



 **QANTAS**
Spirit of Australia

CONTENTS

	page
Statements of financial performance	2
Statements of financial position	3
Statements of cash flows	4
Notes to the financial statements	
1. Statement of significant accounting policies	5
2. Revenue from ordinary activities	11
3. Profit from ordinary activities before related income tax expense	12
4. Income tax	13
5. Directors' remuneration	14
6. Executives' remuneration	14
7. Auditors' remuneration	17
8. Cash	18
9. Receivables	18
10. Inventories	19
11. Other investments	19
12. Other assets	19
13. Property, plant and equipment	20
14. Intangible assets	24
15. Payables	24
16. Interest-bearing liabilities	25
17. Provisions	25
18. Current tax liabilities/(receivable)	26
19. Contributed equity	27
20. Reserves	28
21. Retained profits	29
22. Total equity reconciliation	29
23. Outside equity interests	29
24. Finance lease commitments	29
25. Operating lease and hire commitments	30
26. Capital expenditure commitments	31
27. Contingent liabilities	31
28. Superannuation commitments	32
29. Particulars in relation to controlled entities	33
30. Deed of cross guarantee	36
31. Investments accounted for using the equity method	38
32. Financial instruments	40
33. Employee benefits	44
34. Dividends	44
35. Segment information	45
36. Earnings per share	47
37. Events subsequent to balance date	47
38. Notes to the statements of cash flows	48
39. Related party transactions	50
Directors' declaration	54
Independent audit report	55
Corporate directory and financial calendar	56

STATEMENTS OF FINANCIAL PERFORMANCE
for the year ended 30 June 2003

	Notes	Qantas Group		Qantas	
		2003 \$M	2002 \$M	2003 \$M	2002 \$M
SALES AND OPERATING REVENUE					
Net passenger revenue**		8,992.8	8,718.5	8,242.5	8,053.8
Net freight revenue*		511.3	518.8	508.9	513.1
Tours and travel revenue		696.3	674.4	–	–
Contract work revenue		530.9	479.1	281.0	270.1
Other sources^**		643.6	578.0	930.9	582.2
Sales and operating revenue	2	11,374.9	10,968.8	9,963.3	9,419.2
EXPENDITURE					
Manpower and staff related		3,017.7	2,689.2	2,587.7	2,281.0
Selling and marketing*		546.6	608.2	517.0	636.2
Aircraft operating – variable#		2,405.0	2,287.4	2,352.1	2,263.2
Fuel and oil		1,540.4	1,570.0	1,423.8	1,466.2
Property		286.5	264.3	262.6	244.3
Computer and communication		412.3	408.4	387.7	406.8
Depreciation and amortisation		891.4	693.5	774.2	568.6
Non-cancellable operating lease rentals		283.9	255.7	233.2	199.1
Tours and travel		564.0	584.4	–	–
Capacity hire		381.6	499.9	350.4	422.7
Other#		488.1	464.6	551.0	553.3
Share of net profit of associates	31	(9.6)	(36.1)	–	–
Expenditure	3	10,807.9	10,289.5	9,439.7	9,041.4
Earnings before interest and tax		567.0	679.3	523.6	377.8
Borrowing costs	3	(172.4)	(117.6)	(173.6)	(121.5)
Interest revenue	2	107.7	69.3	93.5	56.4
Net borrowing costs		(64.7)	(48.3)	(80.1)	(65.1)
Profit from ordinary activities before related income tax expense		502.3	631.0	443.5	312.7
Income tax expense relating to ordinary activities	4	(155.7)	(201.7)	(71.0)	(78.3)
Net profit		346.6	429.3	372.5	234.4
Outside equity interests in net profit		(3.1)	(1.3)	–	–
Net profit attributable to members of the Company	21	343.5	428.0	372.5	234.4
Non-owner transaction changes in equity:					
Increase in asset revaluation reserve on using the equity method for investments in associates	31	–	2.9	–	–
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		(2.3)	(0.9)	–	–
Total changes in equity from non-owner related transactions attributable to members of the Company	22	337.5	430.0	368.8	234.4
Basic earnings per share	36	20.0 cents	29.1 cents		
Diluted earnings per share	36	19.8 cents	28.9 cents		

* Passenger and freight revenue is now disclosed net of both sales discount and interline/IATA commission. Previously, only sales discount was netted against revenue, with interline/IATA commission being shown as an expense item. Comparatives have been adjusted accordingly. The impact of this change for the prior year is to decrease net passenger revenue by \$505.7 million (Qantas \$472.1 million), net freight revenue by \$44.8 million (Qantas \$44.9 million) and selling and marketing expenditure by \$550.5 million (Qantas \$517.0 million).

Passenger recoveries are now disclosed as part of net passenger revenue. Previously, passenger recoveries were netted against the relevant expenditure category. Comparatives have been adjusted accordingly. The impact of this change for the prior year is to increase net passenger revenue by \$196.7 million (Qantas \$195.2 million), increase aircraft operating – variable expenditure by \$86.5 million (Qantas \$85.1 million) and increase other expenditure by \$110.2 million (Qantas \$110.1 million).

** Excludes proceeds on sale of non-current assets of Qantas Group \$36.7 million, Qantas \$6.0 million (2002: \$52.0 million, \$49.1 million), and interest revenue of Qantas Group \$107.7 million, Qantas \$93.5 million (2002: \$69.3 million, \$56.4 million) which is included in net borrowing costs.

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

The Statements of Financial Performance are to be read in conjunction with the Notes to the Financial Statements on pages 5 to 53.

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2003

	Notes	Qantas Group		Qantas	
		2003 \$M	2002 \$M	2003 \$M	2002 \$M
CURRENT ASSETS					
Cash	8	121.9	112.5	99.6	74.5
Receivables	9	2,867.0	2,386.6	2,875.2	2,551.7
Net receivables under hedge/swap contracts		330.9	697.7	331.2	698.9
Inventories	10	430.3	385.4	400.9	342.5
Other	12	204.3	173.5	143.7	114.9
Total current assets		3,954.4	3,755.7	3,850.6	3,782.5
NON-CURRENT ASSETS					
Receivables	9	176.5	240.0	1,879.9	1,718.6
Net receivables under hedge/swap contracts		1,014.9	1,398.0	958.2	1,343.6
Investments accounted for using the equity method	31	68.3	65.4	–	–
Other investments	11	101.9	8.9	374.8	371.6
Property, plant and equipment	13	11,432.5	9,109.5	9,548.5	6,922.7
Intangible assets	14	119.6	161.0	–	–
Deferred tax assets		44.7	34.7	14.6	–
Other	12	61.0	28.3	24.9	26.0
Total non-current assets		13,019.4	11,045.8	12,800.9	10,382.5
Total assets		16,973.8	14,801.5	16,651.5	14,165.0
CURRENT LIABILITIES					
Payables	15	2,109.1	2,382.3	1,984.2	2,216.2
Interest-bearing liabilities	16	971.1	837.0	980.2	1,167.1
Net payables under hedge/swap contracts		46.6	430.8	44.2	430.7
Provisions	17	435.9	525.8	372.5	465.2
Current tax liabilities/(receivable)	18	(4.7)	77.9	(32.2)	31.9
Revenue received in advance		1,158.4	1,285.2	1,056.3	1,178.2
Deferred lease benefits/income		50.6	42.4	45.9	37.8
Total current liabilities		4,767.0	5,581.4	4,451.1	5,527.1
NON-CURRENT LIABILITIES					
Payables	15	–	33.7	–	33.7
Interest-bearing liabilities	16	5,391.9	3,569.9	6,055.6	3,710.1
Net payables under hedge/swap contracts		340.9	150.8	340.9	150.8
Provisions	17	354.1	351.0	324.4	318.1
Deferred tax liabilities		603.0	524.7	489.4	401.3
Deferred lease benefits/income		254.8	329.0	221.5	287.4
Other		–	7.5	–	7.5
Total non-current liabilities		6,944.7	4,966.6	7,431.8	4,908.9
Total liabilities		11,711.7	10,548.0	11,882.9	10,436.0
Net assets		5,262.1	4,253.5	4,768.6	3,729.0
EQUITY					
Contributed equity	19	3,757.9	2,946.6	3,757.9	2,946.6
Reserves	20	54.0	56.3	82.9	82.9
Retained profits	21	1,435.9	1,239.1	927.8	699.5
Equity attributable to members of the Company		5,247.8	4,242.0	4,768.6	3,729.0
Outside equity interests in controlled entities	23	14.3	11.5	–	–
Total equity	22	5,262.1	4,253.5	4,768.6	3,729.0

The Statements of Financial Position are to be read in conjunction with the Notes to the Financial Statements on pages 5 to 53.

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2003

	Notes	Qantas Group		Qantas	
		2003 \$M	2002 \$M	2003 \$M	2002 \$M
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		12,567.3	12,043.9	10,995.0	10,426.3
Cash payments in the course of operations		(10,960.6)	(10,647.7)	(9,739.3)	(8,916.6)
Interest received		114.4	69.1	98.9	55.8
Borrowing costs paid		(268.1)	(169.2)	(277.2)	(167.2)
Dividends received		7.0	13.1	220.7	2.8
Income taxes paid		(169.2)	(165.9)	(61.0)	(51.4)
Net cash provided by operating activities	38	1,290.8	1,143.3	1,237.1	1,349.7
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(3,137.2)	(2,463.4)	(1,625.3)	(1,317.6)
Receipts for aircraft security deposits		197.7	124.6	162.0	123.0
Total payments for purchases of property, plant, equipment and aircraft security deposits		(2,939.5)	(2,338.8)	(1,463.3)	(1,194.6)
Proceeds from sale of property, plant and equipment		36.7	12.7	6.0	11.6
Proceeds from sale of investments		–	39.3	–	37.5
Payments for investments, net of cash acquired		(92.9)	(19.3)	(3.2)	(19.3)
Net funding from/(to) related parties		–	–	(152.4)	(1,199.4)
Net cash used in investing activities		(2,995.7)	(2,306.1)	(1,612.9)	(2,364.2)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayments of borrowings/swaps		(798.3)	(1,109.7)	(678.1)	(1,074.5)
Proceeds from borrowings		3,205.2	2,269.9	2,167.5	1,870.0
Net proceeds from the issue of shares		701.0	652.7	701.0	652.7
Dividends paid		(172.3)	(124.1)	(170.9)	(120.9)
Net cash provided by financing activities		2,935.6	1,688.8	2,019.5	1,327.3
RECONCILIATION OF CASH PROVIDED BY/(USED IN):					
Operating activities		1,290.8	1,143.3	1,237.1	1,349.7
Investing activities		(2,995.7)	(2,306.1)	(1,612.9)	(2,364.2)
Financing activities		2,935.6	1,688.8	2,019.5	1,327.3
Net increase in cash held		1,230.7	526.0	1,643.7	312.8
Cash at the beginning of the financial year		785.2	259.2	349.9	37.1
Cash at the end of the financial year	38	2,015.9	785.2	1,993.6	349.9

The Statements of Cash Flows are to be read in conjunction with the Notes to the Financial Statements on pages 5 to 53.

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

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 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) and its controlled entities, and except where there is a change in accounting policy as set out below, 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) CHANGE IN ACCOUNTING POLICIES

EMPLOYEE BENEFITS

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

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

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

- ▶ \$5.3 million (Qantas: \$5.3 million) increase in provision for employee benefits;
- ▶ \$3.7 million (Qantas: \$3.7 million) decrease in opening retained profits; and
- ▶ \$1.6 million (Qantas: \$1.6 million) increase in future income tax benefit.

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

PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

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

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

AIRCRAFT LEASES

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

(c) 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 Statement 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

Associates are those entities over which the Qantas Group exercises significant influence, but not control, and which are not intended for sale in the near future.

Investments in associates are accounted for using equity accounting principles. Investments in associates 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 is recognised in the consolidated Statement of Financial Performance from the date significant influence commenced up to the date significant influence ceased.

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

1. Statement of significant accounting policies continued

(d) 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 Statement 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. Their Statement of Financial Performance is 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 Statement 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 Statement 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 2003, net deferred gains were \$117.7 million (2002: loss \$206.2 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.

(e) 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 Statement 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 Statement of Financial Performance when the gains and losses arising on the related hedged position are recognised in the Statement of Financial Performance. Further details are outlined in Note 32.

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 Statement 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 or 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 Statement of Financial Performance for the year.

(f) REVENUE RECOGNITION

PASSENGER, FREIGHT AND TOURS AND TRAVEL SALES REVENUE

Passenger, freight and tours and travel sales revenue is included in the Statement 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.

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

1. Statement of significant accounting policies continued

(f) REVENUE RECOGNITION continued

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. Revenue from dividends from associates and other investments is recognised when dividends are received.

(g) 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 Statement of Financial Position.

Cash flows are included in the Statement 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.

(h) 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 Statement 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 is provided in the financial statements in the financial year in which an asset is sold. Capital gains tax is not provided for when an asset is revalued.

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.

(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 2003

1. Statement of significant accounting policies continued

(l) INVESTMENTS

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

CONTROLLED ENTITIES

A controlled entity is one over which Qantas exercises control, or has the capacity to control.

ASSOCIATES

An associate is an entity in which Qantas exercises significant influence, but not control.

(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 research and 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 – 25
Non-jet aircraft and engines	10 – 20	0 – 20
Aircraft spare parts	15 – 20	0 – 25

These rates are in line with those for the prior year.

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.

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.

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

Fully prepaid leases are classified in the Statement 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.

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 2003

1. Statement of significant accounting policies continued

(o) LEASED AND HIRE PURCHASE ASSETS continued

NON-CANCELLABLE OPERATING LEASES

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

(p) INTANGIBLE ASSETS

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 Statement of Financial Performance.

For associates, the Consolidated Financial Statements include the carrying amount of goodwill in the equity accounted investments' carrying amounts.

(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 Statement 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, 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.

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 Statement of Financial Performance as they are made. Further details are disclosed in Note 28.

(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.

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

1. Statement of significant accounting policies continued

(t) PROVISIONS continued

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.

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

(u) WORKERS' COMPENSATION

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.

(v) 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 36).

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.

(w) 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 38).

(x) 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. 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 6.7 per cent per annum (2002: 7.2 per cent) in the current year. During the year, borrowing costs totalling \$82.7 million (2002: \$77.0 million) were capitalised into the cost of qualifying assets.

(y) 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. Items such as guarantee fees, bank fees and other fees associated with the establishment of lending facilities are capitalised as deferred financing fees and are amortised over the life of the relevant loan term. The deferred financing fees in the Consolidated Statement of Financial Position at 30 June 2003 is \$58.3 million (2002: \$25.1 million).

(z) 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".

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
2. Revenue from ordinary activities				
REVENUE FROM OPERATING ACTIVITIES				
Sales and operating revenue				
Related parties				
– controlled entities	–	–	147.4	63.7
– associates	103.8	84.8	108.3	79.6
– other related parties	20.2	31.9	11.7	15.4
Other parties	11,250.6	10,851.8	9,475.2	9,257.7
Dividend revenue				
Related parties				
– controlled entities	–	–	219.2	–
– associates	–	–	1.2	2.5
Other parties	0.3	0.3	0.3	0.3
Sales and operating revenue	11,374.9	10,968.8	9,963.3	9,419.2
REVENUE FROM OUTSIDE OPERATING ACTIVITIES				
Interest revenue				
Related parties				
– controlled entities	–	–	0.7	3.3
Other parties	107.7	69.3	92.8	53.1
Proceeds from sale of property, plant and equipment	36.7	12.7	6.0	11.6
Proceeds from sale of investments	–	39.3	–	37.5
Total revenue from ordinary activities	11,519.3	11,090.1	10,062.8	9,524.7

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
3. Profit from ordinary activities before related income tax expense				
Profit from ordinary activities before related income tax expense has been arrived at after charging/(crediting) the following items:				
Borrowing costs				
Related parties				
– controlled entities	–	–	50.6	13.9
Other parties				
– finance charges on capitalised leases	29.7	63.7	25.2	60.3
– other borrowing costs	225.4	130.9	180.5	124.3
Less: capitalised borrowing costs	(82.7)	(77.0)	(82.7)	(77.0)
Total borrowing costs	172.4	117.6	173.6	121.5
Depreciation				
Buildings	5.9	5.1	3.8	3.2
Plant and equipment	124.2	144.0	104.3	109.2
Aircraft and engines – normal depreciation	319.0	224.8	285.5	200.8
Aircraft and engines – accelerated depreciation	91.4	–	91.4	–
Aircraft spare parts	73.4	72.5	72.5	70.3
Total depreciation	613.9	446.4	557.5	383.5
Amortisation				
Leasehold buildings	1.5	1.6	0.9	0.9
Leasehold improvements	45.5	40.3	22.9	22.6
Leased plant and equipment	0.4	0.4	–	–
Leased aircraft and engines	216.0	191.3	191.7	159.8
Leased aircraft spare parts	1.4	1.8	1.2	1.8
Goodwill	12.7	11.7	–	–
Total amortisation	277.5	247.1	216.7	185.1
Net foreign currency loss	71.9	35.6	72.2	34.4
Loss/(profit) on sale of aircraft, engines and spares	12.4	(2.7)	12.6	(2.8)
Loss/(profit) on sale of property, plant and equipment	–	(1.9)	0.1	(1.8)
Profit on sale of investments*	–	(31.2)	–	(17.3)
Amounts set aside to provision for				
Doubtful debts	2.4	28.2	2.3	28.2
Employee benefits	49.3	28.4	40.2	20.6
Staff redundancy costs*	115.4	41.5	112.9	41.3
Insurance and other	38.5	35.5	36.1	34.7
Operating lease charges				
Non-cancellable operating leases	283.9	255.7	233.2	199.1
Cancellable operating leases	149.6	140.5	149.4	139.4
Capacity hire – aircraft	381.6	499.9	350.4	422.7

* Disclosed as individually significant items in the Consolidated and Company Financial Statements for the year ended 30 June 2002.

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
4. Income tax				
The prima facie income tax on profit from ordinary activities differs from the income tax charged in the Statement of Financial Performance and is calculated as follows:				
Profit from ordinary activities	502.3	631.0	443.5	312.7
Prima facie income tax expense at 30 per cent (2002: 30 per cent) on profit from ordinary activities	150.7	189.3	133.1	93.8
(Less)/add adjustments for:				
Non-assessable income				
Deferred lease benefits	(0.2)	–	(0.2)	–
Imputation gross-up on dividend received	–	–	28.2	–
Franking credits on dividends received	–	–	(94.1)	–
Share of associates' net profit	(2.9)	(10.8)	–	–
Other non-assessable income	–	(0.4)	–	–
Non-deductible expenditure				
Depreciation on buildings	0.6	0.8	0.7	0.8
Amortisation of goodwill	3.8	3.5	–	–
Amortisation of lease residual values	0.6	3.2	0.6	3.2
Other non-deductible expenditure	10.1	15.3	7.3	4.1
Other (deductible)/assessable items	(7.6)	4.2	(2.7)	5.7
Under/(over) provision in prior years	0.6	(3.4)	(1.9)	(29.3)
Income tax expense relating to ordinary activities	155.7	201.7	71.0	78.3
Comprising:				
Australian income tax expense	144.3	198.9	63.4	78.3
Overseas income tax expense	11.4	2.8	7.6	–
	155.7	201.7	71.0	78.3
Future income tax benefit arising from tax losses, not recognised as an asset because recovery is not virtually certain	20.5	20.1	11.4	6.2

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.

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

5. Directors' remuneration

Directors' remuneration includes fees or salaries (as appropriate), superannuation contributions, non-cash benefits and post-retirement benefits. Executive Directors participate in performance bonuses (refer Note 6) and retirement and termination payments.

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

	Qantas	
	2003 Number	2002 Number
The number of Directors of Qantas whose remuneration from Qantas or any related party falls within the following bands:		
\$ \$		
0 – 9,999	–	1
30,000 – 39,999	–	1
60,000 – 69,999	1	–
80,000 – 89,999	–	1
90,000 – 99,999	–	1
100,000 – 109,999	2	1
110,000 – 119,999	1	3
120,000 – 129,999	1	–
130,000 – 139,999	2	–
140,000 – 149,999	1	–
150,000 – 159,999	–	1
360,000 – 369,999	–	1
370,000 – 379,999	1	–
990,000 – 999,999	1	–
1,420,000 – 1,429,999	–	1
1,630,000 – 1,639,999	1	–
2,450,000 – 2,459,999	–	1
Total Directors	11	12

	Qantas Group		Qantas	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Total remuneration paid or payable, or otherwise made available to all Directors of Qantas from Qantas or related parties (includes Directors' fees of \$1.076 million (2002: \$0.917 million))			3,925	5,061
Total remuneration paid, payable or otherwise made available to Directors of each entity in the Qantas Group from Qantas or any related party (includes Directors' fees of \$1.076 million (2002: \$0.917 million))	6,844	8,027		

6. Executives' remuneration

REMUNERATION

VESTED REMUNERATION

Remuneration levels for Executives are determined with reference to external professional advice and take into account market levels of remuneration. Executive's remuneration includes salaries, superannuation contributions, performance bonuses, other benefits, and retirement and resignation packages.

Fixed Annual Remuneration

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

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

6. Executives' remuneration continued

VESTED REMUNERATION continued

Non-Cash Benefits

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

Short-Term Incentives

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

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

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

NON-VESTED REMUNERATION

Long Term Incentive Plans

Qantas Long-Term Incentive Deferred Share Plan (LTIDSP)

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

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

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

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

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

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

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

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

Post-Retirement Benefits

A limited number of free of charge flights are available to Executive Directors and certain Senior Executives both whilst they are employed by the Qantas Group and after they have retired. The post-retirement benefit is determined on a cost to the company basis and is accrued over the period of service, taking into account historical and projected usage rates.

DEFINITION OF EXECUTIVE

Only those employees who received more than \$100,000 in remuneration and met the definition of an executive officer under the Corporations Act 2001 and worked mainly in Australia, are included in the following disclosures. Although these disclosures are in accordance with the Corporations Act 2001, the comparability of the disclosures between years is impacted by the appointment of certain executives part way through each year, the achievement of performance targets for bonus purposes, changes in organisational structure and inclusion of retirement and resignation payments where applicable.

Executive remuneration for the prior year includes cash performance bonuses which were payable due to the achievement of pre-determined profit objectives. No bonus is payable in relation to the current year as performance targets were not met.

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

6. Executives' remuneration continued

The number of Executives of Qantas and of controlled entities whose remuneration from Qantas, entities in the Qantas Group or related parties falls within the following bands:

\$	Qantas Group		Qantas	
	2003 Number	2002 Number	2003 Number	2002 Number
100,000 – 109,999	1	1	1	1
110,000 – 119,999	3	–	2	–
120,000 – 129,999	2	–	2	–
130,000 – 139,999	4	2	3	2
140,000 – 149,999	5	–	5	–
150,000 – 159,999	5	3	4	2
160,000 – 169,999	10	1	9	1
170,000 – 179,999	15	2	15	2
180,000 – 189,999	14	7	10	6
190,000 – 199,999	7	7	7	6
200,000 – 209,999	6	8	6	8
210,000 – 219,999	5	4	5	4
220,000 – 229,999	8	9	6	7
230,000 – 239,999	5	9	4	8
240,000 – 249,999	3	13	3	12
250,000 – 259,999	7	10	7	9
260,000 – 269,999	–	6	–	6
270,000 – 279,999	3	3	3	3
280,000 – 289,999	2	6	1	6
290,000 – 299,999	2	9	2	8
300,000 – 309,999	3	3	3	2
310,000 – 319,999	2	2	2	2
320,000 – 329,999	3	1	3	1
330,000 – 339,999	–	5	–	5
340,000 – 349,999	3	–	3	–
350,000 – 359,999	1	3	1	3
360,000 – 369,999	2	1	1	1
370,000 – 379,999	–	2	–	2
380,000 – 389,999	–	3	–	3
390,000 – 399,999	2	2	2	2
400,000 – 409,999	–	–	–	–
410,000 – 419,999	1	5	1	4
420,000 – 429,999	–	1	–	1
430,000 – 439,999	–	1	–	1
440,000 – 449,999	1	4	1	4
460,000 – 469,999	1	1	1	1
470,000 – 479,999	–	1	–	1
490,000 – 499,999	1	1	1	1
500,000 – 509,999	–	1	–	1
510,000 – 519,999	–	1	–	1
520,000 – 529,999	2	2	2	2
530,000 – 539,999	1	–	1	–
550,000 – 559,999	1	1	1	1
560,000 – 569,999	1	1	1	1
600,000 – 609,999	1	–	1	–
620,000 – 629,999	1	1	1	1
630,000 – 639,999	–	1	–	1
640,000 – 649,999	1	–	1	–
660,000 – 669,999	1	–	1	–
690,000 – 699,999	1	–	1	–
730,000 – 739,999	1	–	1	–

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

6. Executives' remuneration continued

	Qantas Group		Qantas	
	2003 Number	2002 Number	2003 Number	2002 Number
\$ \$				
750,000 – 759,999	–	1	–	1
780,000 – 789,999	–	1	–	1
810,000 – 819,999	–	1	–	1
830,000 – 839,999	–	1	–	1
920,000 – 929,999	–	1	–	1
990,000 – 999,999	1	–	1	–
1,010,000 – 1,019,999	–	2	–	2
1,020,000 – 1,029,999	–	1	–	1
1,170,000 – 1,179,999	–	1	–	1
1,340,000 – 1,349,999	–	1	–	1
1,420,000 – 1,429,999	–	1	–	1
1,630,000 – 1,639,999	1	–	1	–
1,880,000 – 1,889,999	–	1	–	1
2,450,000 – 2,459,999	–	1	–	1
3,650,000 – 3,659,999	–	1	–	1
Total executives	140	158	127	147

	Qantas Group		Qantas	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Total remuneration received, or due and receivable, from Qantas, entities in the Qantas Group or related parties by Executives whose income exceeds \$100,000	37,283	60,559	34,657	57,831

Directors' and Executives' remuneration amounts disclosed above and in Note 5, do not include amounts accrued under the LTIDSP and the QL-TEIP. During the year a total of \$1.1 million was accrued under the LTIDSP and \$8.8 million was accrued under the QL-TEIP. These accruals are based upon actuarial estimates of the benefits at grant date and are accrued over the period in which the benefits are earned, being the period from grant date to the earliest date at which the benefits could vest.

	Qantas Group		Qantas	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
7. Auditors' remuneration				
Audit services:				
Auditors of Qantas – KPMG	1,810	1,135	1,358	866
Other services:				
Auditors of Qantas – KPMG				
Other audit work	531	394	426	301
Financial reporting assistance	186	47	166	–
Due diligence	817	779	586	779
Tax advice	354	596	309	551
User acceptance testing	73	1,469	73	1,469
Secondments	75	692	56	11
KPMG related practices	2,036	3,977	1,616	3,111
Total fees paid to KPMG	3,846	5,112	2,974	3,977

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
8. Cash				
Cash on hand	3.8	3.9	3.9	3.9
Cash at bank	84.8	22.1	62.8	(15.9)
Cash at call	33.3	86.5	32.9	86.5
	121.9	112.5	99.6	74.5
9. Receivables				
CURRENT				
Trade debtors	715.6	1,280.9	672.3	1,223.0
Less: provision for doubtful debts	(34.1)	(30.7)	(31.9)	(26.7)
	681.5	1,250.2	640.4	1,196.3
Trade debtors				
Related parties				
– controlled entities	–	–	65.6	99.9
– associates	18.4	24.1	19.3	24.1
– other related parties	59.5	72.4	58.6	71.3
	77.9	96.5	143.5	195.3
Loans owing from				
Related parties				
– controlled entities	–	–	19.8	176.7
Short-term money market securities and term deposits	1,894.0	672.7	1,894.0	672.7
Aircraft security deposits	65.9	214.8	59.0	172.1
Sundry debtors				
Related parties				
– controlled entities	–	–	1.8	0.8
Other parties	147.7	152.4	116.7	137.8
	2,867.0	2,386.6	2,875.2	2,551.7
NON-CURRENT				
Loans owing from				
Related parties				
– controlled entities	–	–	1,731.0	1,506.5
Other parties	17.8	19.0	–	–
Aircraft security deposits	129.1	194.2	128.9	194.0
Sundry debtors				
Other parties	29.6	26.8	20.0	18.1
	176.5	240.0	1,879.9	1,718.6

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

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
10. Inventories				
CURRENT				
At cost				
Engineering expendables	329.7	296.2	309.4	270.6
Consumable stores	40.1	44.0	36.1	35.2
Work in progress	59.2	42.3	54.1	33.8
	429.0	382.5	399.6	339.6
At net realisable value				
Aircraft spare parts held for sale	1.3	2.9	1.3	2.9
	430.3	385.4	400.9	342.5
11. Other investments				
NON-CURRENT				
Unlisted investments				
Controlled entities at cost (refer Note 29)	–	–	331.7	331.7
Associates at cost (refer Note 31)	–	–	31.0	31.0
Other corporations at cost	101.9	8.9	12.1	8.9
	101.9	8.9	374.8	371.6
<p>On 31 December 2002, the Qantas Group acquired a loan note which is convertible to a 4.99 per cent equity stake in Air New Zealand Limited for NZ\$98.2 million (A\$89.7 million). The principal activities of Air New Zealand Limited are the operation of domestic and international passenger transport and cargo.</p>				
12. Other assets				
CURRENT				
Advances, prepayments and other deposits	157.2	103.1	107.8	48.9
Other	47.1	70.4	35.9	66.0
	204.3	173.5	143.7	114.9
NON-CURRENT				
Deferred financing fees	58.3	25.1	23.3	24.6
Other	2.7	3.2	1.6	1.4
	61.0	28.3	24.9	26.0

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
13. Property, plant and equipment				
NON-CURRENT				
FREEHOLD LAND – OWNED				
At cost	59.4	59.4	47.2	47.2
	59.4	59.4	47.2	47.2
LEASEHOLD LAND				
At cost	0.2	–	–	–
	0.2	–	–	–
Total land at cost	59.6	59.4	47.2	47.2
BUILDINGS – OWNED				
At cost	152.3	114.7	107.8	69.6
Less: accumulated depreciation	56.8	51.5	43.8	40.0
	95.5	63.2	64.0	29.6
BUILDINGS – LEASED				
At cost	61.2	60.9	29.0	29.0
Less: accumulated amortisation	35.1	33.4	17.0	16.1
	26.1	27.5	12.0	12.9
Total buildings at cost	213.5	175.6	136.8	98.6
Less: accumulated depreciation and amortisation	91.9	84.9	60.8	56.1
Total buildings at net book value	121.6	90.7	76.0	42.5
LEASEHOLD IMPROVEMENTS				
At cost	1,263.7	1,209.2	681.5	623.5
Less: accumulated amortisation	686.7	644.6	349.0	326.6
Total leasehold improvements at net book value	577.0	564.6	332.5	296.9
PLANT AND EQUIPMENT – OWNED				
At cost	1,608.0	1,407.5	1,217.8	1,020.0
Less: accumulated depreciation	970.1	861.4	642.8	544.2
	637.9	546.1	575.0	475.8
PLANT AND EQUIPMENT – LEASED				
At cost	7.0	7.0	–	–
Less: accumulated amortisation	5.5	5.1	–	–
	1.5	1.9	–	–
Total plant and equipment at cost	1,615.0	1,414.5	1,217.8	1,020.0
Less: accumulated depreciation and amortisation	975.6	866.5	642.8	544.2
Total plant and equipment at net book value	639.4	548.0	575.0	475.8

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
13. Property, plant and equipment				
continued				
AIRCRAFT AND ENGINES – OWNED				
At cost	8,639.3	4,773.6	6,130.2	4,219.9
Less: accumulated depreciation	2,466.0	2,102.9	2,171.6	1,926.6
	6,173.3	2,670.7	3,958.6	2,293.3
AIRCRAFT AND ENGINES – HIRE PURCHASED				
At cost	2,777.1	3,541.4	4,205.0	3,332.1
Less: accumulated amortisation	784.6	742.3	785.2	651.8
	1,992.5	2,799.1	3,419.8	2,680.3
AIRCRAFT AND ENGINES – LEASED				
At cost	1,107.6	1,145.4	737.0	774.4
Less: accumulated amortisation	489.4	450.9	298.8	279.0
	618.2	694.5	438.2	495.4
Total aircraft and engines at cost	12,524.0	9,460.4	11,072.2	8,326.4
Less: accumulated depreciation and amortisation	3,740.0	3,296.1	3,255.6	2,857.4
Total aircraft and engines at net book value	8,784.0	6,164.3	7,816.6	5,469.0
AIRCRAFT SPARE PARTS – OWNED				
At cost	757.8	643.2	684.3	578.6
Less: accumulated depreciation	356.0	320.9	339.6	306.1
	401.8	322.3	344.7	272.5
AIRCRAFT SPARE PARTS – LEASED				
At cost	23.5	8.1	19.8	4.3
Less: accumulated amortisation	3.9	2.5	1.3	–
	19.6	5.6	18.5	4.3
Total aircraft spare parts at cost	781.3	651.3	704.1	582.9
Less: accumulated depreciation and amortisation	359.9	323.4	340.9	306.1
Total aircraft spare parts at net book value	421.4	327.9	363.2	276.8
MANUFACTURERS' DEPOSITS				
Progress payments at cost	829.5	1,354.6	338.0	314.5
Total property, plant and equipment at cost	17,286.6	14,325.0	14,197.6	11,013.1
Less: accumulated depreciation and amortisation	5,854.1	5,215.5	4,649.1	4,090.4
Total property, plant and equipment at net book value	11,432.5	9,109.5	9,548.5	6,922.7

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

13. Property, plant and equipment continued

	Opening Written Down Value	Additions	Disposals	Transfers	Depreciation	Other*	Closing Written Down Value
QANTAS GROUP	2002 \$M	2003 \$M	2003 \$M	2003 \$M	2003 \$M	2003 \$M	2003 \$M
RECONCILIATIONS							
Freehold land – owned	59.4	–	–	–	–	–	59.4
Leasehold land	–	0.2	–	–	–	–	0.2
Total land	59.4	0.2	–	–	–	–	59.6
Buildings – owned	63.2	38.7	(0.5)	–	(5.9)	–	95.5
Buildings – leased	27.5	0.1	–	–	(1.5)	–	26.1
Total buildings	90.7	38.8	(0.5)	–	(7.4)	–	121.6
Leasehold improvements	564.6	58.6	(0.7)	–	(45.5)	–	577.0
Plant and equipment – owned	546.1	212.8	(5.9)	–	(124.2)	9.1	637.9
Plant and equipment – leased	1.9	–	–	–	(0.4)	–	1.5
Total plant and equipment	548.0	212.8	(5.9)	–	(124.6)	9.1	639.4
Aircraft and engines – owned	2,670.7	1,122.7	(15.0)	2,763.3	(410.4)	42.0	6,173.3
Aircraft and engines – hire purchased	2,799.1	–	–	(642.2)	(164.4)	–	1,992.5
Aircraft and engines – leased	694.5	–	–	(24.7)	(51.6)	–	618.2
Total aircraft and engines	6,164.3	1,122.7	(15.0)	2,096.4	(626.4)	42.0	8,784.0
Aircraft spare parts – owned	322.3	194.0	–	–	(73.4)	(41.1)	401.8
Aircraft spare parts – leased	5.6	15.4	–	–	(1.4)	–	19.6
Total aircraft spare parts	327.9	209.4	–	–	(74.8)	(41.1)	421.4
Manufacturers' deposits	1,354.6	1,494.7	–	(2,096.4)	–	76.6	829.5
Total property, plant and equipment	9,109.5	3,137.2	(22.1)	–	(878.7)	86.6	11,432.5

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

QANTAS	2002 \$M	2003 \$M	2003 \$M	2003 \$M	2003 \$M	2003 \$M	2003 \$M
RECONCILIATIONS							
Freehold land – owned	47.2	–	–	–	–	–	47.2
Buildings – owned	29.6	38.2	–	–	(3.8)	–	64.0
Buildings – leased	12.9	–	–	–	(0.9)	–	12.0
Total buildings	42.5	38.2	–	–	(4.7)	–	76.0
Leasehold improvements	296.9	58.5	–	–	(22.9)	–	332.5
Plant and equipment – owned	475.8	201.4	(4.6)	–	(104.3)	6.7	575.0
Total plant and equipment	475.8	201.4	(4.6)	–	(104.3)	6.7	575.0
Aircraft and engines – owned	2,293.3	1,097.0	(11.1)	956.3	(376.9)	–	3,958.6
Aircraft and engines – hire purchased	2,680.3	–	–	897.6	(158.1)	–	3,419.8
Aircraft and engines – leased	495.4	–	–	(23.6)	(33.6)	–	438.2
Total aircraft and engines	5,469.0	1,097.0	(11.1)	1,830.3	(568.6)	–	7,816.6
Aircraft spare parts – owned	272.5	191.4	–	–	(72.5)	(46.7)	344.7
Aircraft spare parts – leased	4.3	15.4	–	–	(1.2)	–	18.5
Total aircraft spare parts	276.8	206.8	–	–	(73.7)	(46.7)	363.2
Manufacturers' deposits	314.5	23.4	–	(75.2)	–	75.3	338.0
Total property, plant and equipment	6,922.7	1,625.3	(15.7)	1,755.1	(774.2)	35.3	9,548.5

* "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 2003

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
13. Property, plant and equipment				
continued				
PROPERTIES				
RECENT VALUATIONS				
Freehold land and buildings based on independent valuations undertaken within three years of balance date	241.4	207.5	208.3	144.3

RECENT VALUATIONS

Independent valuations of property and aircraft assets (excluding aircraft spare parts) were obtained as at 30 June 2003.

The 2003 independent valuation of land, buildings and leasehold improvements was carried out by Mr Russell Cowell FVLE AREI, of Knight Frank Valuations (NSW) Pty Limited. The 2003 independent valuation of aircraft and engines was carried out by Mr John Vitale ISTAT Certified Appraiser, of AVITAS Inc.

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

ASSET CLASS	2003			2002		
	Valuation Amount \$M	Carrying Amount \$M	Excess/ (Deficit) \$M	Valuation Amount \$M	Carrying Amount \$M	Excess \$M
Freehold land and buildings	241.4	154.9	86.5	207.5	122.6	84.9
Leasehold buildings and improvements	836.7	603.1	233.6	727.4	592.1	135.3
Aircraft and engines	6,692.7	8,784.0	(2,091.3)	6,839.6	6,164.3	675.3
	7,770.8	9,542.0	(1,771.2)	7,774.5	6,879.0	895.5

Valuations were performed primarily on a desktop "sight unseen" basis. The property valuations were performed using the open market value or special use value to the Qantas Group, taking into account the age and condition of the assets. 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 0.66895 as at 30 June 2003 (2002: 0.56388).

At 30 June 2003, 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.

In addition, Qantas annually obtains an external valuation of the aircraft fleet. In prior years, this has shown a considerable surplus to carrying amount. 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 2003 there is a deficit between carrying amount and market valuation. 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, given the volatile nature of the aircraft after-market, 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 (refer Note 16).

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
14. Intangible assets				
NON-CURRENT				
Goodwill at cost	151.3	180.0	–	–
Less: accumulated amortisation	31.7	19.0	–	–
	119.6	161.0	–	–
15. Payables				
CURRENT				
Trade creditors				
Related parties				
– controlled entities	–	–	74.7	67.5
– associates	8.2	6.4	8.2	6.4
– other related parties	102.4	119.2	102.4	119.2
Other parties	1,492.5	1,791.2	1,409.9	1,659.4
	1,603.1	1,916.8	1,595.2	1,852.5
Other creditors and accruals				
Related parties				
– controlled entities	–	–	–	14.0
Other parties	236.4	248.7	119.4	132.9
Unredeemed frequent flyer liability	269.6	216.8	269.6	216.8
	2,109.1	2,382.3	1,984.2	2,216.2
NON-CURRENT				
Other creditors and accruals	–	33.7	–	33.7

Redeemed Frequent Flyer Revenue Passenger Kilometres as a percentage of Available Seat Kilometres was 6.1 per cent for the financial year (2002: 5.7 per cent). Redeemed Frequent Flyer Revenue Passenger Kilometres as a percentage of Revenue Passenger Kilometres for the financial year was 7.9 per cent (2002: 7.3 per cent). The number of passenger flight segments redeemed by frequent flyers during the year was 3.1 million (2002: 2.5 million).

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
16. Interest-bearing liabilities				
CURRENT				
Bank loans				
– secured	270.7	35.7	185.2	12.3
– unsecured	133.3	–	133.3	–
Other loans				
Related parties – unsecured				
– controlled entities	–	–	–	397.3
– associates	12.2	11.6	12.2	11.6
Other parties				
– secured	2.2	4.2	–	–
– unsecured	289.8	310.4	289.8	310.3
Lease residual values	–	19.4	–	19.4
Finance lease and hire purchase liabilities (refer Note 24)	262.9	455.7	359.7	416.2
	971.1	837.0	980.2	1,167.1
NON-CURRENT				
Bank loans				
– secured	1,885.8	586.5	653.0	212.6
– unsecured	1,266.7	1,400.0	1,266.7	1,400.0
Other loans				
Related parties – unsecured				
– controlled entities	–	–	478.6	166.1
Other parties				
– unsecured	1,744.6	940.7	1,744.6	940.7
Finance lease and hire purchase liabilities (refer Note 24)	494.8	642.7	1,912.7	990.7
	5,391.9	3,569.9	6,055.6	3,710.1
Certain current and non-current loans relate to specific financings of aircraft and engines and are secured by the aircraft to which they relate.				
17. Provisions				
CURRENT				
Dividends	1.3	140.9	–	140.7
Employee benefits (refer Note 33)				
– annual leave	313.5	303.5	277.7	265.8
– long service leave	32.2	34.9	26.4	28.9
– staff redundancy	51.9	5.9	44.4	1.4
Under recovery of rentals on sub-let premises	5.7	8.4	4.0	6.6
Insurance and other	31.3	32.2	20.0	21.8
	435.9	525.8	372.5	465.2
NON-CURRENT				
Employee benefits (refer Note 33)				
– long service leave	276.7	278.1	253.4	252.4
Under recovery of rentals on sub-let premises	18.8	22.0	18.6	21.6
Insurance and other	58.6	50.9	52.4	44.1
	354.1	351.0	324.4	318.1

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

	Qantas Group 2003 \$M	Qantas 2003 \$M
17. Provisions continued		
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	140.9	140.7
Adjustment on adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	(140.7)	(140.7)
Provisions made during the year	283.7	281.2
Payments made during the year	(172.3)	(170.9)
Dividends settled in shares under the Dividend Reinvestment Plan	(110.3)	(110.3)
Carrying amount at the end of the financial year	1.3	-
UNDER RECOVERY OF RENTALS ON SUB-LET PREMISES		
Carrying amount at the beginning of the financial year	30.4	28.2
Provisions made during the year	1.4	-
Payments made during the year	(7.3)	(5.6)
Carrying amount at the end of the financial year	24.5	22.6
Included in the Financial Statements as follows:		
Current	5.7	4.0
Non-current	18.8	18.6
Total provision for under recovery of rentals on sub-let premises	24.5	22.6
INSURANCE AND OTHER		
Carrying amount at the beginning of the financial year	83.1	65.9
Provisions made during the year	38.5	36.1
Payments made during the year	(31.7)	(29.6)
Carrying amount at the end of the financial year	89.9	72.4
Included in the Financial Statements as follows:		
Current	31.3	20.0
Non-current	58.6	52.4
Total provision for insurance and other	89.9	72.4

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
18. Current tax liabilities/(receivable)				
Income tax				
– Australia	(11.7)	76.8	(36.2)	33.1
– overseas	7.0	1.1	4.0	(1.2)
	(4.7)	77.9	(32.2)	31.9

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
19. Contributed equity				
Issued and paid up capital 1,774,112,946 (2002: 1,563,858,757) ordinary shares, fully paid	3,757.9	2,946.6	3,757.9	2,946.6

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

Date	Details	Number of Shares M	\$M
1 July 2001	Opening balance	1,308.6	2,173.0
3 October 2001	Dividend Reinvestment Plan	21.7	68.4
25 October 2001	Institutional Equity Placement	149.5	456.1
	Costs associated with equity placement	–	(7.6)
7 December 2001	Qantas Profitshare Scheme issue	3.5	–
10 December 2001	Shareholder Equity Placement	68.2	207.7
	Costs associated with equity placement	–	(3.5)
10 April 2002	Dividend Reinvestment Plan (DRP)	12.4	52.5
30 June 2002	Closing balance	1,563.9	2,946.6
5 September 2002	Institutional Equity Placement	142.5	598.4
	Costs associated with equity placement	–	(12.6)
2 October 2002	Dividend Reinvestment Plan	14.1	55.7
10 October 2002	Shareholder Equity Placement	28.3	119.2
	Costs associated with equity placement	–	(4.0)
16 October 2002	Qantas Profitshare Scheme issue	8.0	–
9 April 2003	Dividend Reinvestment Plan	17.3	54.6
30 June 2003	Closing balance	1,774.1	3,757.9

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.

QANTAS PROFITSHARE SCHEME

The Qantas Profitshare Scheme is open to all eligible employees of Qantas and its wholly owned controlled entities. On 16 October 2002, 29,318 employees each received \$1,000 (subject to rounding) of fully paid bonus shares, resulting in 273 shares being granted to each participating employee at an average price at date of issue of \$3.65.

QANTAS LONG-TERM EXECUTIVE INCENTIVE PLAN (QL-TEIP)

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

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

The QL-TEIP has now been terminated and as such no Entitlements have been granted in the 2002/03 financial year.

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

19. Contributed equity continued

Total Entitlements outstanding as at 30 June 2003 under the QL-TEIP are as follows:

Expiry Date	Exercise Price \$	Net Vested 2003	Number of Unvested 2003	Entitlements ^{1,2} Total 2003	Unvested 2002
17 November 2007	4.99	5,068,512	642,488	5,711,000	5,901,500
24 November 2008	3.44	–	29,600,000	29,600,000	30,590,000
20 February 2009	3.62	–	760,000	760,000	760,000
6 December 2009	3.25	–	350,000	350,000	350,000
Total entitlements outstanding		5,068,512	31,352,488	36,421,000	37,601,500

1 These Entitlements do not allow the holder to participate in any share issue of Qantas or the Qantas Group and do not give the holder rights to dividends.

2 The market price of Qantas shares at 30 June 2003 was \$3.27 (30 June 2002: \$4.60).

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
Asset revaluation reserve	55.5	55.5	82.9	82.9
Foreign currency translation reserve	(1.5)	0.8	–	–
	54.0	56.3	82.9	82.9

20. Reserves

MOVEMENTS IN RESERVES

ASSET REVALUATION RESERVE

Balance at the beginning of the financial year	55.5	52.6	82.9	82.9
Increase on using the equity method for investments in associates	–	2.9	–	–
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	0.8	1.7	–	–
Net exchange differences relating to self-sustaining foreign operations	(2.3)	(0.9)	–	–
Balance at the end of the financial year	(1.5)	0.8	–	–

NATURE AND PURPOSE OF RESERVE

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 of \$52.6 million (2002: \$52.6 million) (Qantas: \$52.6 million (2002: \$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(d).

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
21. Retained profits				
Retained profits at the beginning of the year	1,239.1	1,078.0	699.5	729.9
Net profit attributable to members of the Company	343.5	428.0	372.5	234.4
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*	(283.7)	(266.9)	(281.2)	(264.8)
Retained profits at the end of the year	1,435.9	1,239.1	927.8	699.5
* Includes dividends paid to outside equity interests.				
22. Total equity reconciliation				
Total equity at the beginning of the year	4,253.5	3,315.9	3,729.0	2,985.8
Total changes in equity recognised in Statements of Financial Performance	337.5	430.0	368.8	234.4
Contribution of equity	811.3	773.6	811.3	773.6
Dividends	(143.0)	(266.9)	(140.5)	(264.8)
Total changes in outside equity interests	2.8	0.9	–	–
Total equity at the end of the year	5,262.1	4,253.5	4,768.6	3,729.0
23. Outside equity interests				
Ordinary share capital of controlled entities issued to outside equity interests	0.1	0.1	–	–
Outside equity interests in retained profits of controlled entities	14.2	11.4	–	–
	14.3	11.5	–	–
24. Finance lease commitments				
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	757.4	1,094.6	2,272.4	1,404.2
Buildings	–	2.7	–	2.7
Computer and communications equipment	0.3	1.1	–	–
	757.7	1,098.4	2,272.4	1,406.9
Payable				
Not later than one year	309.0	565.6	461.9	491.0
Later than one year but not later than five years	581.6	553.7	1,163.3	520.1
Later than five years	9.6	346.5	1,180.7	736.9
	900.2	1,465.8	2,805.9	1,748.0
Less: future lease finance charges	142.5	367.4	533.5	341.1
	757.7	1,098.4	2,272.4	1,406.9
Lease liabilities provided for in the Financial Statements				
Current liability (refer Note 16)	262.9	455.7	359.7	416.2
Non-current liability (refer Note 16)	494.8	642.7	1,912.7	990.7
Total lease liability	757.7	1,098.4	2,272.4	1,406.9

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
25. Operating lease and hire commitments				
Future net operating lease and hire commitments not provided for in the Financial Statements	2,042.8	2,480.3	1,927.7	1,948.3
Payable				
Not later than one year	360.0	455.0	326.5	345.5
Later than one year but not later than five years	1,085.5	1,278.1	1,006.1	985.3
Later than five years	621.8	777.6	617.7	645.7
	2,067.3	2,510.7	1,950.3	1,976.5
Less: provision for potential under recovery of rentals on unused premises available for sub-lease (refer Note 17)	24.5	30.4	22.6	28.2
	2,042.8	2,480.3	1,927.7	1,948.3
Operating lease commitments represent:				
Cancellable operating leases	1,005.2	906.7	994.2	895.3
Non-cancellable operating leases				
Aircraft leases	1,037.6	1,573.6	933.5	1,053.0
	2,042.8	2,480.3	1,927.7	1,948.3
Non-cancellable operating lease commitments, excluding unguaranteed residual payments, not provided for in the Financial Statements:				
Payable				
Not later than one year	233.4	343.9	202.6	236.6
Later than one year but not later than five years	702.8	927.5	629.5	641.0
Later than five years	101.4	302.2	101.4	175.4
	1,037.6	1,573.6	933.5	1,053.0

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 \$2,105.6 million and assets under operating leases would have an implied carrying value of \$1,982.6 million at 30 June 2003.

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
26. Capital expenditure commitments				
Capital expenditure commitments contracted but not provided for in the Financial Statements:				
Aircraft	5,740.6	8,750.0	5,656.5	8,665.9
Building works	181.2	203.7	181.2	203.7
Other	325.0	516.2	207.8	397.1
	6,246.8	9,469.9	6,045.5	9,266.7
Payable				
Not later than one year	1,788.2	2,986.7	1,693.8	2,890.7
Later than one year but not later than five years	3,535.1	4,362.1	3,428.2	4,254.9
Later than five years	923.5	2,121.1	923.5	2,121.1
	6,246.8	9,469.9	6,045.5	9,266.7

27. 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	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
Guarantees and letters of comfort to support operating lease commitments and other arrangements entered into with other parties by controlled entities	24.0	24.8	24.0	24.8
Guarantees and letters of comfort to support leveraged and operating lease commitments to other parties on behalf of associates	0.1	0.1	0.1	0.1
General guarantees in the normal course of business	130.7	134.2	130.7	134.2
Contingent liabilities relating to current and threatened litigation	56.6	49.8	56.6	49.8
	211.4	208.9	211.4	208.9

TERMINAL FUEL FACILITIES

The Qantas Group, together with other airlines, has entered into various agreements in order to facilitate the funding and installation of jet turbine fuel hydrant systems and terminal equipment facilities at Los Angeles and Honolulu airports. The airlines have jointly and severally agreed to repay any unpaid balance (including interest) of the loans totalling \$225.3 million at 30 June 2003 (2002: \$294.1 million) in the event the agreements are terminated prior to expiry of the loans.

AIRCRAFT FINANCING

As part of the financing arrangements for the acquisition of aircraft, the Qantas Group has provided certain guarantees and indemnities to various lenders and equity participants in leveraged lease transactions. In certain circumstances, including the insolvency of major international banks, 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.

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

27. Contingent liabilities continued

UNREALISED LOSSES – BACK-TO-BACK HEDGES

Where long-term borrowings are held in foreign currencies in which Qantas derives surplus net revenue, offsetting forward foreign exchange contracts have been used to match the cash flows arising under the borrowings with the expected revenue surpluses used to hedge the borrowings. To the extent a gain or loss is incurred, this is deferred until the net revenue is realised. As at 30 June 2003, total unrealised exchange gains on hedges of net revenue designated to service long-term debt were \$117.7 million (2002: \$206.2 million loss).

28. 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 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 employees of Qantas (and including employees of certain controlled entities) provide either accumulation benefits (with a guaranteed minimum benefit for members of Division 1 of the Qantas Superannuation Plan (QSP)) or a combination of accumulation and defined benefits payable as a lump sum. 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.

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 Regional Airlines Superannuation Plan was closed as at 30 June 2002 and all members transferred to Division 1U of the QSP.

The last actuarial reviews of the Plans were as follows:

Plan	Type of Plan	Name and Qualifications of Actuary ¹	Date
Qantas Superannuation Plan	Defined benefit Accumulation	Mr Mark Thompson FIAA	30 June 2002
Australian Airlines Flight Engineers' Superannuation Plan	Defined benefit	Mr Cyril Twomey FIA FIAA	30 June 2000

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.

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

Plan	Qantas Group 2003			
	Present Value of Accrued Benefits as at 30 June 2002 \$M	Net Market Value of Plan Assets as at 30 June 2002 ² \$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	3,653.5	3,666.0	121.9	3,488.9
Australian Airlines Flight Engineers' Superannuation Plan ³	7.0	17.4	–	7.4
Total	3,660.5	3,683.4	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 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 assets.

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

As at 30 June 2003, the net market value of the Qantas Superannuation Plan assets was in excess of the vested benefits of the Plan.

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

28. Superannuation commitments continued

Plan	Qantas Group 2002			
	Present Value of Accrued Benefits as at 30 June 1999 \$M	Net Market Value of Plan Assets as at 30 June 2001 ² \$M	Employer Contributions to Plan for Year ended 30 June 2001 ² \$M	Vested Benefits as at 30 June 2001 ² \$M
Qantas Superannuation Plan ¹	3,083.7	4,038.0	112.3	3,516.1
Australian Airlines Flight Engineers' Superannuation Plan ³	7.0	18.7	–	7.3
Total	3,090.7	4,056.7	112.3	3,523.4

¹ The most recent actuarial valuation of the QSP was at 30 June 1999. The most recent audited Financial Statements prepared by the QSP was at 30 June 2001. Accordingly, comparison of accrued benefits as at 30 June 1999 to the net market value of plan assets as at 30 June 2001 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 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.

	Note	Country of Incorporation	Qantas Group Ownership Interest	
			2003 %	2002 %
Qantair Ltd	iv	Australia	100	100
Q.H. Tours Limited	iv	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 & Travel (Korea) Limited	i	Korea	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	iv	Australia	100	100
Qantas Viva! Holidays Limited		Australia	100	100
QH Cruises Pty. Limited.	iv	Australia	100	100
Qantas Information Technology Ltd	iv	Australia	100	100
Qantas Airline Systems and Research Limited	iv	Australia	100	100
Qantas Flight Catering Holdings Limited	iv	Australia	100	100
Qantas Flight Catering Limited	iv	Australia	100	100
Caterair Airport Services Pty. Limited	iv	Australia	100	100
Caterair Airport Services (Sydney) Pty Limited		Australia	51	51
Airport Infrastructure Finance Pty. Limited		Australia	100	100
Waruda Holdings Pty Limited	iv	Australia	100	100
Cairns Wholesale Bakery and Patisserie Pty Limited	iv	Australia	100	100
Asia Pacific Distribution Limited	iv	Australia	100	100

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

	Note	Country of Incorporation	Qantas Group Ownership Interest	
			2003 %	2002 %
29. Particulars in relation to controlled entities continued				
Qantas Limited	iv	Australia	100	100
Airconnex Pty Limited	iv	Australia	100	100
Southern Cross Insurances Pte Limited		Singapore	100	100
Qantas Superannuation Limited		Australia	100	100
Qanlease Limited	iv	Australia	100	100
Qanfad Pty Limited	iv	Australia	100	100
BD No 1 Limited		Cayman Islands	100	100
Kurrajong Limited		Cayman Islands	100	100
EMSYS Pty Limited	v	Australia	–	100
Mitokal Pty. Limited	iv	Australia	100	100
Qantas Defence Services Pty Limited	iv	Australia	100	100
QDS Richmond Pty Ltd	ii	Australia	100	–
Snap Fresh Pty Limited	iv	Australia	100	100
738 Leasing 1 Pty Limited		Australia	100	100
738 Leasing 2 Pty Limited		Australia	100	100
QF 738 Leasing 3 Pty Limited		Australia	100	100
QF 738 Leasing 4 Pty Limited		Australia	100	100
QF 738 Leasing 5 Pty Limited		Australia	100	100
QF 738 Leasing 6 Pty Limited		Australia	100	100
QF 744 Leasing 1 Pty Limited		Australia	100	100
QF 744 Leasing 2 Pty Limited		Australia	100	100
QF 744 Leasing 3 Pty Limited		Australia	100	100
QF 744 Leasing 4 Pty Limited		Australia	100	100
QF 744 Leasing 5 Pty Limited		Australia	100	100
QF 744 Leasing 6 Pty Limited		Australia	100	100
QF A332 Leasing 1 Pty Limited		Australia	100	100
QF A332 Leasing 2 Pty Limited		Australia	100	100
QF A332 Leasing 3 Pty Limited		Australia	100	100
QF A332 Leasing 4 Pty Limited		Australia	100	100
QF A332 Leasing 5 Pty Limited		Australia	100	100
QF A332 Leasing 6 Pty Limited		Australia	100	100
QF A333 Leasing 1 Pty Limited		Australia	100	100
QF A333 Leasing 2 Pty Limited		Australia	100	100
QF A338 Leasing 1 Pty Limited		Australia	100	100
QF A338 Leasing 2 Pty Limited		Australia	100	100
Australian Airlines Limited	iv	Australia	100	100
Australian Wetleasing Operations Pty Limited	iv	Australia	100	100
Jetconnect Limited		New Zealand	100	100
Qantas Investments (NZ) Limited	i	New Zealand	100	–
AAL Aviation Limited	iv	Australia	100	100
Star Handling Services Pty Limited	iv	Australia	100	100
Australian Airlines Express Courier Pty Limited	iv	Australia	100	100
ARANS Superannuation Pty Limited		Australia	100	100
AAFE Superannuation Pty Limited		Australia	100	100
TAA Superannuation Pty. Ltd.		Australia	100	100
Australian Regional Airlines Pty. Ltd.	iv	Australia	100	100
Sunstate Airlines (Qld) Pty Limited	iv	Australia	100	100
Southern Australia Airlines Pty Ltd	iv	Australia	100	100
Airlink Pty Limited	iv	Australia	100	100
Australian Regional Airlines (Qld) Pty. Ltd.	iv	Australia	100	100
Air Queensland Pty. Ltd.		Australia	100	100
Eastern Australia Airlines Pty. Limited	iv	Australia	100	100
ACN 000 199 468 Pty Limited	iv	Australia	100	100
Impulse Airlines Holdings Proprietary Limited	iv	Australia	100	100

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

	Note	Country of Incorporation	Qantas Group Ownership Interest	
			2003 %	2002 %
29. Particulars in relation to controlled entities continued				
Impulse Airlines Australia Pty Ltd	iv	Australia	100	100
Impulse Airlines Pty Limited	iv	Australia	100	100
Impulse Communications Pty Limited	iv	Australia	100	100
ACN 009 864 546 Pty Limited	iii, iv	Australia	100	100
First Brisbane Airport Proprietary Limited	iv	Australia	100	100
First Brisbane Airport Unit Trust		n/a	100	100
Second Brisbane Airport Proprietary Limited	iv	Australia	100	100
Second Brisbane Airport Unit Trust		n/a	100	100
TAA Aviation Pty. Ltd.	iv	Australia	100	100
Nostam Pty. Limited		Australia	100	100
In Tours Airline Unit Trust No 1		n/a	100	100
Denmell Pty. Limited	iv	Australia	100	100
Denmint Pty. Limited	iv	Australia	100	100
Denmost Pty. Limited	iv	Australia	100	100
Denold Pty. Limited	iv	Australia	100	100
Denpen Pty. Limited	iv	Australia	100	100
Denpet Pty. Limited	iv	Australia	100	100
Denpost Pty. Limited	iv	Australia	100	100
Denrac Pty. Limited	iv	Australia	100	100
Densale Pty. Limited	iv	Australia	100	100
Denseed Pty. Limited	iv	Australia	100	100
Denshore Pty. Limited	iv	Australia	100	100
Densip Pty. Limited	iv	Australia	100	100
Densound Pty. Limited	iv	Australia	100	100
oneworld Handling Services Pty Limited	iv	Australia	100	100
Engine No. 9 Pty. Ltd.	iv	Australia	100	100

All controlled entities carry on business in their country of incorporation, with the exception of Qantas Limited, which also carries on business in Taiwan.

All controlled entities required to be audited are audited by member firms of KPMG.

Indentation of controlled entities signifies that the issued capital of the entity is owned by the entity above.

- i Incorporated during the financial year.
- ii Interest in this company was acquired on 22 May 2003.
- iii This company was voluntarily deregistered on 14 September 2001 but was reinstated in accordance with Section 601 AH(i) of the Corporations Act 2001 on 10 July 2002.
- iv Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, these controlled entities are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports.
- v A members' voluntary winding up of this entity was concluded on 24 January 2003.

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

30. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries identified in Note 29 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, 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 2003 are set out below:

	Consolidated	
	2003 \$M	2002 \$M
STATEMENT OF FINANCIAL PERFORMANCE		
Profit from ordinary activities before related income tax expense	473.0	639.2
Income tax expense relating to ordinary activities	(149.5)	(196.9)
Net profit	323.5	442.3
Retained profits at the beginning of the financial year	1,216.5	1,039.0
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	(281.2)	(264.8)
Retained profits at the end of the financial year	1,395.8	1,216.5
STATEMENT OF FINANCIAL POSITION		
CURRENT ASSETS		
Cash	93.5	90.5
Receivables	2,877.8	2,394.9
Net receivables under hedge/swap contracts	331.1	697.7
Inventories	430.0	385.4
Other	190.9	172.0
Total current assets	3,923.3	3,740.5
NON-CURRENT ASSETS		
Receivables	1,404.6	1,348.2
Net receivables under hedge/swap contracts	1,014.9	1,398.0
Investments accounted for using the equity method	68.1	64.6
Other investments	12.8	16.2
Property, plant and equipment	10,618.4	8,066.5
Intangible assets	119.4	161.0
Deferred tax assets	43.9	33.6
Other	29.0	26.8
Total non-current assets	13,311.1	11,114.9
Total assets	17,234.4	14,855.4

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

	Consolidated	
	2003 \$M	2002 \$M
30. Deed of cross guarantee continued		
CURRENT LIABILITIES		
Payables	2,111.7	2,375.6
Interest-bearing liabilities	999.1	1,313.1
Net payables under hedge/swap contracts	46.4	430.8
Provisions	428.2	524.6
Current tax liabilities	(11.5)	75.6
Revenue received in advance	1,156.6	1,283.0
Deferred lease benefits/income	50.5	42.4
Total current liabilities	4,781.0	6,045.1
NON-CURRENT LIABILITIES		
Payables	–	33.7
Interest-bearing liabilities	5,694.9	3,196.0
Net payables under hedge/swap contracts	340.9	150.8
Provisions	351.2	350.2
Deferred tax liabilities	602.6	524.7
Deferred lease benefits/income	254.8	329.0
Other	–	7.5
Total non-current liabilities	7,244.4	4,591.9
Total liabilities	12,025.4	10,637.0
Net assets	5,209.0	4,218.4
EQUITY		
Contributed equity	3,757.9	2,946.6
Reserves	55.3	55.3
Retained profits	1,395.8	1,216.5
Total equity	5,209.0	4,218.4

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

31. Investments accounted for using the equity method

Details of interests in associates are as follows:

	Principal Activities	Country of Incorporation	Balance Date	Ownership Interest				Amount of Investment			
				Qantas Group		Qantas		Qantas Group		Qantas	
				2003 %	2002 %	2003 %	2002 %	2003 \$M	2002 \$M	2003 \$M	2002 \$M
Air Pacific Limited	Air transport	Fiji	31 Mar	46.3	46.3	46.3	46.3	38.5	32.8	29.4	29.4
Australian air Express Pty Limited	Air cargo	Australia	30 Jun	50.0	50.0	–	–	12.6	15.1	–	–
Harvey Holidays Pty Ltd	Tours and travel	Australia	30 Jun	50.0	50.0	50.0	50.0	0.2	0.3	0.4	0.4
Hallmark Aviation Services LP	Passenger handling services	USA	31 Dec	49.0	49.0	49.0	49.0	2.5	2.1	0.1	0.1
Holiday Tours and Travel (Thailand) Limited	Tours and travel	Thailand	31 Dec	36.8	36.8	–	–	1.0	1.2	–	–
Jupiter Air Oceania Limited	Freight services	Australia	31 Dec	47.6	47.6	47.6	47.6	0.2	0.1	0.1	0.1
TET Limited	Tours and travel	Thailand	31 Dec	36.8	36.8	–	–	0.1	0.2	–	–
Travel Software Solutions Pty Limited (formerly known as Travel Industries Automated Systems Pty Limited)	Reservations systems	Australia	30 Jun	50.0	50.0	50.0	50.0	13.2	13.6	1.0	1.0
								68.3	65.4	31.0	31.0

Qantas Group

2003 \$M 2002 \$M

RESULTS OF ASSOCIATES

Share of associates' profit from ordinary activities before related income tax expense	14.3	27.7
Share of associates' income tax expense relating to ordinary activities	(4.7)	(9.7)
Share of associates' net profit as disclosed by associates	9.6	18.0
Adjustments:		
Adjustments on initial recognition	–	18.1
Share of net profit of associates accounted for using the equity method	9.6	36.1

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	23.3	–
Share of net profit of associates accounted for using the equity method	9.6	36.1
Dividends from associates	(6.7)	(12.8)
Share of associates' retained profits at the end of the financial year	26.2	23.3

ASSET REVALUATION RESERVE

Share of associates' asset revaluation reserve at the beginning of the financial year	2.9	–
Share of increments in asset revaluation reserve of associates	–	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 2003

31. Investments accounted for using the equity method continued

	Qantas Group	
	2003 \$M	2002 \$M
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENTS IN ASSOCIATES		
Carrying amount of investments in associates at beginning of year	65.4	42.5
Investments in associates acquired during the year	–	–
Investment in associates which became a controlled entity during the year	–	(10.0)
Share of net profit of associates	9.6	36.1
Dividends received from associates	(6.7)	(12.8)
Release of investment carrying value provision	–	6.7
	68.3	62.5
Share of increment in associates' asset revaluation reserves	–	2.9
Carrying amount of investments in associates at end of year	68.3	65.4
SUMMARY FINANCIAL POSITION OF ASSOCIATES		
The Qantas Group's share of aggregate assets and liabilities of associates is as follows:		
Current assets	119.8	108.4
Non-current assets	114.9	125.0
Total assets	234.7	233.4
Current liabilities	97.5	83.5
Non-current liabilities	73.2	88.3
Total liabilities	170.7	171.8
Net assets – as report by associates	64.0	61.6
Adjustments arising from equity accounting:		
Goodwill (net of amortisation)	4.3	4.8
Other adjustments	–	(1.0)
Net assets – equity accounting adjusted	68.3	65.4

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

32. 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:

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	8	4.75	121.9	–	–	–	–	121.9
Trade debtors	9	–	–	–	–	–	759.4	759.4
Short-term money market securities, term deposits and bills of exchange	9	4.68	–	1,894.0	–	–	–	1,894.0
Aircraft security deposits	9	6.25	64.0	50.8	58.8	14.6	6.8	195.0
Sundry debtors	9	–	–	–	–	–	177.3	177.3
Loans receivable	9	9.20	–	–	17.8	–	–	17.8
Net receivables under hedge/swap contracts ¹		–	103.6	179.5	127.9	665.0	–	1,076.0
Convertible loan note	11	–	–	–	–	–	89.7	89.7
			289.5	2,124.3	204.5	679.6	1,033.2	4,331.1
RECOGNISED FINANCIAL LIABILITIES								
Trade creditors	15	–	–	–	–	–	1,603.1	1,603.1
Other creditors and accruals	15	–	–	–	–	–	236.4	236.4
Bank loans – secured	16	3.14	1,256.5	57.9	273.1	569.0	–	2,156.5
Bank loans – unsecured	16	5.11	300.0	–	1,100.0	–	–	1,400.0
Other loans – secured	16	–	–	–	–	–	2.2	2.2
Other loans – unsecured	16	7.35	863.6	289.8	370.0	523.2	–	2,046.6
Finance lease and hire purchase liabilities	16	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)	(808.5)	(3,871.4)
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.

² Notional principal amounts.

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

32. Financial instruments continued

(a) INTEREST RATE RISK continued

2002	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	8	4.59	112.5	–	–	–	–	112.5
Trade debtors	9	–	–	–	–	–	1,346.7	1,346.7
Short-term money market securities, term deposits and bills of exchange	9	4.76	–	672.7	–	–	–	672.7
Aircraft security deposits	9	6.33	116.1	1.0	216.4	65.1	10.4	409.0
Sundry debtors	9	–	–	–	–	–	179.2	179.2
Loans receivable	9	9.20	–	–	19.0	–	–	19.0
Net receivables under hedge/swap contracts ¹		–	80.9	393.9	9.8	823.3	–	1,307.9
			309.5	1,067.6	245.2	888.4	1,536.3	4,047.0
RECOGNISED FINANCIAL LIABILITIES								
Trade creditors	15	–	–	–	–	–	1,916.8	1,916.8
Other creditors and accruals	15	–	–	–	–	–	282.4	282.4
Bank loans – secured	16	3.02	–	35.7	168.6	417.9	–	622.2
Bank loans – unsecured	16	4.40	500.0	–	900.0	–	–	1,400.0
Other loans – secured	16	4.97	4.2	–	–	–	–	4.2
Other loans – unsecured	16	7.92	11.6	310.4	320.0	620.7	–	1,262.7
Lease residual values	16	9.36	–	19.4	–	–	–	19.4
Finance lease and hire purchase liabilities	16	7.70	322.2	264.7	176.4	335.1	–	1,098.4
			838.0	630.2	1,565.0	1,373.7	2,199.2	6,606.1
Net financial liabilities			(528.5)	437.4	(1,319.8)	(485.3)	(662.9)	(2,559.1)
UNRECOGNISED FINANCIAL LIABILITIES								
Interest rate swaps ²			570.2	(395.2)	–	(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 loss on revenue back-to-back hedges.

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 10 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.

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

32. Financial instruments *continued*

(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 \$31.7 million (2002: loss \$75.9 million).

(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 2003, the amount of deferred or unrecognised gains on hedges of net revenue designated to service long-term debt is \$117.7 million (2002: loss \$206.2 million). As at 30 June 2003, the amount of deferred losses on other hedges totalled \$53.3 million (2002: loss \$109.2 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 2003, this amounted to \$759.4 million (2002: \$1,346.7 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 2003, the credit risk of the Qantas Group to other financial asset counterparties amounted to \$5,160.4 million (2002: \$5,301.8 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 note issued by Air New Zealand Limited is convertible to a 4.99 per cent equity stake. The fair value of the convertible loan note has 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 2003

32. Financial instruments continued

(f) NET FAIR VALUE continued

	Qantas Group Carrying Amount		Qantas Group Net Fair Value	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
RECOGNISED FINANCIAL INSTRUMENTS				
Financial assets				
Cash	121.9	112.5	121.9	112.5
Trade debtors	759.4	1,346.7	759.4	1,346.7
Short-term money market securities, term deposits and bills of exchange	1,894.0	672.7	1,900.0	674.8
Aircraft security deposits	195.0	409.0	203.4	434.6
Sundry debtors	177.3	179.2	177.3	179.2
Loans receivable	17.8	19.0	17.8	19.0
Net receivables under hedge/swap contracts	1,076.0	1,307.9	1,155.0	1,398.3
Convertible loan note	89.7	–	108.8	–
	4,331.1	4,047.0	4,443.6	4,165.1
Financial liabilities				
Trade creditors	1,603.1	1,916.8	1,603.1	1,916.8
Other creditors and accruals	236.4	282.4	236.4	282.4
Bank loans – secured	2,156.5	622.2	2,208.0	614.9
Bank loans – unsecured	1,400.0	1,400.0	1,435.9	1,407.8
Other loans – secured	2.2	4.2	2.2	4.2
Other loans – unsecured	2,046.6	1,262.7	2,271.6	1,401.9
Lease residual values	–	19.4	–	20.9
Finance lease and hire purchase liabilities	757.7	1,098.4	794.3	1,152.2
	8,202.5	6,606.1	8,551.5	6,801.1
Net financial liabilities	(3,871.4)	(2,559.1)	(4,107.9)	(2,636.0)
UNRECOGNISED FINANCIAL INSTRUMENTS				
Financial assets				
Option contracts			23.2	12.5
Forward commodity contracts			15.7	2.9
			38.9	15.4
Financial liabilities				
Forward contracts			–	–
Interest rate swaps			(26.2)	(4.8)
			(26.2)	(4.8)

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
33. Employee benefits				
Employee benefit liabilities				
Provisions for employee benefits				
Current (refer Note 17)	345.7	338.4	304.1	294.7
Non-current (refer Note 17)	276.7	278.1	253.4	252.4
Staff redundancy provision – current (refer Note 17)	51.9	5.9	44.4	1.4
	674.3	622.4	601.9	548.5
Average full-time equivalent employees	34,872	33,044	27,966	26,768

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 28.

34. Dividends

Dividends recognised in the current year by Qantas are:

Type	Cents per Share	Total Amount \$M	Date of Payment	Tax Rate for Franking Credit %	Percentage Franked %
2003					
Interim – ordinary	8.0	140.5	9 April 2003	30	100
2002 final ordinary dividend recognised when declared during the year. Refer Note 1(b).	9.0	140.7	2 October 2002	30	100
Total amount	17.0	281.2			
2002					
Interim – ordinary	8.0	124.1	10 April 2002	30	100
Final – ordinary	9.0	140.7	2 October 2002	30	100
	17.0	264.8			

SUBSEQUENT EVENTS

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

Final – ordinary	9.0	159.7	1 October 2003	30	100
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Dividend franking account	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
Total franking account balance at 30 per cent (2002: 30 per cent)	179.2	174.5	41.2	17.1

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.

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

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

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

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

35. Segment information

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

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

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

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

35. Segment information continued

Passenger, freight and other services revenue from domestic services within Australia is attributed to the Australian area. Passenger, freight and other services revenue from inbound and outbound services between Australia and overseas 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.

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

SEGMENTAL ANALYSIS OF NET ASSETS AND PROFIT CONTRIBUTION

For the financial year ended 30 June 2003, the principal assets of the Qantas Group comprised the aircraft fleet, all, except one, of which were registered and domiciled in Australia. These assets are used flexibly across the Qantas Group's worldwide route network. Accordingly, there is no suitable basis for allocating such assets and the related liabilities between geographic areas.

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

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

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

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

	Qantas Group	
	2003 Cents	2002 Cents
36. Earnings per share		
Basic earnings per share based on net profit attributable to members of the Company	20.0	29.1
Diluted earnings per share based on net profit attributable to members of the Company	19.8	28.9

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

	Qantas Group	
	2003 Number M	2002 Number M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,721.2	1,469.4
Weighted average number of ordinary shares used in the calculation of diluted earnings per share*	1,733.3	1,481.9

* Includes the effect of 36.4 million Executive Entitlements, which has a dilutive earning per share impact of 12.1 million ordinary shares.

37. Events subsequent to balance date

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

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
38. Notes to the statements of cash flows				
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	88.6	26.0	66.7	(12.0)
Cash at call	33.3	86.5	32.9	86.5
Short-term money market securities and term deposits	1,894.0	672.7	1,894.0	672.7
Other current loans	–	–	–	(397.3)
	2,015.9	785.2	1,993.6	349.9
RECONCILIATION OF PROFIT FROM OPERATING ACTIVITIES AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net profit after tax attributable to members of the Company	343.5	428.0	372.5	234.4
Add: depreciation and amortisation	891.4	693.5	774.2	568.6
Add: loss/(profit) on sale of aircraft, engines and spares	12.4	(2.7)	12.6	(2.8)
Add: loss/(profit) on sale/disposal of property, plant and equipment	–	(1.9)	0.1	(1.8)
Add: loss on scrapping of aircraft spares	47.8	49.1	46.6	47.8
Add: loss/(profit) on sale of investments	–	(31.2)	–	(17.3)
Less: capitalised interest	(82.7)	(77.0)	(82.7)	(77.0)
Less: share of associates' net profit	(9.6)	(36.1)	–	–
Add: dividends received from associates	6.7	12.8	–	–
Add: other items	66.7	(162.7)	(36.8)	486.0
Movements in operating assets and liabilities:				
(Increase)/decrease in receivables	590.4	(130.1)	625.9	(210.8)
Increase in inventories	(44.9)	(52.5)	(58.4)	(35.6)
Increase in other assets	(63.5)	(42.7)	(27.7)	(47.7)
Increase/(decrease) in provisions	54.1	(18.4)	54.3	(17.7)
Increase/(decrease) in current tax liabilities	(82.6)	86.7	(64.1)	77.6
Increase in deferred tax assets	(10.0)	(3.8)	(14.6)	–
Increase in deferred tax liabilities	78.3	28.6	88.1	7.7
Increase/(decrease) in trade/other payables	(306.9)	366.9	(265.7)	308.4
Increase/(decrease) in revenue received in advance	(126.8)	93.3	(121.9)	75.0
Decrease in deferred lease benefits	(66.0)	(50.0)	(57.8)	(38.9)
Decrease in other liabilities	(7.5)	(6.5)	(7.5)	(6.2)
Net cash provided by operating activities	1,290.8	1,143.3	1,237.1	1,349.7

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
38. Notes to the statements of cash flows continued				
ENTITIES ACQUIRED DURING THE YEAR				
Consideration	-	26.0	-	-
Cash acquired	-	(3.6)	-	-
	-	22.4	-	-
FAIR VALUE OF NET ASSETS OF ENTITIES ACQUIRED				
Property, plant and equipment	-	53.3	-	0.1
Deferred tax assets	-	2.4	-	0.2
Cash	-	3.6	-	-
Inventories	-	5.0	-	-
Receivables	-	9.8	-	1.2
Bank loans	-	(82.1)	-	-
Payables	-	(92.5)	-	(1.5)
Deferred tax liability	-	(12.5)	-	-
Provision for restructuring	-	(8.8)	-	-
Other provisions	-	(3.4)	-	-
	-	(125.2)	-	-
Goodwill on acquisition	-	151.2	-	-
Consideration cash	-	26.0	-	-

Qantas Defence Services Pty Limited acquired QDS Richmond Pty Ltd on 22 May 2003 for a negligible purchase price.

In the year to 30 June 2002, Qantas Airways Limited acquired Australian Wetleasing Operations Pty Limited for a negligible purchase price and Caterair Airport Services Pty Limited acquired Airport Infrastructure Finance Pty Limited for a negligible purchase price.

On 21 November 2001, Australian Regional Airlines Pty. Ltd. acquired Impulse Airlines Holdings Proprietary Limited and its controlled entities for a total purchase price of \$26.0 million. As a result of this acquisition, goodwill on acquisition of \$150.8 million was recognised by the Qantas Group.

FINANCING FACILITIES

A 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 2003

38. Notes to the statements of cash flows continued

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
COMMITTED FINANCING FACILITIES				
Bank overdraft				
Facility available	7.0	7.0	7.0	7.0
Loan note facility comprising:				
Syndicated term loan of various maturities				
Facility available	1,400.0	1,400.0	1,400.0	1,400.0
Amount of facility used	1,400.0	1,400.0	1,400.0	1,400.0
Amount of facility unused	–	–	–	–
Syndicated standby facility				
Facility available	700.0	683.5	700.0	683.5
Amount of facility used	–	–	–	–
Amount of facility unused	700.0	683.5	700.0	683.5
Bank loan facility				
Facility available	388.7	239.4	388.7	239.4
Amount of facility used	388.7	–	388.7	–
Amount of facility unused	–	239.4	–	239.4
Commercial paper				
Facility available	1,000.0	1,000.0	1,000.0	1,000.0
Amount of facility used	449.8	320.0	449.8	320.0
Amount of facility unused	550.2	680.0	550.2	680.0

The syndicated term loan amortises between 3 November 2003 and 3 May 2006. The syndicated standby facility expires between 22 April 2004 and 22 April 2008. The bank loan facility has a maturity of 9 January 2005.

39. Related party transactions

DIRECTORS

The names of persons who were Directors of Qantas at any time during the financial year are as follows:

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

Information on remuneration, superannuation and retirement benefits of Directors is disclosed in Note 5.

Apart from the details disclosed in this note, no Director has entered into a material contract with Qantas or the Qantas Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

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

39. Related party transactions *continued*

DIRECTORS' HOLDINGS OF SHARES

The relevant interests of the Directors of Qantas and their Director-related entities in shares of entities within the Qantas Group as at 30 June 2003 are set out below:

	Number Held	
	2003	2002
Qantas Airways Limited ordinary shares, fully paid	439,558	312,743
Indirect interest in ordinary shares, held in trust	400,000	–

DIRECTORS' TRANSACTIONS IN SHARES

Executive Directors participate in the Qantas Long-Term Executive Incentive Plan and the Qantas Long-Term Deferred Share Plan which provides Executives with entitlements to be issued shares in Qantas. Further details are disclosed in Note 19.

OTHER TRANSACTIONS OF DIRECTORS AND DIRECTOR-RELATED ENTITIES

A number of Directors of Qantas also hold directorships with other corporations which provide goods or services to the Qantas Group in the ordinary course of business on normal terms and conditions and are considered to be trivial in nature. None of these Directors exercises significant influence with those corporations nor derives any direct personal benefit from the transactions between the Qantas Group and these other corporations.

During the financial year, Qantas paid a premium on normal commercial terms and conditions to insure all Directors of Qantas (as listed on page 50), all Directors of related parties of Qantas and other officers of Qantas and its related parties against liabilities incurred in their capacity as Director or officer, as the case may be, of Qantas or any related parties.

In addition to the transactions referred to above, transactions were entered into during the financial year with the Directors of Qantas and its controlled entities or with Director-related entities, which:

- ▶ occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the Director or Director-related entity at arm's-length in the same circumstances;
- ▶ do not have the potential to adversely affect decisions about the allocation of scarce resources or the discharge of responsibility of the Directors; or
- ▶ are trivial or domestic in nature, and include travel and accommodation discounts obtained from time to time by Directors, some of which are through agreements entered into by the Qantas Group.

Certain travel benefits are available on similar terms and conditions as those offered to other employees of the Qantas Group. All remuneration levels are determined with reference to external professional advice taking into account market levels of remuneration. All benefits are included in the aggregate amount of remuneration disclosed in Note 5.

CONTROLLED ENTITIES

Details of interests in controlled entities are set out in Note 29. 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 investment services to controlled entities;
- ▶ Qantas leases aircraft to Australian Airlines and provides ground handling services to both Australian Airlines and QantasLink;
- ▶ QantasLink and Australian Airlines lease freight capacity to Qantas;
- ▶ Qantas Flight Catering Holdings Limited and controlled entities provide airline catering and ground handling services to Qantas, Australian Airlines and QantasLink;
- ▶ QH Tours Limited and controlled entities and Qantas act as an agent for each other's products;
- ▶ Southern Cross Insurances Pte Limited provide insurance services to Qantas; and
- ▶ AAL Aviation Limited and controlled entities assist in the hiring of aircraft capacity.

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

39. Related party transactions *continued*

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

	Qantas	
	2003 \$M	2002 \$M
Sales and operating revenue (refer Note 2)	147.4	63.7
Dividend revenue (refer Note 2)	219.2	–
Interest received/receivable (refer Note 2)	0.7	3.3
Borrowing costs paid/payable (refer Note 3)	50.6	13.9
Current receivables (refer Note 9)	87.2	277.4
Non-current receivables (refer Note 9)	1,731.0	1,506.5
Current payables (refer Note 15)	74.7	81.5
Current interest bearing liabilities (refer Note 16)	–	397.3
Non-current interest bearing liabilities (refer Note 16)	478.6	166.1

ASSOCIATES

Details of interests in associates are provided in Note 31. Transactions with associates are conducted on normal terms and conditions. Transactions between Qantas and associates include:

- ▀ Qantas provides ground handling services and perform maintenance and contract work for Air Pacific and Australian air Express;
- ▀ Qantas leases all domestic freight capacity and sublet 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
- ▀ Until June 2003 Qantas leased one Boeing 747-238B aircraft to Air Pacific.

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

	Qantas Group		Qantas	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
Sales and operating revenue (refer Note 2)	103.8	68.3	108.3	79.6
Dividends received/receivable (refer Note 2)	–	–	1.2	2.5
Expenditure	69.8	75.4	69.8	75.4
Current receivables (refer Note 9)	18.4	24.1	19.3	24.1
Current payables (refer Note 15)	8.2	6.4	8.2	6.4
Current interest-bearing liabilities (refer Note 16)	12.2	11.6	12.2	11.6

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

39. Related party transactions continued

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. As a condition of the sale, British Airways entered into a 10 year Commercial Agreement with the Qantas Group to identify and develop potential synergies in their operations.

As a result of Institutional and Shareholder Equity Placements in September and October 2002, British Airways' ownership interest in Qantas was reduced to 18.75 per cent as at 30 June 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 **oneworld** 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 **oneworld** 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	
	2003 \$M	2002 \$M	2003 \$M	2002 \$M
Sales and operating revenue (refer Note 2)	20.2	31.9	11.7	15.4
Expenditure*	109.3	186.8	104.6	182.0
Current receivables (refer Note 9)	59.5	72.4	58.6	71.3
Current payables (refer Note 15)	102.4	119.2	102.4	119.2

* Includes settlement receipts/payments under the JSA.

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 53 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 2003 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 notes 29 and 30 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

Sydney, 1 September 2003



Geoff Dixon
Chief Executive Officer

INDEPENDENT AUDIT REPORT

to the Members of Qantas Airways Limited

SCOPE

We have audited the Financial Report of Qantas Airways Limited ("the Company") for the financial year ended 30 June 2003, consisting of the Statements of Financial Performance, Statements of Financial Position, Statements of Cash Flows, accompanying notes, and the Directors' Declaration set out on pages 2 to 54. The Financial Report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's Directors are responsible for the Financial Report. We have conducted an independent audit of this Financial Report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the Financial Report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Financial Report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the Financial Report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

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 consolidated entity's financial position as at 30 June 2003 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 professional reporting requirements in Australia.



KPMG



Mark Epper
Partner

Sydney, 1 September 2003

CORPORATE DIRECTORY

REGISTERED OFFICE

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GENERAL COUNSEL &
COMPANY SECRETARY

Brett Johnson

FINANCIAL CALENDAR

2003

20 February	Half year result announcement
12 March	Record date for interim dividend
9 April	Interim dividend payable
30 June	Year end
21 August	Preliminary final result announcement
3 September	Record date for final dividend
1 October	Final dividend payable
16 October	Annual General Meeting, Adelaide

2004

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

NOTICE OF MEETING

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



Qantas Airways Limited ABN 16 009 661 901

[qantas.com](https://www.qantas.com)