



Transition to International Financial Reporting Standards

Presentation to Investors

24 June 2005

Peter Gregg

Chief Financial Officer

Colin Storrie

Deputy Chief Financial Officer





Important Notice

- The figures presented are best estimates and may change
- The first financial report prepared in accordance with A-IFRS may differ from the information presented here
- All amounts provided are preliminary and unaudited
- All prospective statements are best estimates and should not be relied upon
- Qantas cannot provide any further estimates of the future impact of adopting A-IFRS at this time
- Qantas Investor Relations will be available to discuss the information included in this Presentation



Background

- A-IFRS will apply to Qantas from 1 July 2005
- A-IFRS compliant financial reports will be produced for the:
 - half-year ended 31 December 2005; and
 - full year ended 30 June 2006
- The 2005 Financial Report will be prepared according to AGAAP, with Note disclosure providing information on the material impacts of A-IFRS



Key Messages

- A-IFRS will not affect underlying business cash flow
- A-IFRS will have no impact on Qantas' strategy or operations
 - operational and financing decisions will continue to be based on economic principles
 - credit ratings not affected
 - capital management policy unchanged
 - profitability not impacted

Preliminary Financial Impact

A-IFRS Transition Adjustments Resulting from the Adoption of A-IFRS	1 July 2004 \$m (unaudited)	Movement \$m (estimate)	30 June 2005 \$m (estimate)
<u>Impact on Retained Profits</u>			
AASB 118 Revenue	(669)	(80)	(749)
AASB 119 Employee Benefits	(54)	35	(19)
AASB 117 Leases	(52)	(10)	(62)
AASB 116 Property, Plant & Equipment	21	-	21
AASB 112 Income Taxes	(47)	2	(45)
Net Other Transition Adjustments	(1)	29	28
	(802)	(24)	(826)



Project Plan

Assessment Phase

- High level overview of A-IFRS impacts
- Phase completed

Design Phase

- Formulation of A-IFRS accounting policies and transition adjustments
- Material aspects of the Phase completed

Implementation Phase

- Implement changes to accounting and business procedures
- Phase in progress



A-IFRS Accounting Policy Changes

The following A-IFRS changes will be discussed

- AASB 118 Revenue
- AASB 119 Employee Benefits
- AASB 117 Leases
- AASB 116 Property, Plant & Equipment
- AASB 112 Income Taxes
- AASB 139 Financial Instruments



AASB 118 – Revenue

Unavailed Revenue - Frequent Flyer

Requirements of AASB 118 Revenue

- Requires each element of multiple element transactions to be recognised separately
- Prescribes four criteria which must be satisfied to recognise revenue

Differences to the current Revenue Standard

- A-IFRS does not have a “control” criteria
- Requires a transaction to be considered in its component parts



AASB 118 – Revenue

Unavailed Revenue - Frequent Flyer


- Qantas receives revenue from the sale of rights over Frequent Flyer points
 - Under AGAAP, this revenue is recognised when received
 - Under A-IFRS, this revenue is required to be deferred and recognised when the points are redeemed
- Deferring “sold point” revenue is expected to become industry standard
- No change to the accounting for points accumulated from flights



AASB 118 – Revenue

Unavailed Revenue - Frequent Flyer

- Adopting A-IFRS results in a decrease to Retained Profits of \$669m
- The arithmetic impact on 2004/05 Retained Profits is estimated as reduction of \$80m post tax
- This does not however reflect how Qantas could respond in future periods to mitigate the impact
- The impact on future earnings is dependent on program growth and point redemption
- No expected impact on future profit



AASB 119 – Employee Benefits

Defined Benefit Superannuation Plan

- Uses the long-term Government Bond Rate to discount liabilities
- Requires recognition of the funding deficit as a liability
- No change to the cash contribution rate
- No change to the Qantas Superannuation Plan's liquidity
- Qantas has elected to use the "corridor" method
- Estimated adoption impact is a \$54m reduction to Retained Profits
- Movements outside the corridor will be amortised over a 13 year period
- Impact on future earnings is dependent on economic variables



AASB 117 – Leases

Lease Classification

- Applies a less prescriptive criteria to lease classification
- Six aircraft leases to be reclassified as finance leases
- Will increase leased assets by \$338m and lease liabilities by \$405m
- Straight line recognition of some non-aircraft lease costs
- Estimated impact of adoption is a \$52m reduction to retained profits
- No material impact on future earnings



AASB 116 – Property Plant & Equipment

Property, Plant & Equipment (PP&E)

- Deemed cost election for land and building
- Full retrospective application for all other PP&E assets:
 - Capitalising major inspections as a separate PP&E component
 - Capitalising restoration costs into the cost of the asset
 - Reclassifying software development costs as intangible assets
- Estimated impact of adoption is a net \$21m increase in retained profits
- No material impact on future earnings



AASB 112 – Income Taxes

Balance Sheet Method

- Movement from the “Income Statement” to the “Balance Sheet” Method
- Requires recognition of additional Deferred Tax Liabilities
- Transition requires the tax benefit of share based payments to be reclassified from Retained Profits to Contributed Capital
- Estimated adoption impact is a \$47m reduction to Retained Profits
- No material impact on future earnings



Other A-IFRS Accounting Standards

AASB 2 - Share Based Payments

- Elected the exemption for options issued prior to 7 November 2002

AASB 3 - Business Combinations

- Elected under AASB 1 to apply this standard prospectively

AASB 121 - Foreign Exchange

- Elected to reset the foreign currency translation reserve



Other A-IFRS Accounting Standards

AASB 123 - Borrowing Costs

- No change to capitalising qualifying borrowing costs

AASB 127 - Consolidations

- The Qantas Deferred Share Plan Trust will require consolidation

AASB 136 - Impairment of Assets

- No adjustment on transition



AASB 139 – Financial Instruments

Risk Management

- AASB 139 provides criteria that must be met to apply hedge accounting
- Underlying exposures must be shown to be “highly probable”
- Hedge effectiveness is only recognised where changes in fair value of the hedged item are offset by changes in the hedge instrument in the range of 80% to 125%
- Hedge effectiveness must be demonstrated at inception and throughout the life of each hedge
- Any ineffectiveness is to be recognised immediately in the P&L
- Each hedge relationship must be supported by detailed documentation



AASB 139 – Financial Instruments

Options

- Only the “intrinsic” value of an option to be designated as a hedging instrument
- Changes in the fair value of non-intrinsic components of the option price are to be reflected in the P&L



AASB 139 – Financial Instruments

Aviation Fuel

- Qantas uses various fuel index derivatives to hedge its jet fuel price risk
 - for example, WTI Crude Oil may be used as a hedging instrument
- AASB 139 does not permit component hedging of commodity risks
- Hedge effectiveness requires movements in the jet fuel price to correlate with movements in the derivative within the 80% to 125% band
- Qantas has developed a methodology to test hedge effectiveness for fuel



Conclusion

The introduction of A-IFRS:

- excluding financial instruments, will reduce Retained Profits by an estimated \$826m by 30 June 2005
- will not affect underlying business cash flow
- will have no impact on Qantas' strategy or operations
- will have no impact on Qantas' capital management strategy or credit ratings
- no material impact on future earnings



Transition to International Financial Reporting Standards

Presentation to Investors

24 June 2005

Peter Gregg

Chief Financial Officer

Colin Storrie

Deputy Chief Financial Officer

