per cent in the subsequent 12 months, with any hedging outside these parameters requiring approval by the Board of Directors. During the year, the net gain from fuel hedging was $118.0 million (2003: $30.3 million).

Notes to the Financial Statements continued

for the year ended 30 June 2004

31. Financial instruments continued

(d) DEFERRED GAINS/LOSSES ON HEDGES OF ANTICIPATED FUTURE TRANSACTIONS

Any unrealised gains/losses on contracts entered into to hedge anticipated specific sales and purchases of goods and services, together with the cost of the contracts, are recognised in the Financial Statements at the time the underlying transaction occurs.

As at 30 June 2004, the amount of deferred or unrecognised losses on hedges of net revenue designated to service long-term debt is $19.2 million (2003: gain $117.7 million). As at 30 June 2004, the amount of deferred gains on other hedges totalled $168.5 million (2003: losses $53.3 million).

(e) CREDIT RISK

Credit risk is the potential loss from a transaction in the event of default by the counterparty during the term of the transaction or on settlement of the transaction. Credit exposure is measured as the cost to replace existing transactions should a counterparty default. The Qantas Group conducts transactions with the following major types of counterparties:

- trade receivable counterparties – the credit risk is the recognised amount, net of any provision for doubtful debts. As at 30 June 2004, this amounted to $1,010.3 million (2003: $759.4 million). The Qantas Group has credit risk associated with travel agents, industry settlement organisations and credit provided to direct customers. The Qantas Group minimises this credit risk through the application of stringent credit policies and accreditation of travel agents through industry programs; and
- other financial asset counterparties – the Qantas Group restricts its dealings to counterparties that have acceptable credit ratings. Should the rating of a counterparty fall below certain levels, internal policy dictates that approval by the Board of Directors is required to maintain the level of the counterparty exposure.

The Qantas Group minimises the concentration of credit risk by undertaking transactions with a large number of customers and counterparties in various countries. As at 30 June 2004, the credit risk of the Qantas Group to other financial asset counterparties amounted to $4,294.2 million (2003: $5,160.4 million) and was spread over a number of regions, including Australia, Asia, Europe and the United States.

(f) NET FAIR VALUE

RECOGNISED FINANCIAL INSTRUMENTS

The net fair value of cash, cash equivalents and non-interest-bearing financial assets and liabilities approximates their carrying value due to their short maturity. The net fair value of other financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

The convertible loan notes issued by Air New Zealand Limited are convertible to a 4.99 per cent equity stake. The fair value of the convertible loan notes have been determined by reference to the prevailing market price of Air New Zealand Limited shares at balance date.

UNRECOGNISED FINANCIAL INSTRUMENTS

The net fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The net fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The net fair value of options is determined using standard valuation techniques.

Notes to the Financial Statements continued

for the year ended 30 June 2004

31. Financial instruments continued

(f) NET FAIR VALUE continued

	Qantas Group Carrying Amount		Qantas Group Net Fair Value	
	2004 $M	2003 $M	**2004 $M**	2003 $M
RECOGNISED FINANCIAL INSTRUMENTS				
Financial assets				
Cash	**335.9**	121.9	**335.9**	121.9
Trade debtors	**1,010.2**	759.4	**1,010.2**	759.4
Short-term money market securities and term deposits	**1,029.4**	1,894.0	**1,034.1**	1,900.0
Aircraft security deposits	**134.9**	195.0	**141.0**	203.4
Sundry debtors	**102.8**	177.3	**102.8**	177.3
Loans receivable	**143.6**	17.8	**143.6**	17.8
Net receivables under hedge/swap contracts	**897.5**	1,076.0	**937.9**	1,155.0
Other investments	**20.4**	12.1	**20.4**	12.1
Convertible loan notes[1]	**89.7**	89.7	**80.8**	108.8
	3,764.4	4,343.2	**3,806.7**	4,455.7
Financial liabilities				
Trade creditors	**1,697.8**	1,603.1	**1,697.8**	1,603.1
Other creditors and accruals	**218.1**	236.4	**218.1**	236.4
Bank loans – secured	**2,754.9**	2,156.5	**2,823.8**	2,208.0
Bank loans – unsecured	**497.4**	1,400.0	**507.7**	1,435.9
Other loans – secured	**–**	2.2	**–**	2.2
Other loans – unsecured	**1,715.8**	2,046.6	**1,803.1**	2,271.6
Finance lease and hire purchase liabilities	**935.6**	757.7	**942.4**	794.3
	7,819.6	8,202.5	**7,992.9**	8,551.5
Net financial liabilities	**(4,055.2)**	(3,859.3)	**(4,186.2)**	(4,095.8)
UNRECOGNISED FINANCIAL INSTRUMENTS				
Financial assets				
Option contracts			**–**	23.2
Forward commodity contracts			**–**	15.7
			–	38.9
Financial liabilities				
Forward commodity contracts			**56.5**	–
Option contracts			**84.8**	–
Interest rate swaps			**25.8**	(26.2)
			167.1	(26.2)

1 Qantas holds 220,763,477 loan notes in Air New Zealand Pty Limited (Air NZ), which are convertible to ordinary shares in Air NZ under certain circumstances. Based on the value of Air NZ ordinary shares as at 30 June 2004 as traded on the New Zealand Stock Exchange, the convertible loan notes would be valued at $80.8 million. The convertible loan notes are held by Qantas for strategic purposes in relation to the proposed alliance with Air NZ, which is expected to provide significant benefits to both parties. As such, the carrying value of the convertible loan notes is considered recoverable.

Notes to the Financial Statements continued

for the year ended 30 June 2004

32. Employee benefits

	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
Employee benefit liabilities				
Provisions for employee benefits				
– Current (refer Note 16)	**346.5**	345.7	**304.2**	304.1
– Non-current (refer Note 16)	**257.7**	276.7	**235.4**	253.4
Staff redundancy provision – current (refer Note 16)	**0.4**	51.9	**–**	44.4
	604.6	674.3	**539.6**	601.9
Average full-time equivalent employees (number)	**33,862**	34,872	**27,218**	27,966

SUPERANNUATION

Employees of the Qantas Group are entitled to benefits on retirement, disability or death from various superannuation plans. Further details are included in Note 27.

33. Dividends

Dividends recognised in the current year by Qantas are:

Type	Cents per Share	Total Amount $M	Date of Payment	Franked Tax Rate for Franking Credit %	Percentage Franked %
2004					
Interim – ordinary	**8.0**	**145.8**	7 April 2004	30	100
2003 final ordinary dividend recognised when declared during the year.	**9.0**	**159.7**	1 October 2003	30	100
Total amount	**17.0**	**305.5**			
2003					
Interim – ordinary	8.0	140.5	9 April 2003	30	100
2002 final ordinary dividend recognised when declared during the year.	9.0	140.7	2 October 2002	30	100
Total amount	17.0	281.2			
SUBSEQUENT EVENTS					
Since the end of the financial year ended 30 June 2004, the Directors have declared the following dividend:					
Final – ordinary	**9.0**	**166.1**	29 September 2004	30	100

Dividend franking account	Qantas Group 2004 $M	Qantas Group 2003 $M	Qantas 2004 $M	Qantas 2003 $M
Total franking account balance at 30 per cent (2003: 30 per cent)	**149.3**	179.2	**144.6**	41.2

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

Notes to the Financial Statements continued

for the year ended 30 June 2004

33. Dividends continued

TAX CONSOLIDATION LEGISLATION

On 1 July 2003, Qantas and its wholly-owned subsidiaries adopted the Income Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 June 2004 has been measured under the new legislation as those available from the tax-consolidated group.

The comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis, the "franking credits available" balance as at 30 June 2003 for Qantas would have been $176.6 million.

34. Segment information

The segmentation of the Qantas Group into three separate business types (Flying, Flying Services and Associated Businesses) supported by a corporate centre is progressively being implemented to deliver a broad range of benefits to the business.

Financial reporting system changes to transition Qantas to a segmented model are currently under development. Disclosure of segment information is therefore provided in a format consistent with prior years as follows:

- Aircraft Operations, which includes the Qantas Group Flying Businesses, Engineering Technical Operations and Maintenance Services, Airports, Qantas Freight, Qantas Defence Services and all other subsidiary companies, associates and joint ventures;
- Tours and Travel, which comprises the Qantas Holidays segment which forms part of the Associated Businesses portfolio; and
- Catering, which reflects the wholly-owned catering entities within the Airports and Catering segment which forms part of the Flying Services Businesses.

	Aircraft Operations		Tours and Travel		Catering		Eliminations		Consolidated	
	2004 $M	2003 $M	**2004 $M**	2003 $M	**2004 $M**	2003 $M	**2004 $M**	2003 $M	**2004 $M**	2003 $M
ANALYSIS BY BUSINESS SEGMENTS										
Sales and operating revenue										
External segment revenue	**10,468.2**	10,525.9	**711.1**	696.3	**174.4**	152.7	**–**	–	**11,353.7**	11,374.9
Inter-segment revenue	**129.0**	92.7	**283.3**	337.9	**362.8**	353.0	**(775.1)**	(783.6)	**–**	–
Total segment revenue	**10,597.2**	10,618.6	**994.4**	1,034.2	**537.2**	505.7	**(775.1)**	(783.6)	**11,353.7**	11,374.9
Share of net profit of associates and joint ventures	**19.7**	9.6	**–**	–	**–**	–	**–**	–	**19.7**	9.6
Earnings before interest and tax	**954.1**	450.1	**54.1**	43.6	**90.0**	73.3	**–**	–	**1,098.2**	567.0
Net borrowing costs									**133.6**	64.7
Profit from ordinary activities before related income tax expense									**964.6**	502.3
Income tax expense relating to ordinary activities									**(315.8)**	(155.7)
Net profit									**648.8**	346.6
Depreciation and amortisation	**994.3**	879.0	**1.4**	1.7	**9.9**	10.7	**–**	–	**1,005.6**	891.4
Non-cash items	**(67.8)**	(152.7)	**(0.1)**	(2.6)	**0.4**	0.2	**–**	–	**(67.5)**	(155.1)
Assets										
Segment assets	**17,066.3**	16,751.9	**326.4**	344.8	**194.0**	174.6	**(352.2)**	(365.8)	**17,234.5**	16,905.5
Equity accounted investments	**338.4**	67.2	**1.3**	1.1	**–**	–	**–**	–	**339.7**	68.3
Consolidated total assets	**17,404.7**	16,819.1	**327.7**	345.9	**194.0**	174.6	**(352.2)**	(365.8)	**17,574.2**	16,973.8
Liabilities										
Consolidated total liabilities	**11,703.6**	11,687.3	**249.6**	256.0	**123.8**	125.1	**(343.1)**	(356.7)	**11,733.9**	11,711.7
Acquisition of non-current assets	**2,003.5**	3,128.4	**1.2**	1.9	**2.3**	6.9	**–**	–	**2,007.0**	3,137.2

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 is 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.

Notes to the Financial Statements continued
for the year ended 30 June 2004

34. Segment information continued

	Qantas Group 2004 $M	Qantas Group 2003 $M
ANALYSIS OF TOTAL REVENUE BY GEOGRAPHIC REGION		
Passenger, freight and other services revenue		
Australia	**6,696.5**	6,449.0
United Kingdom and Europe	**839.7**	904.6
Japan	**426.9**	574.0
South-East Asia/North-East Asia	**342.3**	481.4
The Americas and the Pacific	**820.3**	813.2
New Zealand	**368.4**	404.0
Other regions (Africa and South America)	**221.6**	221.4
	9,715.7	9,847.6
Other operating revenue		
Tours and travel revenue	**711.1**	696.3
Contract work revenue	**502.6**	530.9
Other unallocated revenue	**424.3**	300.1
Sales and operating revenue	**11,353.7**	11,374.9
Revenue from outside operating activities		
Interest revenue	**125.9**	107.7
Proceeds from sale of property, plant and equipment	**50.1**	36.7
Proceeds from sale and leaseback of non-current assets	**171.7**	–
Total revenue from outside operating activities	**347.7**	144.4
Total revenue from ordinary activities	**11,701.4**	11,519.3

For the financial year ended 30 June 2004, the principal assets of the Qantas Group comprised the aircraft fleet, all, except five, 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.

SEGMENTAL ANALYSIS OF PROFIT CONTRIBUTION

Earnings before interest and tax contributed by the international and domestic airline operations and subsidiary businesses are shown below:

	Qantas Group 2004 $M	Qantas Group 2003 $M
SEGMENTAL ANALYSIS OF EARNINGS BEFORE INTEREST AND TAX		
Qantas International	**397.8**	221.6
Qantas Domestic	**465.7**	165.7
	863.5	387.3
Subsidiary businesses		
Qantas Holidays	**54.1**	43.6
QantasLink	**97.0**	57.3
Qantas Flight Catering	**90.0**	73.3
Australian Airlines	**1.1**	(14.7)
Qantas Defence Services	**8.7**	4.5
Equity accounted associates and joint ventures	**19.7**	9.6
Other subsidiaries	**(35.9)**	6.1
Total subsidiary businesses	**234.7**	179.7
Earnings before interest and tax	**1,098.2**	567.0

Notes to the Financial Statements continued

for the year ended 30 June 2004

35. Earnings per share

	Qantas Group	
	2004 Cents	2003 Cents
Basic earnings per share based on net profit attributable to members of the Company	**35.7**	20.0
Diluted earnings per share based on net profit attributable to members of the Company	**35.5**	19.8

The calculation of earnings per share is based upon the weighted average number of shares outstanding during the year.

	Qantas Group	
	2004 Number M	2003 Number M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,815.4**	1,721.2
Weighted average number of ordinary shares used in the calculation of diluted earnings per share*	**1,826.6**	1,733.3

* Includes the effect of 33.7 million (2003: 36.4 million) Executive Entitlements, which has a dilutive earning per share impact of 11.2 million (2003: 12.1 million) ordinary shares.

36. Events subsequent to balance date

With the exception of the declaration of a final ordinary dividend subsequent to balance date (refer Note 33), 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.

Notes to the Financial Statements continued

for the year ended 30 June 2004

37. Notes to the Statements of Cash Flows

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
RECONCILIATION OF CASH				
Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:				
Cash on hand and at bank	**110.8**	88.6	**30.0**	66.7
Cash at call	**225.1**	33.3	**224.7**	32.9
Short-term money market securities and term deposits	**1,029.4**	1,894.0	**1,029.4**	1,894.0
	1,365.3	2,015.9	**1,284.1**	1,993.6
RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net profit after tax attributable to members of the Company	**648.4**	343.5	**676.0**	372.5
Add: depreciation and amortisation	**1,005.6**	891.4	**871.1**	774.2
Add: loss on sale of aircraft, engines and spares	**4.0**	12.4	**3.0**	12.6
Less: profit on sale of land and buildings	**(3.4)**	(0.4)	**(3.3)**	–
Add: loss/(profit) on sale/disposal of property, plant and equipment	**(0.1)**	0.4	**0.8**	0.1
Add: loss on scrappage of aircraft spares	**–**	47.8	**–**	46.6
Less: capitalised interest	**(49.2)**	(82.7)	**(49.2)**	(82.7)
Less: share of associates' and joint ventures' net profit	**(19.7)**	(9.6)	**–**	–
Add: dividends received from associates and joint ventures	**11.9**	6.7	**–**	–
Reversal of provision against intercompany investment	**–**	–	**(130.7)**	–
Write-off of intercompany loan	**–**	–	**5.2**	–
Add: other items	**(35.6)**	66.7	**(12.3)**	(36.8)
Movements in operating assets and liabilities:				
(Increase)/decrease in receivables	**(173.9)**	590.4	**(181.3)**	625.9
(Increase)/decrease in inventories	**98.9**	(44.9)	**96.6**	(58.4)
(Increase) in other assets	**(17.8)**	(63.5)	**(106.8)**	(27.7)
Increase/(decrease) in provisions	**(76.8)**	54.1	**(65.8)**	54.3
Increase/(decrease) in current tax liabilities	**34.8**	(82.6)	**59.4**	(64.1)
(Increase)/decrease in deferred tax assets	**43.8**	(10.0)	**14.6**	(14.6)
Increase in deferred tax liabilities	**203.9**	78.3	**298.9**	88.1
Increase/(decrease) in trade/other payables	**58.4**	(306.9)	**2.1**	(265.7)
Increase/(decrease) in net intercompany payables	**–**	–	**163.8**	(152.4)
Increase/(decrease) in revenue received in advance	**334.9**	(126.8)	**291.8**	(121.9)
Decrease in deferred lease benefits	**(68.7)**	(66.0)	**(61.0)**	(57.8)
(Decrease) in other liabilities	**–**	(7.5)	**–**	(7.5)
Net cash provided by operating activities	**1,999.4**	1,290.8	**1,872.9**	1,084.7

Notes to the Financial Statements continued

for the year ended 30 June 2004

37. Notes to the Statements of Cash Flows continued

FINANCING FACILITIES

The total amount of committed financing facilities available to the Qantas Group as at balance date are detailed below:

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
COMMITTED FINANCING FACILITIES				
Bank overdraft				
Facility available	**7.0**	7.0	**7.0**	7.0
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**7.0**	7.0	**7.0**	7.0
Loan note facility comprising:				
Syndicated revolving facility[1]				
Facility available	**769.2**	–	**769.2**	–
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**769.2**	–	**769.2**	–
Syndicated standby facility				
Facility available	**700.0**	700.0	**700.0**	700.0
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**700.0**	700.0	**700.0**	700.0
Secured borrowings				
Facility available	**231.4**	–	**231.4**	–
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**231.4**	–	**231.4**	–
Commercial paper and Medium Term Notes				
Facility available	**1,000.0**	1,000.0	**1,000.0**	1,000.0
Amount of facility used	**160.0**	449.8	**160.0**	449.8
Amount of facility unused	**840.0**	550.2	**840.0**	550.2

1 In March 2004, $769.2 million of the syndicated term loan was converted to a syndicated revolving facility, which matures on 3 May 2006. The syndicated standby facility expires between 19 April 2005 and 22 April 2008. The bank loan facility has a maturity of 9 January 2005.

The bank overdraft facility held with the Commonwealth Bank of Australia covers the combined balances of Qantas and its wholly-owned controlled entities. Subject to the continuance of satisfactory credit ratings, the bank overdraft facility may be utilised at any time. The Commonwealth Bank of Australia may terminate this facility without notice.

Notes to the Financial Statements continued

for the year ended 30 June 2004

38. Related party transactions

CONTROLLED ENTITIES

Details of interests in controlled entities are set out in Note 28. Transactions between Qantas and controlled entities are conducted on normal business terms and conditions. In addition, the Qantas Group has pooled funding arrangements with its major domestic banker and as such reciprocal borrowings occur regularly between Qantas and its controlled entities.

Transactions between Qantas and related parties in the wholly-owned group include:

- Qantas provides a range of administrative and treasury services to controlled entities;
- Qantas leases aircraft to and provides maintenance services to Australian Airlines;
- Qantas provides ground handling services to Australian Airlines, Jetstar and QantasLink;
- Australian Airlines, Jetstar and QantasLink provide freight capacity to Qantas;
- Qantas Flight Catering Holdings Limited and controlled entities provide airline catering and related services to Qantas, Australian Airlines and QantasLink;
- Qantas codeshares on certain Jetstar services for inbound international passengers and Qantas Frequent Flyers for which it pays capacity hire costs;
- QH Tours Limited and controlled entities and Qantas act as an agent for each other's products;
- Southern Cross Insurances Pte Limited provides insurance services to Qantas; and
- AAL Aviation Limited and controlled entities assist in the hiring of aircraft capacity.

Transactions and balances with partly and wholly-owned controlled entities are included in the Financial Statements as follows:

	Qantas	
	2004 $M	2003 $M
Sales and operating revenue (refer Note 2)	**177.3**	147.4
Dividend revenue (refer Note 2)	**156.3**	219.2
Interest revenue (refer Note 2)	**1.3**	0.7
Borrowing costs paid/payable (refer Note 3)	**72.9**	50.6
Current receivables (refer Note 8)	**157.5**	87.2
Non-current receivables (refer Note 8)	**1,699.0**	1,731.0
Current payables (refer Note 14)	**167.3**	74.7
Non-current interest-bearing liabilities (refer Note 15)	**592.6**	478.6

ASSOCIATES AND JOINT VENTURES

Details of interests in associates and joint ventures are provided in Note 30. Transactions with associates and joint ventures are conducted on normal terms and conditions.

Transactions between Qantas and associates and joint ventures include:

- Qantas provides ground handling services and performs maintenance and contract work for Air Pacific;
- Qantas provides ramp handling services to Australian air Express;
- Qantas leases all domestic freight capacity and sub-leases certain property to Australian air Express;
- Qantas codeshares on certain Air Pacific services for which it pays capacity hire costs;
- Australian air Express provides certain domestic freight and document delivery services for Qantas; and
- Qantas receives interest from Star Track Express Holdings on an investment loan.

Notes to the Financial Statements continued

for the year ended 30 June 2004

38. Related party transactions continued

ASSOCIATES AND JOINT VENTURES continued

Transactions and balances with associates and joint ventures are included in the Financial Statements as follows:

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Sales and operating revenue (refer Note 2)	**90.1**	103.8	**87.6**	108.3
Dividend revenue (refer Note 2)	**–**	–	**1.7**	1.2
Interest revenue (refer Note 2)	**5.1**	–	**5.1**	–
Expenditure	**2.1**	69.8	**2.1**	69.8
Current receivables (refer Note 8)	**11.8**	18.4	**11.7**	19.3
Non-current receivables (refer Note 8)	**128.2**	–	**128.2**	–
Current payables (refer Note 14)	**25.6**	8.2	**25.6**	8.2
Current interest-bearing liabilities (refer Note 15)	**14.2**	12.2	**14.2**	12.2

OTHER RELATED PARTIES

BRITISH AIRWAYS PLC

In March 1993, British Airways Plc (British Airways) acquired 25 per cent of the shares in Qantas from the Australian Government. British Airways' ownership interest in Qantas reduced marginally from 18.75 per cent at 30 June 2003 to 18.25 per cent at 30 June 2004 following its decision not to participate in the Dividend Reinvestment Plan in relation to the 2002/03 final dividend settled in October 2003.

On 12 May 1995, the Trade Practices Commission (the predecessor to the Australian Competition & Consumer Commission) authorised a Joint Services Agreement (JSA) between Qantas and British Airways. Under the JSA, there is full strategic, tactical and operational co-operation between the Qantas Group and British Airways on services between Australia and South-East Asia, South-East Asia and Europe, and Australia and Europe. This co-operation extends to co-ordination of sales and marketing activities worldwide, and the sharing of all costs and revenues on the JSA routes, giving both airlines an incentive to improve the joint business. Additional value has been generated with cost savings and revenue co-operation across almost all functions. The two airlines continue to invest in joint offices, joint lounges, travel shops and airport facilities in many cities. Co-operation with British Airways continues to strengthen and provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers.

The JSA sets out in detail the financial settlement procedures between the two airlines to ensure that the return each airline obtains from the designated route services recognises the value of the route it utilises. In common with standard industry practice, the Qantas Group and British Airways also carry passengers on an interline basis on the same terms and conditions as with other carriers.

Other transactions, such as ground handling, contract work, property rentals and interline commissions, were conducted on normal terms and conditions.

Qantas and British Airways continued their membership of the **one**world alliance during the financial year. The alliance is designed to raise the standard of global air travel through a range of customer benefits. The shared **one**world brand augments existing relationships between the Qantas Group and British Airways.

Transactions and balances with British Airways are included in the Financial Statements as follows:

	Qantas Group		Qantas	
	2004 $M	2003 $M	**2004 $M**	2003 $M
Sales and operating revenue (refer Note 2)	**25.3**	20.2	**16.8**	11.7
Expenditure*	**97.2**	109.3	**91.8**	104.6
Current receivables (refer Note 8)	**58.2**	59.5	**58.2**	58.6
Current payables (refer Note 14)	**99.5**	102.4	**99.5**	102.4

* Includes settlement receipts/payments under the JSA.

Notes to the Financial Statements continued

for the year ended 30 June 2004

39. International Financial Reporting Standards

For the reporting period beginning on or after 1 January 2005, the Qantas Group must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board (AASB).

The areas of significant difference between Australian Generally Accepted Accounting Principles (GAAP) and IFRS, as applied to the Qantas Group, have been identified and work has commenced to quantify the impact of adoption. To date, quantification has not been completed or presented to the Board for approval.

MANAGING THE TRANSITION TO IFRS

The Board has established a Project Group, reporting through to the Chief Financial Officer, to achieve the transition to IFRS reporting. The Qantas implementation project consists of three phases.

Assessment Phase

The IFRS Project Group has completed the Assessment Phase. In completing the Assessment Phase, a high level overview of the impacts of IFRS reporting on existing accounting and reporting policies, procedures, systems, processes, business structures and staff has been undertaken.

Design Phase

The Design Phase is well progressed. This phase aims to formulate the changes required to existing accounting policies, procedures, systems and processes in order to transition to IFRS.

The Design Phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS and quantifying their impact;
- developing revised IFRS disclosures; and
- designing accounting and business processes to support IFRS reporting obligations.

At the conclusion of the Design Phase, Board approval will be sought for each proposed change in accounting policy and disclosure. The Design Phase will be completed during the 2004/05 financial year.

Implementation Phase

The Implementation Phase will include the implementation of identified changes to accounting and business procedures, processes, systems and training. It is expected that the Implementation Phase will be completed during the 2004/05 financial year.

KEY DIFFERENCES BETWEEN AUSTRALIAN GAAP AND IFRS

The potential implications of the conversion to IFRS on the Qantas Group are outlined below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. The impact on future years will depend on the particular circumstances prevailing in those years. Accordingly, there can be no assurances that the consolidated Statements of Financial Performance and financial position would not be significantly different if determined in accordance with IFRS.

Frequent Flyer

Qantas is considering the application of AASB 118 "Revenue" to the accounting for the frequent flyer program. Australian GAAP and IFRS do not specifically address accounting for frequent flyer/loyalty schemes. Under both GAAPs there are two acceptable accounting treatments including the Deferral and Incremental Cost approaches.

The Deferral approach results in the deferral of frequent flyer revenue until earned points are redeemed. The Incremental Cost approach recognises revenue when points are allocated to individuals participating in the scheme, with the recognition of a corresponding provision for the incremental cost of providing the service at a later date.

Both approaches are used by airlines globally and the most appropriate accounting policy is dependent upon factors such as the size of the program, the mechanism for managing redemptions and the potential for frequent flyers to displace fare-paying passengers. Under Australian GAAP, Qantas has adopted the Incremental Cost approach, as historically it has best reflected the commercial operation of the program.

AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards", requires that all accounting policies be reconsidered having regard to both their current and future suitability.

Notes to the Financial Statements continued

for the year ended 30 June 2004

39. International Financial Reporting Standards continued

KEY DIFFERENCES BETWEEN AUSTRALIAN GAAP AND IFRS continued

Frequent Flyer continued

As part of the Qantas IFRS transition project, the Company is considering changing to the Deferral approach. Future growth in the scheme and a desire to make redemptions easier, may require changes to the current marginal management of the scheme. Should a decision to change to the Deferral method be approved, revenue previously recognised would be deferred and retained earnings reduced. In future periods, deferred revenue would be released to the Statement of Financial Performance as points are redeemed. This treatment would no longer necessitate the raising of a provision for future incremental costs.

The quantification of the financial impact of the possible change in treatment is complex and requires the calculation of the fair value of unredeemed frequent flyer points, breakage rates and a detailed analysis of revenues previously brought to account. To date, the financial effect of the change being considered has not been determined. It is anticipated that should it be adopted, a reduction in retained earnings will be made. The impact on future profits is largely dependent on the extent to which the program grows and as such cannot be quantified at this time.

Defined Benefit Superannuation Plans

Qantas is considering the application of AASB 119 "Employee Benefits" to the recognition of the funding surplus or deficit of the Qantas sponsored defined benefit superannuation plans. Under the requirements of IFRS, any surpluses and deficits in the defined benefit superannuation plans within the consolidated entity will be recognised in the Statement of Financial Position and movements in the surplus or deficit recognised in the Statement of Financial Performance.

Actuarial valuations of the Plans will be conducted as at 30 June 2004. The expected impact is likely to be a one-off reduction in retained earnings and the corresponding recognition of a retirement liability.

Leases

Qantas is considering the application of AASB 117 "Leases" to the classification of lease transactions. Under IFRS some leases currently classified as operating may require recognition in the Statement of Financial Position. To date the financial effect of the change has not been determined, however, it is not expected to have a significant impact on the Statement of Financial Performance in future years.

Financial Instruments: Recognition and Measurement

1. Fuel Hedging

Qantas is considering the application of AASB 139 "Financial Instruments: Recognition and Measurement" to aviation fuel hedging transactions. Extensive hedge effectiveness testing and documentation is required under IFRS in order to apply hedge accounting to these transactions. The potential application and impact of this accounting standard on aviation fuel hedging has not been determined.

2. Revenue Hedging

Qantas is considering the application of AASB 139 "Financial Instruments: Recognition and Measurement" to revenue hedging transactions. The potential application and impact of this accounting standard on revenue hedging has not been completed. It is anticipated that, after initial adoption adjustments are made, the existing accounting treatment will continue under IFRS, although it will be subject to increased effectiveness testing and documentation requirements.

Impairment of Assets

Qantas is considering the application of AASB 136 "Impairment of Assets" to the valuation of assets. Under IFRS, assets are tested for impairment on the basis of their ability to generate independent cash inflows from continuing use. If assets do not generate cash flows they may be aggregated into groups for the purposes of determining the smallest identifiable group of assets that generate cash inflows which are largely independent. Aircraft do not directly generate cash flows as passenger revenue is derived from the sale of seats on flights rather than seats on particular aircraft. The aggregation of aircraft cash flows is therefore performed on the basis of route groupings.

Impairment testing upon transition to IFRS is required. The financial effect of the change is not expected to result in significant impairment losses upon transition. The impact on future financial years is dependent on the cash flows generated by each grouping of assets and is therefore unable to be determined.

Directors' Declaration

1. In the opinion of the Directors of Qantas Airways Limited (the Company):
   (a) the Financial Statements and notes, set out on pages 2 to 60 are in accordance with the Corporations Act 2001, including:
      (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
      (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

Signed pursuant to a Resolution of the Directors:

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

Sydney, 30 August 2004

Independent Audit Report

to the members of Qantas Airways Limited

SCOPE

THE FINANCIAL REPORT AND DIRECTORS' RESPONSIBILITY

The Financial Report comprises the Statements of Financial Position, Statements of Financial Performance, Statements of Cash Flows, accompanying notes to the Financial Statements notes 1 to 39, and the Directors' Declaration for both Qantas Airways Limited (the "Company") and Qantas Airways Limited and its controlled entities (the "Consolidated Entity"), for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the Financial Report.

AUDIT APPROACH

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the Financial Report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all misstatements have been detected.

We performed procedures to assess whether in all material respects the Financial Report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the Financial Report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

AUDIT OPINION

In our opinion, the Financial Report of Qantas Airways Limited is in accordance with:

(a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

M Epper

Mark Epper
Partner

Sydney, 30 August 2004

Financial Calendar

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

2005

17	February	Half year result announcement
9	March	Record date for interim dividend
6	April	Interim dividend payable
30	June	Year end
18	August	Preliminary final result announcement
31	August	Record date for final dividend
28	September	Final dividend payable

Notice of Meeting

The Annual General Meeting of Qantas Airways Limited will be held at 2:00pm on Thursday 21 October 2004 in the Great Hall of the Brisbane Convention and Exhibition Centre. Shareholders will be advised at a later date of details of the 2005 Qantas Annual General Meeting. The details will be available on the Qantas website, www.qantas.com.

Corporate Directory

Registered Office

Qantas Airways Limited
ABN 16 009 661 901
Qantas Centre
Level 9, Building A
203 Coward Street
Mascot NSW 2020
Australia

Telephone	61 2 9691 3636
Facsimile	61 2 9691 3339
Website	www.qantas.com

Qantas Share Registry

Level 8
580 George Street
Sydney NSW 2000
Australia

or

Locked Bag A14
Sydney South NSW 1235
Australia

Freecall	1800 177 747
International	61 2 8280 7390
Facsimile	61 2 9287 0303
Email	registry@qantas.com
Website	www.qantas.com

Stock Exchange

Australian Stock Exchange
20 Bridge Street
Sydney NSW 2000
Australia

General Counsel & Company Secretary

Brett Johnson

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