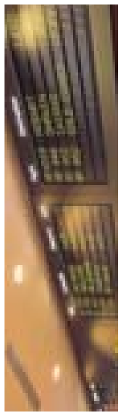
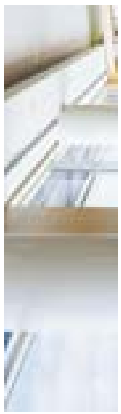
Qantas Annual Report 2005

Spirit of Australia

> Our Customers
Our Future
Our Brand
Our Business
Our Priority



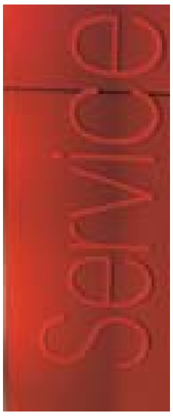



Cityflyer

~Our Customers~







1~

Customers are at the centre of everything we do

This year, we carried more than 32 million people to 145 destinations in 40 countries around the world.

Our goal is to give each customer the best possible travel experience, from the time they choose to fly with us to when they arrive at their ultimate destination.

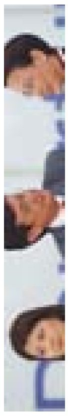
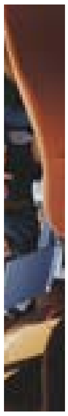
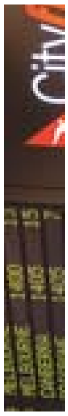
We are continually refining our products and services in the air and on the ground to ensure we not only fulfil our customers' expectations but anticipate how their expectations will change in the future.

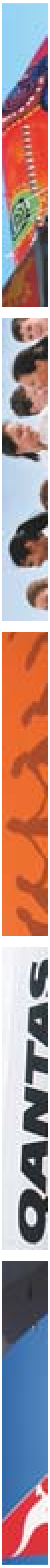
This can be as simple as offering free newspapers on City***flyer*** morning services or as complex as revolutionising the Economy Class cabin on our new A380 aircraft to ensure maximum comfort on our longest flights.

We know that different travellers have different needs, which is why we offer different experiences for the business traveller, the leisure traveller, the regional flyer and, with Jetstar, a whole new group of customers who are first-time flyers.

Our attention to customer service has paid off. This year, in the world's largest airline passenger survey, the Skytrax World Airline Awards, Qantas was named the number two airline in the world as well as the Best Airline Australasia and Best Airline trans-Pacific.





~Our Brand~

2~

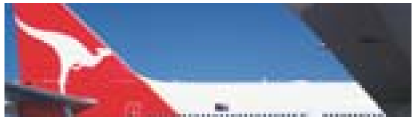
Our brand takes the Spirit of Australia to the world

Qantas is one of Australia's best known brands and the Qantas tail is one of the most evocative symbols of Australia at home and around the world.

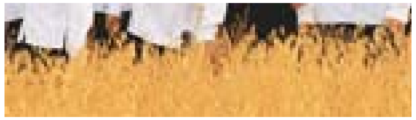
Our relationship with Australia has been built over 85 years of serving the community and, today, our airline holds a unique position in the hearts of Australians.

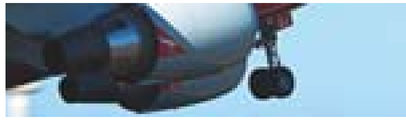
We have always been more than just an airline. The Spirit of Australia has provided emergency support for decades – from partnering with the Royal Flying Doctor Service in the early years, to operating supply drops and evacuation flights in World War II, to providing free flight and freight assistance for stranded Australians and local communities in Asia following the 2004 Boxing Day tsunami.

Our brand encompasses a community spirit, a pioneering nature, a professional style of service, a tradition of safety excellence and a reputation for innovation – all delivered with a distinctly Australian personality.

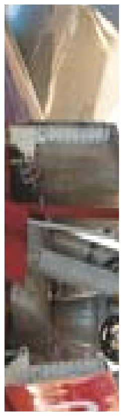


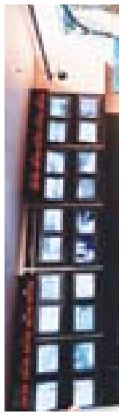

Spirit of Australia






MELBOURNE 2006
XVIII COMMONWEALTH GAMES
VH-VYE





~Our Priority~

3~

There is no greater priority than safety and security

Our reputation for safety is unparalleled.

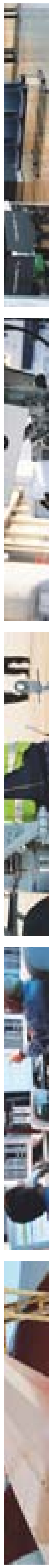
Behind our commitment to safety is a team of dedicated professionals with unrivalled expertise in the aviation industry. The Qantas Safety department includes highly motivated and experienced staff in the areas of flying operations, safety management and incident investigation.

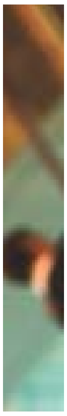
Qantas is renowned for the most exacting standards in engineering and pilot training. We extend those standards to our cabin crew, with thorough training in safety, medical and emergency procedures.

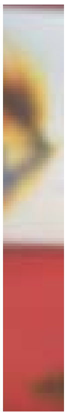
Our security is among the best in the industry. Some 90 security experts from backgrounds including police services, security agencies and the armed forces – backed up by a 1,500-strong team of security officers in Australia – protect our customers and staff.

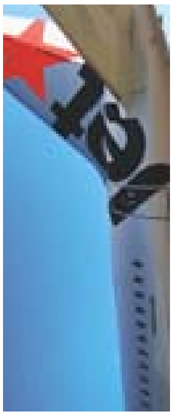
We are continually upgrading and modifying our procedures to meet changing circumstances as we work closely with governments, regulators and airport authorities in Australia and overseas to ensure we remain the safest and most secure airline in the world.

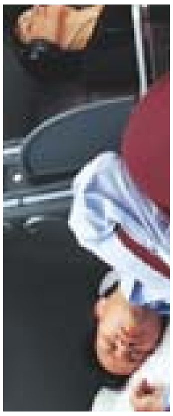
The safety and security of our customers, staff and aircraft, in the air and on the ground, is our number one priority.











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Investment and innovation help shape our future

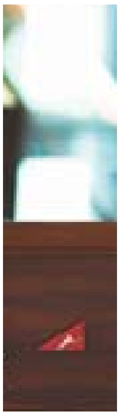
We have a long history of innovation – Qantas was the first and only airline to build its own aircraft in 1926, the pioneer of round-the-world services in 1958 and the inventor of Business Class in 1979.

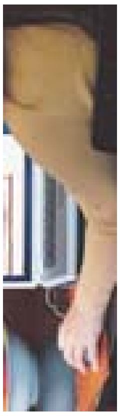
In 2007, we will start a new chapter of innovation, with state-of-the-art product and interiors on our new A380s providing unsurpassed levels of comfort and entertainment.

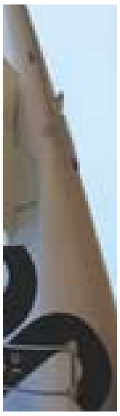
The A380 is the cornerstone of our ambitious $18 billion 10-year investment program, embarked on in 2000. As well as new aircraft, the program includes inflight product, terminal developments and airport lounges that are among the best in the world for business or relaxing.

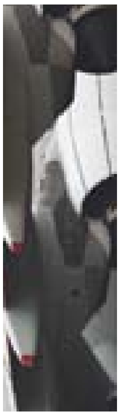
Investment in technology allows Qantas to provide customers with the best possible service, whether it is Australia's most visited travel website with 15 million visitors a month or our QuickCheck kiosks that allow customers to check-in in under a minute.

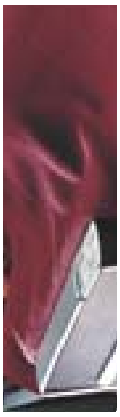
We will continue to invest in the most up-to-date innovations to enable Qantas to offer a premium end-to-end experience for customers.





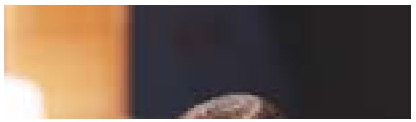
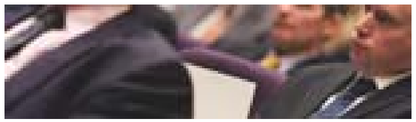
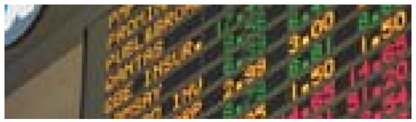
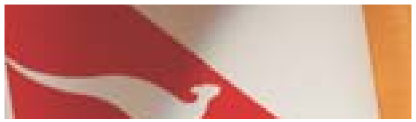
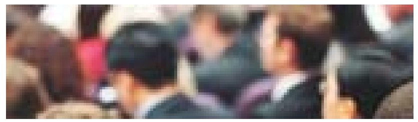




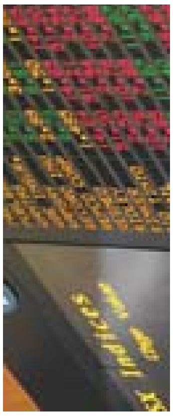


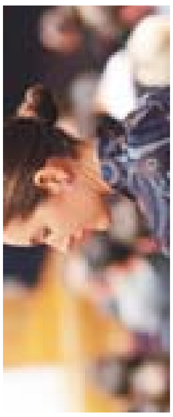
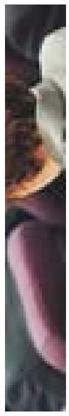

AIRBUS
FLIGHT TEST

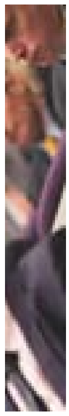

ASX
STOCK
PMP LTD
PROMINA
PUBL&BROAD
QANTAS
QBE INSUR.
RAMSAY
RECORD INV
REPCO CORP
RESMED
RIDLEY



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Being a good business is as important as being a great airline

In an industry that has lost more than US$35 billion since 2001, Qantas is one of a very small number of airlines that has been consistently profitable.

Qantas is as committed to providing good returns for shareholders as it is to providing the best product and service for its customers.

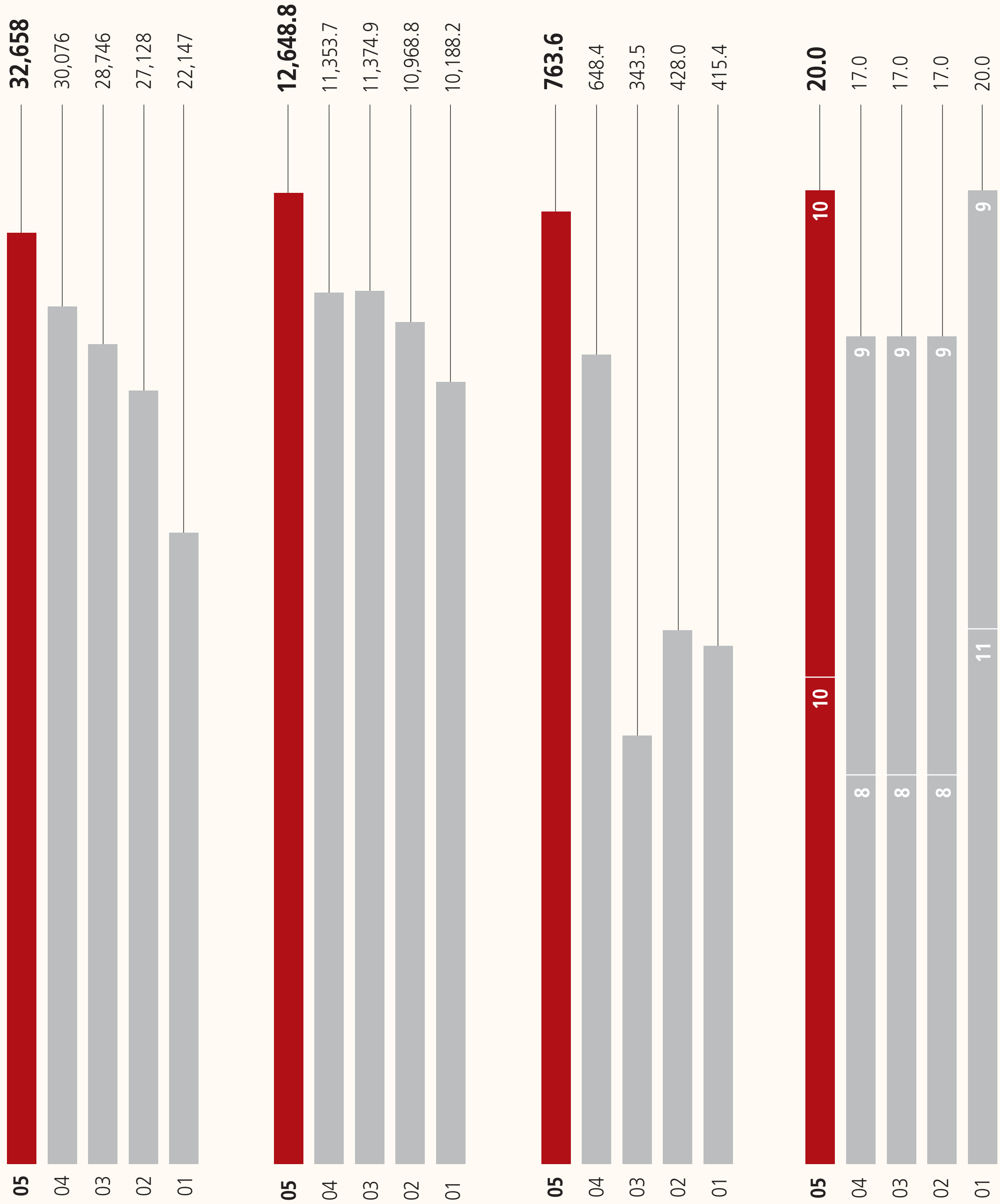
Because growth is fundamental to our business, Qantas is looking for profitable expansion in high-yield full-service markets in Australia and internationally. At the same time, we are growing our value-based airlines, such as Jetstar, to compete effectively in leisure markets.

Qantas is also pursuing growth opportunities in associated businesses to diversify earnings sources and provide a buffer against the cyclical nature of its flying businesses.

We realise that cost control is essential to our business and have achieved cost and efficiency savings of $1 billion in the past two years. We will continue to target a further $2 billion in savings over the next three years.

Since listing on the Australian Stock Exchange in 1995, Qantas has provided total shareholder return of more than 340 per cent.

~Performance Highlights~



Passengers Carried (000)

Sales and Operating Revenue ($M)

Net Profit Attributable to Members of Qantas ($M)

Ordinary Dividends (Cents per Share)

~Report from the Chairman and Chief Executive Officer~

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

In the decade since its privatisation, Qantas has delivered consistent returns to shareholders, employed large numbers of Australians and provided international and domestic aviation services that are regarded as being among the world's best.

To our fellow shareholders

Qantas celebrated an important milestone on 31 July 2005 – the 10th anniversary of its listing on the Australian Stock Exchange.

As well as dealing with the huge cultural, financial and operational changes associated with the transition from a government-owned company to a fully-privatised business, Qantas has weathered one of the most turbulent periods in aviation, particularly in the past five years.

Since privatisation, Qantas has grown revenue by 77 per cent and provided total shareholder return of more than 340 per cent.

Over the past 10 years, Qantas has also:

- grown staff numbers by almost 30 per cent from 30,000 in 1995 to more than 38,000 today;
- more than doubled the number of passengers carried each year, from 16 million in 1995 to more than 32 million in 2005;
- increased the number of flights it operates from 1,900 services a week (including 250 international services) to more than 5,000 a week (including 600 international services);
- expanded its network significantly from 86 destinations in 24 countries, including 48 in Australia, to 145 destinations in 40 countries, including 62 in Australia; and
- grown its fleet by 47 per cent, from 136 aircraft to 200.

THIS YEAR'S RESULTS

In 2004/05, Qantas responded extremely well to ever-increasing competition, rapidly escalating oil prices and a heightened security environment to achieve a record profit.

Qantas reported a profit before tax of $1,027.2 million for 2004/05, a 6.5 per cent increase on last year's result of $964.6 million. Net profit after tax was $763.6 million, up 17.8 per cent from last year. Revenue for the year totalled $12.6 billion, an increase of $1,295 million or 11.4 per cent.

The Directors declared a fully franked final dividend of 10 cents per share. Dividends for the full year total 20 cents per share, three cents higher than last year.

The main drivers of Qantas' record result included:

- the successful introduction of Jetstar, which provided Qantas with strong competitive business models in all sections of the domestic market – full-service, value-based and regional;
- an improvement in yields, excluding the unfavourable impact of foreign exchange rate movements, of 2.0 per cent;
- cost and efficiency savings of $545 million from the Sustainable Future Program (SFP);
- a unit cost reduction, before the impact of unfavourable fuel cost movements, of 5.8 per cent; and
- a continued investment in product and service.

This year, in an increasingly competitive market, Qantas has achieved valuable recognition from customers, being voted the number two airline in the world in the 2005 Skytrax World Airline Awards. This is the world's largest passenger survey with 12.3 million respondents from 90 nationalities.

STRATEGIC IMPERATIVES

While Qantas has put many challenges behind it, new challenges are appearing. In fact, Qantas expects these challenges to grow, driven by three key factors that

~Report from the Chairman and Chief Executive Officer~

are outside our control – the extraordinary cost of fuel, escalating security charges and increasingly intense competition from other airlines.

Qantas' greatest challenge remains the cost of fuel, which we believe will stay at the current high levels.

Fuel in 2004/05 was 19 per cent of the Group's total operating costs, up from around 15 per cent in 2003/04. It will increase to almost 30 per cent of our total operating costs in 2005/06.

At current prices, the Qantas fuel bill will rise by more than $1.25 billion in 2005/06 after hedging. Fuel surcharges will contribute to partially offset this increase. However, we still face a $650 million shortfall at current prices compared to last year.

Over the past three years, segmentation of the business and SFP have provided the platform for our success. Qantas now needs to further transform its business to secure another permanent reduction in its cost base in line with the new levels of fuel prices facing the industry.

SFP had targeted savings of $1.5 billion over three years to 2005/06. Additional savings of up to $1.5 billion will now be required over the following two years to 2007/08 due to continued high oil prices.

We have reviews under way in all areas and face some difficult decisions going forward to accelerate the transformation of our business and secure Qantas' future.

This will involve some job losses over the next two years but we will be looking at every other available option to improve efficiency.

None of the problems Qantas currently faces are insurmountable. Qantas has been more successful than most airlines in responding to change in the industry over the past few years and has every intention of maintaining that success.

A YEAR OF GROWTH

Qantas' success in recent years has been achieved by growing all its flying businesses, while using that growth as the catalyst for substantially reducing unit costs.

- Qantas continued to invest in new international routes during the year, commencing flights to Mumbai in September 2004 and Shanghai in December 2004. Qantas also opened a new Kangaroo Route option via Hong Kong, commenced flights between Adelaide and Auckland and added capacity on routes to the USA.
- Qantas improved its profitability in the domestic market and added capacity on key business and long-sector routes. Western Australia and Queensland saw significant capacity increases.
- Jetstar lowered its cost base in the second half of the year to 7.62 cents per ASK, making it the lowest cost carrier in Australia, even with a mixed fleet. As additional A320s are introduced to the fleet, Jetstar's cost advantage over the competition is expected to increase further, giving it an enviable position from which to grow both in Australia and internationally.
- QantasLink made its biggest ever single investment in the regional turboprop fleet with the acquisition of seven new Bombardier Q400 aircraft for delivery from January 2006.

The new Qantas cabin crew base in London opened in February 2005. Establishing this base has enabled Qantas to achieve efficiencies in flying and reduce costs by $18 million a year. At the same time, the base has provided career opportunities for Australian Flight Attendants, with half of the 400 staff at the London base having relocated from Australia.

The roll-out of the award-winning Skybed continued. Skybed will be available to all Business Class passengers on all international 747-400 and A330-300 aircraft by the end of 2005.

The Qantas Frequent Flyer program, one of the most popular loyalty programs in the region, grew by eight per cent to 4.3 million members worldwide. A range of changes were introduced during the year, aimed at providing members with increased flexibility while continuing to offer a viable and competitive Frequent Flyer program that rewards our most frequent travellers.

Continuing investment in qantas.com is helping Qantas meet the growing demand from customers for online self-service. Improvements during the year included:

- better online Frequent Flyer services for customers managing their points, making bookings and updating their account details;
- an expanded online fare range that now includes all fares on all flights;
- an improved search function allowing customers to search one week at a time for the best fare; and
- the introduction of simpler fare rules and better fare displays for international bookings.

THE YEAR AHEAD

Qantas will base its growth in the next 12 months on new international markets, while expanding existing profitable markets, substantially increasing freight revenues and expanding the Jetstar brand.

Qantas will continue investment in new destinations like China, with an additional service to Shanghai to start from November 2005 and new services to Beijing from January 2006.

We are also continuing to invest in established international markets such as the USA, including new Qantas services to San Francisco commencing in March 2006, which will increase Qantas services to mainland USA to a record 39 per week.

The airline's support for Australian tourism is being underpinned by a new $60 million destination marketing partnership with Tourism Australia – a three-year commitment from 2005/06 to grow Australia's tourism business from all major overseas regions.

Other key focus areas for the coming year include:

- continuing efforts to deliver market-leading on-time performance in all flying businesses, with a range of initiatives to be rolled out in 2005/06;
- investing in airport product, with a major expansion and enhancement of QuickCheck kiosks throughout Australia;
- growing Jetstar Asia, which is poised to secure a strong position in the Asia value-based airline market following its merger with Valuair; and
- increasing portfolio diversification through continued growth of air freight businesses.

FLEET FOR THE FUTURE

Qantas' last major fleet commitment was announced in November 2000. It included the purchase of 12 A380, six 747-400ER and 13 A330-200 and A330–300 aircraft.

Since then, the Qantas Group has also purchased additional 737-800 aircraft as well as 23 A320s (three of which are leased) for operation by Jetstar.

Qantas holds options on the A320 and the 737-800, which will cover domestic growth and the possible need to replace the 737-400 fleet in the future.

Qantas has now taken the first step in what will be the Group's largest fleet renewal program since 2000, issuing a Request for Proposal to aircraft manufacturers in August 2005 for the future provision of new wide-body aircraft.

These aircraft will potentially replace the Group's fleet of medium wide-body 767-300 aircraft and also cater for international capacity growth and new route opportunities in coming years – including medium-haul routes in Asia as well as services into the USA and Europe.

Qantas is seeking detailed pricing and performance information from Airbus and Boeing on aircraft types currently in production as well as new types and variants under development: the 787 and A350 aircraft for possible use on international, trans-Tasman and Australian domestic routes; and the ultra-long range variants of the 777 and A340 to operate on "hub-busting" routes.

This move is consistent with Qantas' commitment to offering customers a modern fleet that also delivers maximum flexibility to address emerging opportunities, lower seat mile costs, greater fuel efficiency and opportunities to introduce the next generation of inflight services.

The new aircraft options will complement Qantas' A380 strategy. The A380 – the biggest passenger aircraft in the world – will enable Qantas to add capacity on key routes that are slot-constrained.

Qantas is progressing preparations for the delivery of its first A380 in April 2007, following the six-month delay in delivery advised by Airbus during the year. Qantas remains on track and on budget for all aspects of the program.

ENSURING SECURITY

Qantas' focus on security for the safety of customers and their baggage, staff and assets has never been greater.

Qantas is at the forefront of aviation security, having invested more than $600 million in security measures over the past three years. Qantas is continually upgrading and modifying procedures to meet changing circumstances.

Qantas already has more than 900 CCTV surveillance units in operation throughout Australia. Qantas responded to heightened community concern in 2004/05 by announcing it would install CCTV surveillance equipment throughout all the baggage handling areas at all Qantas owned or solely leased domestic terminals in Australia, in the holds of some aircraft and at other airport locations. The additional equipment will ensure, as closely as possible, 100 per cent coverage of key baggage areas in Qantas terminals.

Qantas works closely with government agencies and police forces on a wide range of security issues. Qantas moved quickly in support of the Australian Government's security initiatives announced in June 2005. Within a month, new measures were introduced at Sydney, Melbourne, Brisbane, Adelaide and Perth Airports, including:

- the closure of a significant number of airside access gates, including a 90 per cent reduction in Sydney;
- security inspections to cover all staff and their possessions, visitors and vehicles at the remaining entry/exit points; and
- increased uniformed security presence on the ramp and in baggage areas.

Additional measures at other airports are being introduced progressively after discussions with the Australian Government.

Qantas will continue to work with all governments and airport authorities to ensure the best possible security result.

ACCOUNTING PRACTICES

Qantas is adopting Australian Equivalents to International Financial Reporting Standards (A-IFRS) for 2005/06. The financial report for the half year to 31 December 2005 will be Qantas' first report under the new standards.

A-IFRS will not affect the Qantas Group's cash flows, credit ratings, dividend policy or economic management. Qantas does not expect any significant impact on future earnings or any change to capital management policies as a result of the change.

SHARING THE SPIRIT

February 2005 marked the first anniversary of Qantas' Sharing the Spirit community program.

More than 80 events were held around Australia in the first year, benefiting important charities such as the Starlight Children's Foundation, UNICEF, CARE Australia and Mission Australia.

~Report from the Chairman and Chief Executive Officer~

One of the important goals of Sharing the Spirit is to extend the reach of Qantas' sponsored organisations to regional Australia. This year, The Australian Ballet Dancer's Company, Bangarra Dance Theatre and the Sydney Dance Company all toured regional Australia under this initiative.

One of Qantas' staff volunteer organisations, the Qantas Cabin Crew Team, celebrated its 25th anniversary of offering practical assistance to communities around the world in October 2004.

One of our most exciting sponsorships in the coming year is Qantas' involvement as an Official Partner of the Melbourne 2006 Commonwealth Games.

Qantas and its staff again came to the assistance of communities following the devastation of the 2004 Boxing Day tsunami. Qantas donated flight and freight services as well as making direct financial contributions to major charities and the local communities affected.

Qantas made charitable cash donations totalling $1,429,712 in 2004/05. These included tsunami relief to UNICEF, CARE Australia, Oxfam and the Australian Red Cross ($1,000,000); Qantas Foundation Memorial Ltd ($110,000); Royal Children's Hospital ($105,421); CARE Australia ($25,875); and CanTeen ($23,850).

Qantas provided well in excess of $5 million of in-kind support for charitable and community concerns – donating the use of aircraft for charity flights, offering free and discounted airfares, carrying freight free of charge and assisting fundraising efforts at regional, State, national and international levels.

Qantas recently opened a permanent historical exhibition – Qantas Heritage Collection – at the Qantas Domestic Terminal (T3) at Sydney Airport to enable travellers and the community to enjoy artefacts and memorabilia drawn from thousands of items donated by passengers and staff over many years. It complements Qantas' support of the Qantas Founders Outback Museum in Longreach, Queensland.

OUR PEOPLE

For the second consecutive year, Qantas paid a one-off cash bonus to all eligible non-executive employees in acknowledgment of their contribution to Qantas' success.

Qantas is one of Australia's largest employers. Qantas employs more than 38,000 people, with well over 90 per cent of them in Australia.

Qantas is also one of the biggest employers of apprentices in Australia. There are more than 500 apprentices employed in engineering and maintenance at Qantas, including 100 who started in 2004/05.

Qantas remains committed to improving occupational health and safety for its people, with the objective of no injuries to anyone at any time. During the year, Qantas achieved 85 per cent implementation of its occupational health and safety program, an above-target result.

Injury rates decreased by 34 per cent over the 2003/04 figure. Days lost as a result of injuries have continued their steady downward trend, improving by more than 40 per cent over the past four years.

Response to the family-friendly initiatives Qantas introduced in August 2004 has been very positive. New parents have taken advantage of the 10 weeks' paid maternity leave and one week's paid paternity leave.

Qantas' on-site childcare facility in Mascot, the Joey Club, has been well patronised and additional centres will open in Melbourne and Brisbane next year.

BOARD CHANGES

Qantas appointed two new Independent Non-Executive Directors during the year. We welcomed Garry Hounsell, who joined the Qantas Board on 1 January 2005, and General Peter Cosgrove, who joined on 6 July 2005. Both appointments filled casual vacancies and strengthened the diversity and skill of the Qantas Board.

Following the sale by British Airways of its 18.25 per cent stake in Qantas in September 2004, British Airways-appointed Directors Nick Tait and Roger Maynard, who joined the Board in 1993, resigned. Trevor Eastwood retired on 31 March 2005. Trevor joined the Board soon after privatisation. Trevor, Nick and Roger all made tremendous contributions over the many years they served.

GOVERNMENT REVIEW

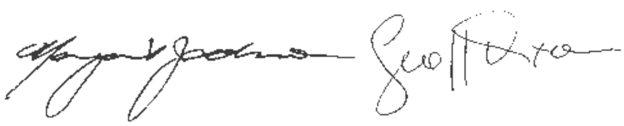
Qantas has welcomed the Australian Government's decision to conduct a review of aviation policy, which presents an opportunity to acknowledge the distortions that exist in the international market and the disadvantages and impediments faced by Qantas as an end-of-line carrier competing against the main hub players.

Qantas hopes the review will be wide ranging and will consider not only the pace and sequencing of market access liberalisation but also address broader issues that significantly impact Qantas' ability to grow and compete internationally.

Clear policy decisions and guidelines from the Government's deliberations will better enable Qantas to prepare for the future.

OUTLOOK

Qantas is performing strongly. The changes we have made to improve the efficiency of the business have been significant. However, the extraordinary cost of fuel will have a substantial ongoing impact on the Company. While further reforms in the business are under way and coupled with the high fuel price, Qantas does not expect to achieve the same levels of profitability in the current financial year.



Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

272 WGH

747-400 services to London via Hong Kong have boosted capacity on the Kangaroo Route

Flying Businesses

Qantas mainline

Qantas offers almost 600 international services a week to 83 destinations in 40 countries and has an extensive domestic network with more than 2,350 weekly services to 20 destinations in Australia.

NETWORK HIGHLIGHTS – INTERNATIONAL

- China: In December 2004, Qantas began three weekly services to Shanghai and announced that a fourth service would commence in November 2005. Qantas will offer daily non-stop services to China from January 2006 with the start of three weekly services to a second destination – Beijing, home of the 2008 Olympic Games. Within two years, Qantas expects to offer daily services to both Beijing and Shanghai in response to the growing trade relationship between Australia and China and increasing demand for leisure travel in both directions. Travel between China and Australia has increased more than 40 per cent in the past three years and is expected to grow a further 20 per cent in the next 12 months. In addition, the Qantas Group operates 31 services each week between Australia and Hong Kong which continues to be an important destination in its own right as well as a gateway for through traffic from mainland China.
- India: Qantas began three weekly services between Sydney and Mumbai in September 2004. Travel between Australia and India is on the rise with the number of Indians travelling to Australia expected to grow about 15 per cent per annum until 2010. The growing trade relationship is seeing an increasing demand for business travel with leisure travel also increasing.
- London via Hong Kong: The start of three weekly services from Sydney to London via Hong Kong in November 2004 further boosted capacity on the highly-competitive Kangaroo Route. A fourth weekly service will be added in November 2005, bringing the number of services between Australia and the UK to 28. Qantas has approval to operate a further three services to the UK via Hong Kong from April 2006 and offer daily services on the route.
- USA: Non-stop services between Melbourne and Los Angeles increased to eight in November 2004 and nine in February 2005, with a fourth weekly Brisbane to Los Angeles service added in July 2005. From March 2006, Qantas will add three non-stop services per week between Sydney and San Francisco. This will bring the total number of Qantas return services to mainland USA to a record 39 services per week – 32 of which are non-stop services.
- South Africa: In June 2005, it was announced that a fifth Sydney-Johannesburg service would operate year-round from December 2005, building on what has previously been a supplementary service over the December/January holiday period.
- Queenstown: Services have traditionally been added for the New Zealand ski season but will become a permanent operation between Sydney and Queenstown from October 2005 to accommodate the growing interest in Queenstown as a year-round holiday destination for Australians.
- Adelaide-Auckland: In December 2004, Qantas began three weekly services between these cities, providing the only non-stop flight. New Zealand is an important market, with Qantas offering more than 200 trans-Tasman services each week.

Qantas operates A330-300s to Hong Kong

- Korea: Qantas will operate 18 return services between Brisbane and Seoul from 28 December 2005 to 5 February 2006 to meet demand during the traditional New Year peak period from Korea.

Asia is a key international focus for Qantas. Asian tourists are predicted to be the single biggest factor in global tourism in the next two decades.

Qantas and its codeshare partners offer services to 11 countries in Asia: mainland China, Hong Kong, India, Indonesia, Japan, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

OTHER INTERNATIONAL DEVELOPMENTS

- In August 2004, Qantas began operating two-class A330-300s on international routes including Hong Kong, Shanghai, Singapore and Tokyo. The seven-strong fleet has become an integral part of international operations, offering 30 per cent more capacity than the smaller 767 aircraft it has replaced on these routes. All A330-300s are fitted with the Skybed sleeper seat in Business Class.
- Skybed is part of a $385 million investment in the international Business Class cabin. The Skybed upgrade continued this year with the sleeper seat to be available on all Qantas International 747-400 and A330-300 services by the end of this year.
- Qantas is investing billions of dollars in new aircraft for international flying including 12 A380s. Delivery of the first A380 aircraft is scheduled for April 2007. The A380s will initially operate on international services between Australia and the USA and on the Kangaroo Route to the UK.
- Qantas opened a cabin crew base in the UK in February 2005 which now employs around 400 flight attendants, including staff who relocated from Australia and those recruited locally. The London Flight Attendants are ambassadors for Qantas in this important market. They began flying between London and Bangkok in February, followed by Singapore and Hong Kong in April. The crew are receiving high satisfaction ratings from customers.

JETSTAR ASIA

Qantas has invested S$51 million to date in Jetstar Asia, a value-based intra-Asia carrier based in Singapore, which began flying in December 2004 with a fleet of four new A320s. Jetstar Asia has a network of six destinations but was unable to obtain operating permits to key cities in Indonesia and China despite having rights allocated by the Singaporean authorities. In July 2005, a new holding company was formed which owns and operates both Jetstar Asia and Valuair – Qantas owns 44.5 per cent of the new company. The two airlines are continuing to operate in their own right and participate in growth opportunities in the region. Together the airlines operate to eight countries in Asia – mainland China, Hong Kong, India, Indonesia, the Philippines, Singapore, Taiwan and Thailand.

A key feature for business travellers is City***flyer***

Flying Businesses

Qantas mainline continued

QANTAS SERVICES IN AUSTRALIA

The full-service Qantas domestic product features two-class aircraft, inflight meals, entertainment and a range of associated services.

Qantas co-ordinates its network and capacity with value-based airline Jetstar and regional carrier QantasLink to provide the best mix of product and service across Australia for business and leisure customers. This approach has enabled the Qantas Group to maintain a 65 per cent share of the total domestic market.

This year, Qantas has expanded its network of destinations, increasing services to existing destinations, adding capacity and providing seasonal increases through the use of larger aircraft.

Highlights have included:

- significant capacity increases for Western Australia with 10 additional domestic services from July 2005 comprising five extra Perth-Brisbane services, three additional Perth-Melbourne services, a third Perth-Cairns service and a second seasonal Broome-Sydney service; and
- 19 extra services to Queensland from July 2005, as well as the use of different aircraft types to provide seasonal increases and added frequency, from Brisbane and Cairns to a range of destinations including Adelaide, Perth and Sydney.

Qantas has continued to operate a series of longer-range, non-stop services introduced in mid-2004. These services are Perth-Canberra and Cairns-Perth, which operate year-round and Melbourne-Ayers Rock, Sydney-Broome and Melbourne-Broome, which are seasonal.

Qantas also continues to focus on the needs of frequent business travellers, offering products and services on the ground that complement its extensive network on major routes and full inflight service.

Support from business travellers during the year reaffirmed Qantas' position as the airline of choice for business travellers.

A key feature for business travellers is City***flyer*** which provides customers with high frequency services between Adelaide, Brisbane, Canberra, Melbourne, Perth and Sydney.

DOMESTIC ENHANCEMENTS

- A new policy for mobile phones and other portable electronic devices was introduced in June 2005 for domestic services. This policy was extended to international services in August 2005. Customers can use their mobile phones after they land and onboard prior to departure. "Flight mode" capable mobile phones and personal digital assistants (such as Blackberrys and Palm Pilots) can also be used inflight when the aircraft seat belt sign is extinguished after take-off and until the aircraft commences descent.
- In August 2004, a new domestic inflight service was introduced featuring the return of hot dinners in Economy Class and a choice of two dinners in Business Class. This enhanced inflight service provides customers with increased dining options and a selection of gourmet snacks.

The new Bombardier Q400 aircraft will be the flagship of the QantasLink fleet

Flying Businesses

QantasLink

Regional carrier QantasLink entered a new era in regional air travel during the year with the announcement of a major fleet replacement program for both jet and turboprop operations and expanded capacity across the network.

QantasLink currently operates around 2,000 weekly services nationwide and employs more than 1,000 people, a large number of whom are based outside capital cities.

In January, QantasLink announced its largest single investment in the regional turboprop fleet with the acquisition of seven new Bombardier Q400 aircraft worth $200 million. The 72-seat Q400s will be delivered from January 2006 and QantasLink has options and purchase rights over another 10 aircraft.

The Q400s will be the flagship of the fleet, offering a 44 per cent increase in capacity over the existing 50-seat Dash 8 300s. The aircraft have jet-like speed, improved passenger comfort and lower operating costs. These aircraft will complement a fleet of 33 Dash 8s including seven new Q300s purchased for more than $100 million and delivered in 2004. The airline's heavy maintenance base, where the fleet of Dash 8 aircraft is maintained, is located in Tamworth.

In October 2004, QantasLink announced its jet operations would progressively move from BAe146 aircraft to newer 717 aircraft from July 2005. The 717s are being released from Jetstar as the value-based carrier grows its fleet of A320s.

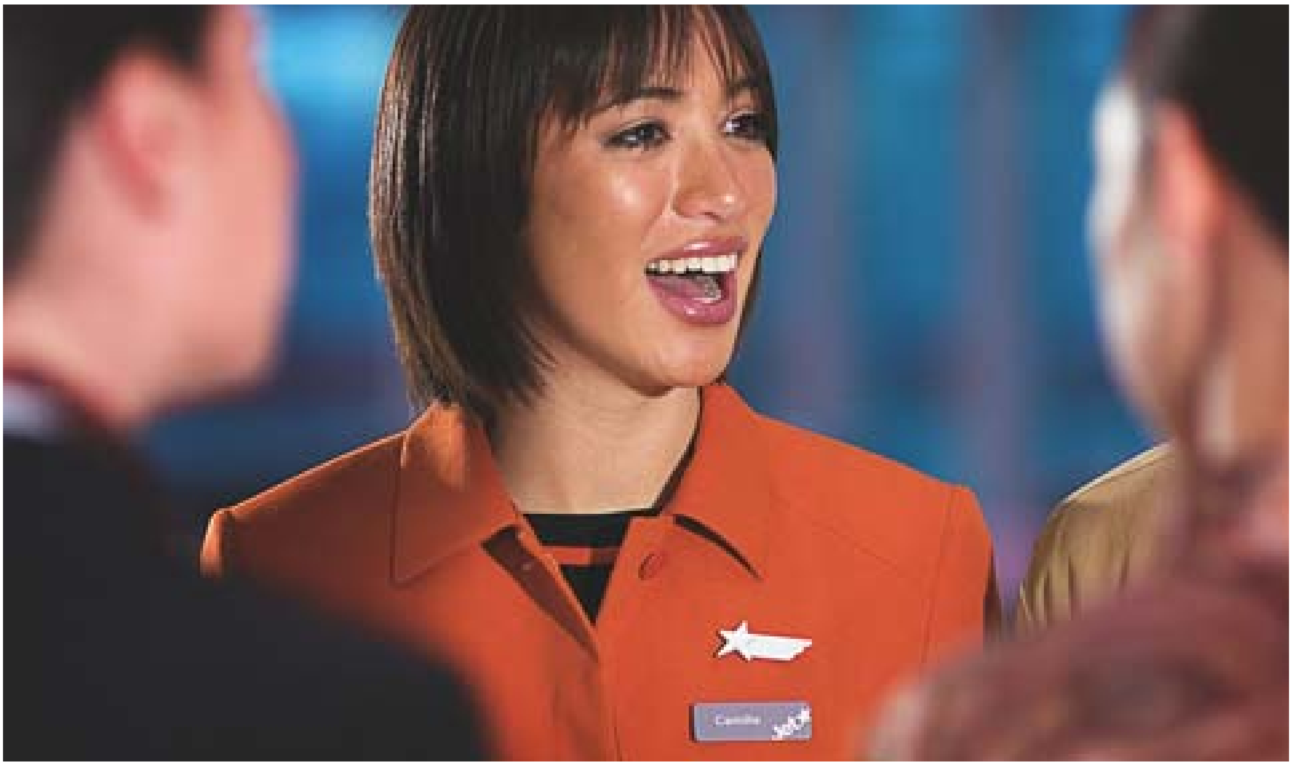
Eight 717s, operating in a 115-seat configuration, will replace eight 65- to 76-seat BAe146s during 2005/06, with two BAe146 aircraft remaining in the regional fleet until their leases expire in December 2006.

The larger 717s will provide extra capacity on regional routes in Western Australia, the Northern Territory and Queensland, allowing QantasLink to stimulate growth and offer more discount seats on these routes. An agreement was signed in June 2005 for National Jet Systems, which currently operates the BAe146 fleet, to operate and maintain the new QantasLink 717 regional flying operations from July 2005.

This investment in the regional fleet demonstrates Qantas' continued support for growth in regional Australia.

Other highlights included:

- the expansion of flying operations with increased capacity or greater frequency and more comprehensive schedules on key routes: Canberra-Sydney, Rockhampton-Brisbane, Bundaberg-Brisbane, Emerald-Brisbane, Tamworth-Sydney, Port Macquarie-Sydney and Perth-Kununurra;
- the start of scheduled services on QantasLink's newest route between Melbourne and Wollongong in June 2005; and
- new-style inflight dining featuring menu items from regional producers introduced in February 2005.



Jetstar has achieved its aim of encouraging more Australians to fly more often

Flying Businesses

Jetstar

When value-based airline Jetstar celebrated its first birthday in May 2005, it was already one of the leading consumer brands in Australia. The airline has achieved unprecedented brand recognition for a new entrant with customer recognition rated well above 90 per cent.

Jetstar has also achieved its aim of encouraging more Australians to fly more often. One in 10 customers is a first-time flyer and Jetstar is responsible for a sharp growth in passenger traffic on many of the domestic leisure markets to which it flies. Some markets have grown by as much as 250 per cent.

Jetstar currently operates around 130 services each day to 17 Australian destinations – or 900 weekly services – compared to almost 700 weekly services to 13 destinations when it was launched. This includes services to a secondary airport, Avalon, west of Melbourne.

In keeping with its cost structure, around 90 per cent of Jetstar's fares are distributed online, mostly at jetstar.com.

Jetstar carried more than four million passengers in its first full year. This was greatly assisted by the successful introduction last July of the A320. The 177-seat configured aircraft will replace Jetstar's original launch fleet of 14 717s, the first eight of which are being transferred to QantasLink. Nine A320s were introduced during this year and Jetstar will move to an all A320 fleet (23 aircraft) by mid-2006.

Jetstar employs more than 1,200 people.

HIGHLIGHTS

- In August 2005, Jetstar announced it would start flying internationally. Trans-Tasman services start from 1 December 2005, boosting Qantas Group seat capacity by 1,500 seats per week and operating from Christchurch to Melbourne, Sydney and Brisbane. Jetstar will also launch a new non-stop service between Christchurch and the Gold Coast. Jetstar will base two A320 aircraft in Christchurch, creating up to 100 jobs.
- From 30 October 2005, Jetstar's Australian network will increase to 18 destinations with the launch of Townsville services. Services to Ballina/Byron and the Fraser Coast (Hervey Bay) commenced in July 2005.
- In June 2005, Jetstar introduced portable video on demand units which are now available for rent on all A320 services. These units screen feature movies, popular TV shows and music videos.
- Jetstar launched Qantas Frequent Flyer benefits in March 2005. Frequent Flyers are able to earn points and status credits with the purchase of JetFlex fares.
- A new Qantas-marketed and Jetstar-operated free sale codeshare arrangement was launched in June 2005 as part of a package of new incentives for international wholesalers to purchase Jetstar fares.
- Heavy maintenance for the A320 fleet will be undertaken at Jetstar's national engineering base in Newcastle

Australian Airlines operates more than 100 services to 13 destinations in five countries

Flying Businesses

Australian Airlines

International leisure carrier Australian Airlines added new destinations and expanded services this year in the lead-up to its third anniversary in October 2005. Australian Airlines operates more than 100 services to 13 destinations in five countries with a fleet of five 767-300s. These destinations are Bali, Cairns, Darwin, Fukuoka, the Gold Coast, Hong Kong, Melbourne, Nagoya, Osaka, Perth, Sapporo, Singapore and Sydney.

Australian Airlines was established to maintain a presence in low-yielding international leisure markets where Qantas, with its higher costs, could not compete.

It differentiates itself in the leisure market by being a full-service international carrier with complimentary meals, beverages and inflight entertainment. It also allows Qantas Frequent Flyers to redeem points on its services.

Inbound tourism remains the main market for Australian Airlines with Japanese visitors accounting for more than one-half of all passengers the airline carries.

Australian Airlines offers the only non-stop services from Fukuoka, Nagoya and Sapporo to Australia, with services to Cairns, and the only non-stop service between Osaka and Cairns.

HIGHLIGHTS

- In August 2005, services to Nagoya increased from seven to nine. This brings the number of year-round Australian Airlines services between Japan and Cairns to 19.
- Australian Airlines added a 13th route in December 2004 with two weekly services from Perth to Bali. This is in addition to three services from Sydney and two from Melbourne. These services cater primarily for the outbound Australian and New Zealand markets.
- Between November 2005 and March 2006, the number of weekly services will increase to 21 with a second season of two weekly services between Sapporo and Cairns for the ski season. This route is focused on inbound traffic from Japan but also carries a significant number of Australians to the Sapporo ski fields.
- For the first time, Australian Airlines operated charter services to the holiday island of Phuket, Thailand, in conjunction with Qantas Holidays. These services, which are the only return non-stop services between Sydney and Phuket, operated in September and October 2004 and June and July 2005. The second season of charters was launched as part of Qantas Holidays' Rediscover Thailand campaign with the Tourism Authority of Thailand to support the post-tsunami recovery drive.
- Australian Airlines relaunched its website australianairlines.com in July 2005 and new crew uniforms will be introduced from December 2005.

Australian Airlines will focus on improving the profitability of its current network of routes while continuing to evaluate opportunities for new destinations.

The majority of Australian Airlines services operate to and from its hub and operational base in Cairns. Australian Airlines has created more than 400 jobs in Cairns and is one of the city's largest private enterprise employers. It contributes more than $800 million annually to the Queensland economy.

The A380 remains the centrepiece of the future fleet plan

Flying Businesses

Qantas Group Fleet

The Qantas Group is an industry leader in terms of fleet management – from selecting new aircraft to creating the best mix of aircraft types to meet diverse operational and commercial demands.

At 30 June 2005, the Qantas Group Flying Businesses operated a fleet of 200 aircraft.

The foundations of Qantas' long-term fleet plan were laid in November 2000 when the airline announced that it would purchase more than 40 new aircraft, including 12 A380s.

As a result of this decision and other fleet investments in recent years, 24 aircraft were brought into service during 2004/05:

- four A330-300s;
- six 737-800s;
- nine A320s;
- three Dash 8 Q300s; and
- two BAe146s.

The A380 remains the centrepiece of the future fleet plan. Qantas has 12 aircraft on order with options for further aircraft. As well as providing greater opportunities to expand capacity at slot constrained airports, the aircraft will allow Qantas to introduce the next generation of inflight products and services to customers.

The announcement by Airbus earlier this year that engineering and industrial issues would delay the delivery of the A380 to all customer airlines was disappointing news for Qantas. Work is on track on a wide-ranging, multi-business unit program that will see Qantas ready to take delivery of its first A380 in April 2007.

The Qantas Group has an established program of naming all aircraft in the Group's fleet after Australian towns, cities and regions. This calendar year, the Group will take delivery of nine 737-800 aircraft with names such as *Evandale*, *Australind* and *Eudunda*. Last year, 737-800 aircraft with the names *Narooma*, *Cape Otway* and *Arnhem Land* joined the Qantas fleet.

FLEET HIGHLIGHTS

- Qantas: In March 2004, Qantas announced it would acquire an additional five two-class 737-800s for domestic operations. The aircraft is more cost effective and fuel efficient than the 737-300s that are being progressively retired from the fleet. Six 737-800s were delivered during 2004/05. A further seven aircraft are due by the end of 2005, when the fleet will number 33.

  Qantas' first internationally configured A330-300 was delivered in June 2004, with a further three entering into service between July and November 2004. The final three aircraft, also destined for medium-haul international services, will be delivered between October and December 2005.

Jetstar will operate a single aircraft type – the A320 – by mid 2006

- Jetstar: In December 2003, it was announced that Jetstar would operate a single aircraft type – the A320 aircraft – by mid-2006. The value-based domestic carrier had commenced operations in May 2004 using 717 aircraft that had been operated by QantasLink. Nine A320s were introduced during the year and a further 14 A320s will be added to the fleet with the 717s being progressively returned to the regional fleet.
- QantasLink: With the Dash 8s now established as the key aircraft type in the Group's regional fleet, QantasLink announced in January 2005 that it would acquire seven new 72-seat Bombardier Q400s. The $200 million commitment is the largest single investment ever made in the regional turboprop fleet. These aircraft will be delivered from January 2006.

Under the Group's fleet renewal program, 14 aircraft were retired during the year:

- two 767-200s;
- six 737-300s;
- three Dash 8s; and
- three BAe146s.

OPERATIONAL AIRCRAFT FLEET (AS AT 30 JUNE 2005)

Operation	Aircraft Type	Owned, HP and Finance Leases	Operating Leases	Total in Service
Qantas	Boeing 747-400	16	8	24
	Boeing 747-400ER	6		6
	Boeing 747-300	6		6
	Boeing 767-300ER	14	10	24
	Boeing 737-800	27		27
	Boeing 737-400	21		21
	Boeing 737-300	11		11
	Airbus A330-200	4		4
	Airbus A330-300	7		7
QantasLink	Bombardier Dash 8	33		33
	British Aerospace 146		9	9
Jetstar	Boeing 717-200		14	14
	Airbus A320-200		9	9
Australian Airlines	Boeing 767-300ER	3	2	5
Total Qantas Group Fleet		**148**	**52**	**200**

The Qantas and British Airways Joint Services Agreement has been authorised for a further five years

Flying Businesses

Alliances

In an increasingly competitive international aviation environment, relationships with other airlines remained an important part of the Qantas Group's international strategy. Alliances with other carriers allow Qantas' operations overseas to build stronger feeder traffic for its domestic services, improve fleet utilisation and deliver the best possible product and access to the widest possible network.

Its foundation membership of **one**world remains the airline's key strategic alliance. **one**world brings together eight of the world's leading quality carriers: Aer Lingus, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, LAN and Qantas. The alliance provides customers with services to almost 600 destinations in more than 130 countries. It provides benefits that no individual member airline could offer on its own, from special fares and interline e-ticketing to Frequent Flyer points and lounge access.

While British Airways sold its Qantas shareholding in September 2004, the relationship between the two carriers remains strong. The Joint Services Agreement (JSA) continues to deliver synergies and economies of scale on the highly competitive Kangaroo Route. The ongoing commercial agreement sees the carriers co-operating on all of their services between Australia, South-East Asia, the UK and Europe, as well as feeding passengers onto each other's networks on non-JSA routes.

Qantas continues its separate bilateral alliances with American Airlines, Japan Airlines, and Air Pacific (in which Qantas holds a 46.3 per cent shareholding). Qantas currently codeshares with Aircalin, Air France, Air Niugini, Air Tahiti Nui, Air Vanuatu, Alaska Airlines, America West, Asiana, Cathay Pacific, China Eastern, EVA Air, Finnair, Gulf Air, LAN, Polynesian Airlines, South African Airways, Swiss International and Vietnam Airlines.

HIGHLIGHTS

- In 2004/05, the JSA was authorised for a further five years by the Australian Competition and Consumer Commission and Qantas' new services to the UK via Hong Kong were added to the agreement.
- A daily codeshare service between Paris and Singapore, operated by Air France, began in October 2004. The codeshare relationship with Air France allows Qantas to maintain a strong presence in the French market. Customers fly on Qantas' services between Australia and Singapore and then connect to daily Air France flights between Singapore and Paris.
- Since December 2004, Qantas has offered interline e-ticketing with all seven of its **one**world alliance partner airlines, allowing customers to travel on multiple carriers with the convenient use of just one electronic ticket. E-tickets offer numerous customer benefits – they cannot be lost or stolen, make checking in for a flight faster and allow for easier changes to bookings. E-tickets also provide significant cost savings for airlines with an estimated US$9 saved for each paper ticket eliminated.
- Air Malta and Qantas signed a codeshare agreement in March 2005 that will see Air Malta codeshare on Qantas services between London and Australia.

ETOMS provides a comprehensive range of services to the Qantas Group's flying businesses

Flying Services

Engineering Technical Operations and Maintenance Services

With an established international reputation for safety and operational excellence, the Qantas Group continues to operate one of the largest aircraft engineering and maintenance organisations in the Asia-Pacific region and one of the largest industrial organisations in Australia.

Today, Qantas Engineering Technical Operations and Maintenance Services (ETOMS) employs more than 6,000 people at maintenance facilities in Sydney, Melbourne, Brisbane, Adelaide and Avalon as well as at line stations across the country and locations overseas.

ETOMS provides a comprehensive range of services to the Qantas Group's flying businesses as well as external customers. These include:

- engineering and maintenance and supply chain and inventory management for wide- and narrow-body aircraft, engines and components;
- customised maintenance inspections and airframe repairs;
- aircraft interior and commercial product upgrades and refurbishments; and
- skills training.

ETOMS maintained a strong focus on occupational health and safety among its workforce during the year as part of a firm commitment to the safety of its people, the Qantas Group and other airline customers. This focus resulted in continuing reductions in workplace injuries during 2004/05.

ETOMS continued to work closely with aviation regulatory bodies as part of a total commitment to compliance and safety.

HIGHLIGHTS

- The major upgrade of an existing 747-400 open hangar in Sydney was completed during the year. A revolutionary retractable fabric door system is used to enclose the nose shelter facility, accommodating two aircraft at the same time.
- Work was completed on the installation of the International Business Class product, including Skybed and inflight entertainment enhancements, in the three-class 747-400 fleet.
- ETOMS extended its heavy maintenance operations to a third Australian State – Queensland. More than 400 people are now employed in heavy maintenance operations at Brisbane Airport and a new world-class heavy maintenance hangar became operational in July 2005. The new facility has been designed to service the Group's 767 fleet and also has the capacity to accept A330 aircraft.
- Throughout the year, ETOMS continued to consolidate its partnership with Patrick Corporation in a joint venture engine maintenance facility in Melbourne. Jet Turbine Services is operating as a centre of excellence for General Electric and CFMI engines to simplify ETOMS' existing engine maintenance operations.

With its advanced technical facilities in Australia, Qantas is one of the few airlines with its own industry training program that includes apprentice, skill development and advanced training for engineers to certify the release of aircraft and components into service.

The Qantas lounge upgrade program continued this year

Flying Services

Airports

Domestic and international airport operations are an integral part of the travel services Qantas Group airlines offer their customers.

Qantas Airports provides services ranging from customer service and baggage check-in to ramp services for Qantas, QantasLink and Australian Airlines, as well as other client airlines. Wholly-owned subsidiary Express Ground Handling Pty Limited provides ramp and baggage handling services for Jetstar.

The Qantas Group's airlines fly to 62 Australian airports and 25 overseas airports, including domestic airports in New Zealand. In Australia, Qantas owns or solely leases nine domestic terminals in Sydney, Melbourne, Brisbane, Perth, Gold Coast, Canberra, Adelaide, Hobart and Launceston.

Key developments for Qantas Airports in recent years have revolved around the introduction of QuickCheck check-in facilities at a number of domestic ports and the redevelopment of lounge facilities, both in Australia and ports offshore.

Self-service options at airports are being enhanced to further streamline the customer experience before boarding at key domestic airports, with greater access to QuickCheck check-in facilities to be introduced shortly.

Qantas is a partner with Adelaide Airport Limited in the construction of a new $240 million integrated passenger terminal in Adelaide that is scheduled for completion in October 2005. The multi-user terminal will combine domestic, international and regional operations in a new building adjacent to the current international terminal. The project will initially include 14 aerobridges, lounge facilities and a retail centre.

In preparation for delivery of the first of 12 twin-deck, A380s from April 2007, the Qantas Group is working closely with airport authorities in Australia and overseas to provide a next generation, seamless customer experience.

HIGHLIGHTS

- Qantas' lounge upgrade program continued this year with the opening in February 2005 of a new Business Class lounge, shared with British Airways, at Singapore's Changi Airport. The new lounge is nearly three times the size of its predecessor – offering seating for 400 customers, self-service food and beverages, a business centre, entertainment and bathroom/shower facilities. In recent years, Qantas has opened new international Qantas Club lounges in Sydney, Melbourne, Singapore, Bangkok and Honolulu. Qantas has also opened new First and Business Class lounges with **one**world alliance partner American Airlines at Los Angeles Airport's Terminal 4.
- To prepare for the resumption of Qantas services to Mumbai in September 2004 and Shanghai in December 2004, Qantas Airports established airport services in both cities. Work has already begun in preparation for the resumption of Qantas' services to Beijing in January 2006.
- Retail concessions at Qantas operated domestic terminals are now well established and an integral part of the travel experience for airline customers and airport visitors. More than 100 retail outlets now operate from Qantas terminals including 12 new concessions that were opened in 2004/05.

The Qantas Group's catering operations produced more than 43 million meals this year

Flying Services

Catering

The Qantas Group's catering operations span six cities in five States to deliver catering services to the Group's flying businesses as well as a large number of other customer airlines and long distance rail and health care clients.

These operations comprise two of Australia's leading large-scale flight catering businesses making Qantas one of the largest flight caterer in the southern hemisphere:

- Qantas Flight Catering Limited (QFCL); and
- Caterair Airport Services Pty Limited (Caterair).

QFCL operates five catering centres in Sydney, Melbourne, Brisbane, Adelaide and Perth. Caterair operates centres in Cairns and Sydney.

Together, QFCL and Caterair employ approximately 3,900 people, including more than 230 chefs with a wide range of backgrounds and skills who are able to produce all types of international cuisine to suit the individual requirements of their different airline clients.

More than 43 million meals were produced in 2004/05. This was an increase of more than four per cent on 2003/04. These meals were supplied to three of the Group's airlines – Qantas mainline, QantasLink and Australian Airlines – and over 30 external customers.

The year was characterised by increasing competition in the domestic catering market and an increasing prevalence of the "buy on board" catering model. This, combined with the events in the aviation industry over recent years, has made airline clients more aggressive in their negotiations with caterers, increasing the importance of the Qantas Group's growth and cost reduction strategies.

Specialising in the centralised production of frozen meals, Snap Fresh is another wholly-owned Qantas Group catering subsidiary.

Having one of the most modern meal production centres in the world, Snap Fresh uses advanced production and freezing technology in line with an international trend in the catering industry to deliver greater quality and consistency in meals.

Since it commenced operations from a purpose-built facility in Brisbane in 2002, Snap Fresh has established itself as an industry leader.

In 2004/05, Snap Fresh further consolidated its business with Qantas and continued to seek opportunities with customers in the hospitality and health care industries.

Snap Fresh has a plant capacity of 14 million meals per annum. Current production levels average 250,000 meals per week, or more than 13 million meals per year for the Qantas Group and other clients.

The Snap Fresh workforce has grown to more than 200 employees.

Qantas continued to grow its Freight business

Associated Businesses

Qantas Freight

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

Qantas continued to pursue a growth strategy in its Freight businesses throughout 2004/05.

Highlights included:

- the addition of two wet-lease 747-400 freighters for use on an expanding network of international freighter services;
- strong growth in the volumes of freight carried in the belly space of Qantas Group passenger aircraft; and
- the first full-year operation of Star Track Express under the Qantas/Australia Post joint venture.

Qantas Freight operates services throughout the Qantas and Australian Airlines international networks. A number of new freighter services were introduced during the year.

The Qantas Freight network now comprises:

- daily services between Australia and Asia;
- four weekly services from Shanghai to North America;
- five weekly services from North America to Australia;
- four weekly services between Australia and New Zealand; and
- two weekly services between Asia and Europe.

International Freight operates terminal facilities in Sydney, Melbourne, Brisbane, Perth and Los Angeles, providing ground handling services for the Qantas Group and other airlines. The Perth terminal was upgraded during the year and plans have been completed for building and facilities works at Melbourne and Sydney, which will be undertaken during 2005/06.

Domestic Freight operations are conducted by Australian air Express (AaE), a 50:50 joint venture between Qantas and Australia Post. AaE uses the belly space of Qantas and Jetstar aircraft and operates its own fleet of 727-200 and BAe146 freighter aircraft. AaE employs some 1,600 people and is the major airline haul provider in Australia.

Star Track Express, which operates a national road express freight network, recorded a 17 per cent increase in sales for the year and continues to invest in vehicles and handling facilities to ensure future growth. Star Track Express employs 2,500 people

Australia's largest travel wholesaler, Qantas Holidays, turned 30 this year

Associated Businesses

Qantas Holidays and Qantas Defence Services

QANTAS HOLIDAYS

Qantas Holidays is Australia's largest travel wholesaler and has been providing customers with holiday options throughout Australia and around the world for over 30 years.

Qantas Holidays caters to around 1.3 million customers per year. The 2005/06 product range encompasses more than 40 destinations worldwide, with more than 4.5 million travel brochures distributed nationally every year. As well as working with the Qantas Group airlines, Qantas Holidays markets travel packages for other airlines under the Viva! Holidays brand name.

In addition to destination holidays, Qantas Holidays promotes packages for a number of special events within Australia. Qantas Holidays is also the official travel wholesaler for accommodation and event ticket packages for the Melbourne 2006 Commonwealth Games.

HIGHLIGHTS

- Qantas Holidays celebrated its 30th birthday in October 2004 with its largest ever multi-destination holiday sale.
- A series of charters to Phuket were operated in conjunction with Australian Airlines. These charters were supported by the Tourism Authority of Thailand and assisted in the revival of this destination following the 2004 Boxing Day tsunami.
- The ReadyRooms Accommodation Internet Booking Service for last minute hotel accommodation within Australia was launched in July 2004. ReadyRooms has grown significantly in terms of both range and bookings over the past year. Accommodation in New Zealand was added to the ReadyRooms portfolio in August 2005.
- The package holiday product range was expanded to include India and Vietnam as well as Ski Sapporo in Japan.

Qantas Holidays is represented in more than 100 locations, with offices in Australia, Asia and the UK. It also has a worldwide network of General Sales Agents.

Qantas Holidays has a 75 per cent interest in Singapore-based Holiday Tours and Travel Pte Limited (HTT), which sells wholesale land packages from Asia to Australia and provides tours and transfer services throughout Asia. During 2004/05, HTT expanded offices in Vietnam and China.

QANTAS DEFENCE SERVICES

Qantas Defence Services (QDS) provides aviation maintenance services to the Australian Defence Force (ADF), including support and maintenance of the Australian Government's Special Purpose Aircraft fleet, maintenance of the RAAF's Hercules fleet and support for ADF fighter and helicopter fleets.

QDS has facilities at Mascot, Richmond and Villawood (NSW), Fairbairn (ACT) and Amberley (QLD), employing approximately 350 people.

HIGHLIGHTS

- QDS established an additional facility at Canberra Airport in June 2005, adding to its capability to support the ADF and other military and civil aircraft.
- Support was provided for the increased tempo of ADF operations, particularly in Iraq and post-tsunami in the Aceh region of Indonesia.

Sharing the Spirit extended the reach of Qantas' sponsored organisations to regional Australia

Our community

SHARING THE SPIRIT

Qantas has always taken pride in supporting a broad variety of community and charitable organisations – at national, State and regional levels.

Sharing the Spirit – Qantas' community program aimed at fostering links with charities, sport and arts groups, especially in regional Australia and among Australia's youth – achieved its one-year milestone in February 2005.

The program extends support to the airline's existing charities such as CARE Australia, Starlight Children's Foundation of Australia, UNICEF, CanTeen and Mission Australia and introduces new projects and activities for other charity groups.

One key initiative is the Qantas Spirit of Youth Awards (SOYA), which offers people under 25 the chance to win cash and air travel in seven categories: music, writing, visual arts, film, industrial and object design, photography and fashion design. Additional awards in dance and cooking are also provided and in 2005, a special community award was added to recognise a young volunteer's work. Importantly, SOYA provides mentoring from leading Australian creative figures such as fashion designer Peter Morrissey, musician Paul Mac, industrial designer Marc Newson, chef Neil Perry and film director Gillian Armstrong.

In Sharing the Spirit's first year, there were more than 80 events including:

- regional tours of The Australian Ballet Dancer's Company, Bangarra Dance Theatre and Sydney Dance Company;
- youth workshops and coaching clinics conducted by Qantas Ambassadors Neil Perry, Peter Morrissey and Olympic champion Kieren Perkins (OAM); and
- regional coaching clinics in conjunction with the National Rugby League and the National Basketball League.

The airline's charity assistance was further demonstrated through its support of the UNICEF Change for Good program, with over $1.5 million being raised by Qantas passengers during 2004.

Qantas was closely involved in assisting the Australian Government with its relief efforts following the 2004 Boxing Day tsunami. This included operating two special relief flights, flying in urgently needed medical personnel, delivering medical and charitable supplies free of charge and assisting Australians to return home from the affected areas. Qantas also operated an additional flight to Malaysia to transport medical teams and supplies and donated the fuel for an AaE cargo flight to Indonesia.

A donation of $1 million was provided to help tsunami relief and pre-booked advertising space for newspapers around the country was donated to charities to raise funds. Qantas also flew Australian and international cricketers to Melbourne for a special tsunami relief match.

UNICEF Change for Good envelopes from Qantas flights in January 2005 were used exclusively for tsunami relief efforts, raising over $400,000.

As an Official Partner of the Melbourne 2006 Commonwealth Games, Qantas took its support to Australia's skies with the launch of a new 737-800 aircraft emblazoned with the Games logo. The aircraft was named *Karak,* after the Games mascot.

Qantas continues to be a sponsor of many of Australia's greatest teams including the Qantas Wallabies and Qantas Socceroos. Qantas is a proud supporter of many different events and sporting bodies including Tennis Australia, National Rugby League, Netball Australia, Australian Football League, Cricket Australia, the Australian Open, the Australian Formula One Grand Prix and the Australian Olympic Team.

Qantas recently opened a permanent historical exhibition – the Qantas Heritage Collection

Qantas is also an important supporter of the arts through its association with the Art Gallery of NSW, Australian Chamber Orchestra, Australian Youth Orchestra, Australia Business Arts Foundation, Bangarra Dance Company, Museum of Contemporary Art, Musica Viva, Opera Australia, Sydney Dance Company, The Australian Ballet and Tropfest.

OTHER SPONSORSHIPS

- An Indigenous Cadet Pilot Scholarship Program, worth more than $60,000, was launched in July 2005.
- During August and September 2005, the Qantas Kickstart Camp brought together 48 talented, young Indigenous AFL players from around Australia for a unique football and educational experience.
- Qantas' annual Good Friday Charity Flights have raised more than $2 million over the past 19 years for the Royal Children's Hospital in Melbourne.
- Qantas' annual Pathfinders charity flights have raised more than $300,000 over the past three years for the Royal Institute for Deaf and Blind Children.
- For nine years, QantasLink has operated a special charity flight, with the assistance of Rotary, for children in need.
- Qantas offices overseas support charities and sponsor organisations locally including the American Cancer Society, the Australian Pavilion at World Expo 2005 in Japan and New Zealand's Cure Kids for research into children's illnesses.

ENVIRONMENT

The Qantas Group recognises that its environmental performance is an important aspect of its overall operations. Promoting continuous improvement in this area remains an important focus.

Initiatives include:

- developing an environment management system including plans for individual business units;
- auditing Qantas Group operations and activities to gauge performance and identify areas for improvement;
- carrying out environmental due diligence as part of the acquisition and leasing of all new work sites and facilities;
- monitoring and reporting on soil and groundwater quality at key operational sites;
- incorporating energy and water efficiency initiatives and sustainability principles in the design of new facilities;
- participating in airport noise abatement committees in capital city and major regional ports across Australia;
- working closely with international agencies, such as the International Air Transport Association and the Association of Asia Pacific Airlines, on climate change strategies and a balanced approach to noise management;
- collecting and analysing data relating to waste management activities; and
- developing and supporting waste minimisation and recycling initiatives.

The Qantas Group continues its relationship with various environmental organisations including:

- Clean Up Australia and Clean Up the World;
- Landcare Australia, directly supporting revegetation and tree planting projects in a number of regional areas across Australia; and
- Greenfleet, committing the Qantas Group ground transport fleet to a tree-planting program which offsets vehicle emissions.

~Board of Directors~


Margaret Jackson, AC


Geoff Dixon


Peter Gregg


Paul Anderson


Mike Codd, AC


General Peter Cosgrove, AC, MC


Patricia Cross


Garry Hounsell


Jim Kennedy, AO, CBE


James Packer


Dr John Schubert

~Board of Directors~

Margaret Jackson, AC, Chairman

Independent Non-Executive Director

Margaret Jackson was appointed to the Qantas Board in July 1992 and as Chairman in August 2000. Ms Jackson also Chairs the Qantas Remuneration and Nominations Committees.

Ms Jackson is a Director of Australia and New Zealand Banking Group Limited and Billabong International Limited. She is a Member of the Business Council of Australia Chairman's Panel, a Fellow of The Institute of Chartered Accountants in Australia and a Member of the Foreign Affairs Council. In addition, Ms Jackson is an Executive Committee Member of the Australia Japan Business Co-operation Committee and a Director of the Howard Florey Institute of Experimental Physiology and Medicine. She is also an International Trustee of the Carnegie Mellon University in South Australia.

Ms Jackson was a partner of KPMG Peat Marwick's Management Consulting Division until 30 June 1992 when she became a professional director.

Geoff Dixon

Chief Executive Officer

Geoff Dixon was appointed Chief Executive Officer and Managing Director of Qantas in March 2001. He was Chief Executive Designate from November 2000, after serving as Deputy Chief Executive Officer since November 1998. He was appointed to the Qantas Board in August 2000.

Mr Dixon is a Member of the Qantas Safety, Environment & Security Committee, Chairman of a number of controlled entities of the Qantas Group and Chairman of the Singapore-based company, OrangeStar Investment Holdings Pte Ltd which owns the value-based carriers, Jetstar Asia Airways Pte Ltd and Valuair Limited. He is also a Director of Leighton Holdings Limited and Air Pacific Limited. He is on the Governing Board of IATA and is a Member of the International Marketing Institute of Australia. Mr Dixon is also on the Board of the Business Council of Australia.

Peter Gregg

Chief Financial Officer

Peter Gregg was appointed Chief Financial Officer and to the Qantas Board in September 2000.

Mr Gregg is a Director of a number of controlled entities and associated companies of the Qantas Group, including the Singapore-based company, OrangeStar Investment Holdings Pte Ltd which owns the value-based carriers, Jetstar Asia Airways Pte Ltd and Valuair Limited. He is also a Director of Air Pacific Limited. He is a Fellow of the Finance and Treasury Association and a Member of the Australian Institute of Company Directors.

Paul Anderson

Independent Non-Executive Director

Paul Anderson was appointed to the Qantas Board in September 2002. He is a Member of the Qantas Remuneration Committee.

Mr Anderson is the Chief Executive and Chairman of Duke Energy Corporation and is a Global Counsellor for The Conference Board.

Mr Anderson was the Chief Executive of BHP Billiton Limited and its predecessor, BHP, from 1998 to 2002.

Mike Codd, AC

Independent Non-Executive Director

Mike Codd was appointed to the Qantas Board in January 1992. He is Chairman of the Qantas Safety, Environment & Security Committee and a Member of the Qantas Audit Committee.

Mr Codd is Chancellor of the University of Wollongong and a Director of the Wealth Management Companies of the National Australia Group and INGEUS Ltd.

From 1981 to 1986, Mr Codd held senior positions in the Australian Government. From 1986 to 1991, he was the Head of Department of the Prime Minister and Cabinet and Secretary to Cabinet.

General Peter Cosgrove, AC, MC

Independent Non-Executive Director

General Peter Cosgrove was appointed to the Qantas Board on 6 July 2005. He is a Member of the Qantas Safety, Environment & Security Committee.

General Cosgrove served in the Australian Army from 1965 and was the Chief of the Australian Defence Force from 3 July 2002 until his retirement in July 2005.

General Cosgrove is a consultant to Deloitte Touche Tohmatsu and is a Member of the Australian Institute of Company Directors.

Patricia Cross

Independent Non-Executive Director

Patricia Cross was appointed to the Qantas Board on 1 January 2004. She is a Member of the Qantas Remuneration Committee.

Mrs Cross is a Director of Wesfarmers Limited and the Murdoch Children's Research Institute. She has been appointed to the Board of National Australia Bank Limited effective early December 2005. Mrs Cross is also a Fellow of the Australian Institute of Company Directors.

Mrs Cross has worked the last nine years as a professional non-executive company director. Prior to that, she worked for 15 years with Chase Manhattan Corporation, Banque Nationale de Paris and National Australia Bank Limited, where her last position was General Manager, Wholesale Banking and she was a Member of the Bank's Executive Committee.

~Board of Directors~

Garry Hounsell
Independent Non-Executive Director

Garry Hounsell was appointed to the Qantas Board on 1 January 2005. He is a Member of the Qantas Audit Committee.

Mr Hounsell is a Director of Orica Limited and Nufarm Limited. He is a Consultant to Investec Bank (Australia) Ltd. Mr Hounsell is also a Director of The Macfarlane Burnet Institute for Medical Research and Public Health Ltd and Methodist Ladies' College Ltd. He is a Fellow of The Institute of Chartered Accountants in Australia, a Certified Practising Accountant and a Fellow of the Australian Institute of Company Directors.

Mr Hounsell is a former senior partner of Ernst & Young and was Chief Executive Officer and Country Managing Partner of Arthur Andersen.

Jim Kennedy, AO, CBE
Independent Non-Executive Director

Jim Kennedy was appointed to the Qantas Board in October 1995. He is Chairman of the Qantas Audit Committee and a Member of the Qantas Remuneration Committee.

Mr Kennedy is Deputy Chairman of GWA International Limited. He is also a Director of Australian Stock Exchange Limited and Suncorp-Metway Limited. He is a Fellow of The Institute of Chartered Accountants in Australia.

Mr Kennedy was previously Chairman of Queensland Investment Corporation and the Australian Postal Commission and was a Director of the Commonwealth Bank of Australia, MIM Holdings, Pacific Dunlop, Santos and QCT Resources.

James Packer
Independent Non-Executive Director

James Packer was appointed to the Qantas Board on 1 March 2004.

Mr Packer was appointed Executive Chairman of Publishing and Broadcasting Limited (PBL) in May 1998 having served as Chief Executive Officer of PBL from March 1996 until May 1998.

Mr Packer is also Joint Chief Executive Officer of Consolidated Press Holdings Limited and a Director of Challenger Financial Services Group Limited and Hoyts Cinemas Limited.

Dr John Schubert
Independent Non-Executive Director

John Schubert was appointed to the Qantas Board in October 2000. He is a Member of the Qantas Safety, Environment & Security Committee and the Qantas Nominations Committee.

Dr Schubert is Chairman of the Commonwealth Bank of Australia and a Director of BHP Billiton Limited and BHP Billiton Plc. He is also Chairman of G2 Therapies Limited and the Great Barrier Reef Research Foundation. Dr Schubert is a Member of the Australian Graduate School of Management Advisory Board and the Business Council of Australia.

Dr Schubert was Managing Director and Chief Executive Officer of Pioneer International Limited from July 1993 to May 2000 and was Chairman and Managing Director of Esso Australia Ltd from 1987 to 1993. He was President of the Business Council of Australia from January 2001 to October 2003.

~Executive Committee~

Denis Adams
Executive General Manager
Associated Businesses
& Head of Freight

Fiona Balfour
Executive General Manager
Qantas Business Services
& Chief Information Officer

John Borghetti
Executive General Manager
Qantas

Kevin Brown
Executive General Manager
People

David Cox
Executive General Manager
Engineering Technical Operations
and Maintenance Services

Curtis Davies
Head of Sustainable Future Program

Belinda de Rome
Head of Corporate Communication

Paul Edwards
Executive General Manager
Alliances

Grant Fenn
Executive General Manager
Airports and Catering

David Hawes
Head of Government &
International Relations

Brett Johnson
General Counsel

Alan Joyce
Executive General Manager
Jetstar Airways

Narendra Kumar
Executive General Manager
Regional Airlines

Chris Manning
Head of Flight Operations
& Chief Pilot

Andrea Staines
Executive General Manager
Australian Airlines

~2005 Corporate Governance Statement~

OVERVIEW

Corporate Governance is core to ensuring the creation, protection and enhancement of shareholder value. The Board maintains, and ensures that Qantas management maintains, the highest level of corporate ethics. The Board comprises a majority of Independent Non-Executive Directors who, together with the Executive Directors, have extensive commercial experience and bring independence, accountability and judgment to the Board's deliberations to ensure maximum benefit to stakeholders, including shareholders, customers, suppliers, employees, government regulators and members of communities where Qantas operates.

The Qantas Board endorses the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles).

THE BOARD LAYS SOLID FOUNDATIONS FOR MANAGEMENT & OVERSIGHT

The Board has adopted a formal Charter. A copy of the Board Charter is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance).

The Board is responsible for:

- promoting ethical and responsible decision-making;
- ensuring compliance with laws, tax obligations, regulations, appropriate accounting standards and corporate policies (including the Code of Conduct and Ethics);
- setting and reviewing strategic direction and approving the annual operating budget;
- overseeing the Qantas Group, including its control and accountability systems;
- monitoring the operating and financial performance of the Qantas Group;
- approving and monitoring major capital expenditure programs;
- appointment and removal of the Chief Executive Officer and Chief Financial Officer;
- monitoring the performance of the Chief Executive Officer, Chief Financial Officer and Executive Management;
- ensuring a clear relationship between performance and executive remuneration;
- monitoring risk management;
- ensuring that the market and shareholders are fully informed of material developments; and
- recognising the legitimate interests of stakeholders.

Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

BOARD MEETINGS

The Board holds nine formal Meetings a year. Additional Meetings are held as required. A two-day Meeting is held in May to review and approve the strategy and financial plan for the next financial year.

Details of the Directors, their qualifications, skills and experience are detailed on pages 33 and 34. Attendance at 2004/05 Board and Committee Meetings is detailed on page 46.

AUSTRALIAN PROVISIONS

The Qantas Constitution contains provisions required by the Qantas Sale Act to ensure the independence of the Qantas Board and to protect the airline's position as the Australian flag carrier:

- head office must be in Australia;
- two-thirds of the Directors must be Australian citizens;
- Chairman must be an Australian citizen;
- quorum for a Directors' Meeting must include a majority of Directors who are Australian citizens;
- maximum 49% aggregate foreign ownership;
- maximum 35% aggregate foreign airline ownership; and
- maximum 25% ownership by one foreign person.

THE BOARD IS STRUCTURED TO ADD VALUE

Qantas has 11 Directors (see details from page 32). Nine Directors are Independent Non-Executive Directors elected by shareholders. The Independent Non-Executive Directors are:

Director	Year of Appointment
Margaret Jackson (Chairman)	1992
Paul Anderson	2002
Michael Codd	1992
Peter Cosgrove	2005
Patricia Cross	2004
Garry Hounsell	2005
Jim Kennedy	1995
James Packer	2004
John Schubert	2000

INDEPENDENCE

Independent Directors are those who have the ability to exercise their duties unfettered by any business or other relationship and are willing to express their opinions at the board table free of concern about their position or the position of any third party. The Qantas Board does not believe it is possible to draft a list of criteria which are appropriate to characterise, in all circumstances, whether a Non-Executive Director is independent. It is the approach and attitude of each Non-Executive Director which is critical and this must be considered in relation to each Director while taking into account all other relevant factors, which may include whether the Non-Executive Director:

- is a substantial shareholder (within the definition of section 9 of the Corporations Act) of Qantas, or an officer of, or otherwise associated directly with, a substantial shareholder of Qantas;
- has, within the last three years, been employed in an executive capacity by the Qantas Group;
- has, within the last three years, been a principal of a material professional adviser or a material consultant to the Qantas Group or an employee materially associated with the service provided;
- is a material supplier or customer of the Qantas Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has any material contractual relationship with the Qantas Group other than as a Director;
- has served on the Board for a period which could materially interfere with the Director's ability to act in the best interests of the Qantas Group (and it is neither possible nor appropriate to assign a fixed term to this criteria); or
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of Qantas.

The Qantas Board Charter requires each Director to immediately disclose to the Board if he/she has any concern about his/her own independence.

All Qantas Independent Non-Executive Directors bring a real independent view to the consideration of Board issues. In addition, two new Independent Non-Executive Directors have been appointed in the last 12 months (Garry Hounsell and Peter Cosgrove). The appointment of these new Directors has refreshed the Board and incorporated new ideas and energy.

Qantas believes that the following materiality thresholds are relevant when considering the independence of Non-Executive Directors:

- for Directors:
  - a relationship which accounts for more that 10% of his/her gross income (other than Director's fees paid by Qantas); or
  - when the relationship is with a firm, company or entity, in respect of which the Director (or any associate) has more than a 20% shareholding if a private company or 2% shareholding if a listed company; and
- for Qantas:
  - in respect of advisers or consultants – where fees paid exceed $2 million pa;
  - in respect of suppliers – where goods or services purchased by the Qantas Group exceed $100 million pa (other than banks, where materiality must be determined on a case by case basis); or
  - in respect of customers – where goods or services supplied by Qantas Group exceed $100 million pa.

Qantas, as the principal Australian airline, has commercial relationships with most, if not all, major entities in Australia. As such, in determining whether a Non-Executive Director is independent, simply being a non-executive director on the board of another entity is not, in itself, sufficient to affect independence. Nevertheless, any Director on the board of another entity is ordinarily expected to excuse themselves from any meeting where that entity's commercial relationship with Qantas is directly or indirectly discussed.

Qantas has two Executive Directors, Geoff Dixon (Chief Executive Officer) and Peter Gregg (Chief Financial Officer). These Directors are not treated as independent.

Independent professional advice is available to the Directors if necessary, at the expense of Qantas.

At the 2000 Annual General Meeting (AGM), shareholders approved Qantas entering into Director Protection Deeds with each Director.

NOMINATIONS COMMITTEE

In May 2005, the Board separated the functions previously undertaken by the Chairman's Committee into the Nominations Committee and Remuneration Committee.

The Nominations Committee:

- has two Members who are Independent Non-Executive Directors;
- is chaired by Margaret Jackson;
- has a written Charter which is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance); and
- assists the Board in fulfilling its Corporate Governance responsibilities in regards to:
  - Board appointments and performance;
  - Directors' induction program;
  - Committee Membership;
  - Executive Management succession planning, appointments and terminations; and
  - other matters referred to the Committee by the Board.

The experience and qualifications of Members of the Nominations Committee are detailed on pages 33 and 34. Membership of and attendance at 2004/05 Chairman's Committee Meetings are detailed on page 46.

~2005 Corporate Governance Statement~

THE BOARD PROMOTES ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board has a formal Code of Conduct and Ethics which deals with:

- compliance with laws and regulations;
- political contributions;
- unacceptable payments;
- giving or receiving gifts;
- protection of Qantas assets;
- proper accounting;
- dealing with auditors;
- unauthorised public statements;
- conflict of interest;
- use of inside information; and
- Qantas Employee Share Trading Policy (Insider Trading).

A copy of the Qantas Code of Conduct and Ethics is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance).

The Qantas Code of Conduct and Ethics contains the Qantas Employee Share Trading Policy (Insider Trading). The Policy sets guidelines designed to protect Qantas and Qantas employees from intentionally or unintentionally breaching the law. Qantas employees must not purchase or sell Qantas securities while in possession of Material Non-Public Information.

PROTECTED DISCLOSURES

The Board approved the Qantas Protected Disclosures Policy (Policy) at its December 2004 Meeting. The Policy encourages employees to report concerns in relation to illegal, unethical or improper conduct in circumstances where they may be apprehensive about raising their concern because of fear of possible adverse repercussion. A Qantas Protected Disclosures Committee has been established to manage investigations and report to the Board and Audit Committee. The Policy is available to all Qantas Group employees and is also available on the Corporate Governance section of the website (http://www.qantas.com.au/info/about/corporateGovernance).

THE BOARD SAFEGUARDS THE INTEGRITY OF FINANCIAL REPORTING

As required by section 295A of the Corporations Act, the Chief Executive Officer and Chief Financial Officer declare that:

"In our opinion:

(a) the financial records of the Qantas Group for the financial year ended 30 June 2005 (Financial Period) have been properly maintained in accordance with section 286 of the Corporations Act;

(b) the financial statements and the notes referred to in section 295(3)(b) of the Corporations Act for the Financial Period comply with the accounting standards; and

(c) the financial statements and notes for the Financial Period give a true and fair view in accordance with section 297 of the Corporations Act."

In addition, as required by Recommendation 4.1 of the Principles, the Chief Executive Officer and Chief Financial Officer state that:

"the Financial Report for the Financial Period present a true and fair view, in all material respects, of the Qantas' financial condition and operational results and are in accordance with relevant accounting standards."

AUDIT COMMITTEE

The Board has an Audit Committee which:

- has three Members who are Independent Non-Executive Directors;
- is chaired by Jim Kennedy, an Independent Non-Executive Director who is a Fellow of The Institute of Chartered Accountants in Australia;
- has a written Charter which is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance);
- includes Members who are all financially literate; and
- is responsible for monitoring:
  - business risk management (other than the operational risk management issues delegated to the Safety, Environment & Security Committee (SESC));
  - compliance with legal and regulatory obligations (other than the operational compliance obligations monitored by the SESC);
  - compliance by all employees with all policies including the Qantas Corporate Code of Conduct and Ethics;
  - the establishment and maintenance of the internal control framework;
  - the reliability and integrity of financial information for inclusion in the Qantas financial statements;
  - safeguarding the independence of the external auditor; and
  - audit, accounting and financial reporting obligations.

The experience and qualifications of Members of the Audit Committee are detailed on pages 33 and 34. Membership of and attendance at 2004/05 Committee Meetings are detailed on page 46.

The Board and Audit Committee closely monitor the independence of the external auditor. Regular reviews occur of the independence safeguards put in place by the external auditor. As required by section 300(11D)(a) of the Corporations Act and clause 42 of the Audit Committee Charter, the Audit Committee has advised the Board that it is appropriate for the following statement to be included in the 2005 Directors' Report under the heading "Non-Audit Services":

"The Directors are satisfied that:

(a) the non-audit services provided during the 2004/05 financial year by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and

(b) any non-audit services provided during the 2004/05 financial year by KPMG as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

  (i) KPMG services have not involved partners or staff acting in a managerial or decision making capacity within the Qantas Group or been involved in the processing or originating of transactions;

  (ii) KPMG non-audit services have only been provided where Qantas is satisfied that the related function or process will not have a material bearing on the audit procedures;

  (iii) KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes;

  (iv) a description of all non-audit services undertaken by KPMG and the related fees have been reported to the Board to ensure complete transparency in relation to the services provided; and

  (v) the declaration required by section 307C of the Corporations Act confirming independence has been received from KPMG."

Qantas rotates the lead audit partner every five years and imposes restrictions on the employment of ex-employees of the external auditor.

Policies are in place to restrict the type of non-audit services which can be provided by the external auditor and there is a detailed monthly review of non-audit fees paid to the external auditor.

At each Meeting, the Audit Committee meets privately with management without the external auditor and with the external auditor without management.

THE BOARD MAKES TIMELY AND BALANCED DISCLOSURE

Qantas has an established process to ensure that it is in compliance with its ASX Listing Rule disclosure requirements. This includes a monthly confirmation by all senior management that their areas have complied with the Qantas Continuous Disclosure Policy.

A copy of the Qantas Continuous Disclosure Policy is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance). Qantas includes commentary on its financial results in its Annual Report.

THE BOARD RESPECTS THE RIGHTS OF SHAREHOLDERS

Qantas has an effective Shareholder Communications Policy which promotes effective communication with shareholders and encourages effective participation at general meetings. A copy of the Qantas Shareholder Communications Policy is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance).

Qantas places all market announcements on its website and registered shareholders receive an email when there is a material announcement.

The 2005 Notice of Meeting and Explanatory Letter is on the Qantas website and the 2005 AGM will be available for viewing by live webcast. For shareholders unable to attend, a question form accompanied the Notice of Meeting, giving shareholders the opportunity to forward questions and comments to Qantas or the external auditor prior to the AGM.

AUDITOR AT ANNUAL GENERAL MEETING

The external auditor attends the AGM and is available to answer shareholder questions on:

- the conduct of the audit;
- the preparation and conduct of the auditor's report;
- the accounting policies adopted by Qantas in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

THE BOARD RECOGNISES AND MANAGES RISK

The businesses operated by Qantas are complex and involve a range of strategic, operational, financial and legal risks. Recognising this, the Board has established a sound system of risk oversight and management and internal control designed to identify, assess, monitor and manage risk.

Policies have been developed that include components relating to oversight, risk profile, risk management and assessing the effectiveness of risk oversight and management. Qantas is continually aligning its system of risk management, internal compliance and control with principles included in the Australian/New Zealand Standard on Risk Management (AS/NZS 4360:2004) and the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework for evaluating internal controls.

INTERNAL AUDIT

Qantas has an effective Internal Audit function which is materially involved in risk identification and management. The Internal Audit function is independent of the external auditor, has full access to management and the right to seek information and explanation. The Audit Committee oversees the scope of the Internal Audit and has access to the Head of Internal Audit without the presence of management.

RISK MANAGEMENT EXECUTIVE COMMITTEE

Qantas has established a Risk Management Executive Committee (RMEC) which is made up of all Members of the Executive Committee. The RMEC meets regularly to identify all major risks, ensure appropriate risk management plans are in place and to monitor the effectiveness of the implementation of the risk management plans. The RMEC prepares a monthly Corporate Risk Management and Internal Audit Activity Report for the Board which is reviewed in detail by both the Audit Committee and the SESC.

~2005 Corporate Governance Statement~

SAFETY, ENVIRONMENT & SECURITY COMMITTEE

In 1994, the Board established the SESC which:

- has four Members, the Chief Executive Officer and three Independent Non-Executive Directors;
- is chaired by Mike Codd, an Independent Non-Executive Director;
- has a written Charter which is available on the Corporate Governance section of the Qantas website (http://www.qantas.com.au/info/about/corporateGovernance); and
- is responsible for monitoring:
  - safety, occupational health, the protection of the environment and operational security;
  - operational risk management (other than the business risk management issues delegated to the Audit Committee) to ensure that the appropriate risk management procedures are in place to protect the airline, its passengers, its employees and the community; and
  - compliance with all operational legal and regulatory obligations (other than the business compliance obligations monitored by the Audit Committee).

The experience and qualifications of Members of the SESC are detailed on pages 33 and 34. Membership of and attendance at 2004/05 Committee Meetings is detailed on page 46.

CEO/CFO DECLARATION

In accordance with Recommendation 7.2 of the ASX Principles, at the time the Chief Executive Officer and Chief Financial Officer provide the Board with the Financial Declaration, they also state to the Board that, in respect of the entire reporting period:

"1.1 the statement given in accordance with Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies which have been adopted by the Board of Directors either directly or through delegation to senior executives; and

1.2 the risk management and internal compliance and control systems are operating effectively, in all material respects, based on the risk management statement adopted by Qantas. This statement incorporates as its foundation the principles included in the Australian/New Zealand Standard on Risk Management (AS/NZS 4360:2004).

2. The statements given in accordance with Recommendation 7.2 (above) regarding the risk management and internal compliance and control system provide a reasonable, but not absolute level of assurance and do not imply a guarantee against adverse events or more volatile outcomes arising in the future."

THE BOARD ENCOURAGES ENHANCED PERFORMANCE

The Nominations Committee is responsible for evaluating the Board's performance.

A formal review of Board and Committee performance was undertaken during the year by the Board at its May Meeting. This involved the completion of a lengthy questionnaire concerning the performance of the Board and each Committee and the detailed discussion of the aggregated results by the Board.

The Chairman discusses performance with each Director during the year.

A formal induction program is available to new Directors to ensure they have a working knowledge of Qantas and the airline industry.

The Directors have open access to all relevant information, there are regular management presentations and visits to interstate/offshore operations. Directors may meet independently with management at any time to discuss areas of interest or concern.

THE BOARD REMUNERATES FAIRLY & RESPONSIBLY

The Qantas Executive Remuneration Philosophy and Objectives is set out in full in the Directors' Report (see page 51).

REMUNERATION COMMITTEE

The Board has a Remuneration Committee which:

- has four Members who are Independent Non-Executive Directors;
- is chaired by Margaret Jackson;
- has a written Charter which is available on the Corporate Governance section of the Qantas Website (http://www.qantas.com.au/info/about/corporateGovernance); and
- is responsible for developing and recommending to the Board:
  - remuneration policies for Non-Executive Directors;
  - remuneration policies for the Chief Executive Officer and Chief Financial Officer;
  - remuneration policies for Executive Management;
  - Executive option and share grants;
  - human resources policies; and
  - other matters referred to the Committee by the Board.

The experience and qualifications of Members of the Remuneration Committee are detailed on pages 33 and 34. Membership of and attendance at 2004/05 Remuneration Committee Meetings (and previous Chairman's Committee Meetings) are detailed on page 46.

The remuneration of the Directors and Specified Executives is disclosed in the Remuneration Report on page 54. All equity-based Executive remuneration is made in accordance with plans approved by shareholders.

On retirement, Qantas Directors are entitled to statutory superannuation and certain travel entitlements which are reasonable and standard practice in the aviation industry (see page 55).

QANTAS RECOGNISES THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The Board has a formal Code of Conduct and Ethics which is available on the Corporate Governance section of the Qantas website, http://www.qantas.com.au/info/about/corporateGovernance. Qantas also has formal policies relating to its legal and other obligations to all legitimate stakeholders. These include areas such as safety, service standards, occupational health and safety, employment practices, staff and contractor training, fair trading, consumer privacy and environmental protection. Each policy includes procedures for compliance and monitoring effectiveness.

~Performance Summary~

	Qantas Group 2005 $M	2004 $M	Increase/ (Decrease) %	
FINANCIAL RESULTS				
Sales and operating revenue				
Net passenger revenue	**9,835.1**	8,978.3	9.5	
Net freight revenue	**759.9**	520.5	46.0	
Tours and travel revenue	**707.8**	711.1	(0.5)	
Contract work revenue	**484.9**	502.6	(3.5)	
Other sources	**861.1**	641.2	34.3	
Sales and operating revenue	**12,648.8**	11,353.7	11.4	
Expenditure				
Manpower and staff related	**3,244.9**	2,938.5	10.4	
Selling and marketing	**444.3**	466.1	(4.7)	
Aircraft operating – variable	**2,435.8**	2,226.8	9.4	
Fuel and oil	**1,931.7**	1,355.6	42.5	
Property	**300.5**	309.8	(3.0)	
Computer and communication	**491.9**	439.1	12.0	
Depreciation and amortisation	**1,100.0**	1,005.6	9.4	
Non-cancellable operating lease rentals	**310.0**	263.5	17.6	
Tours and travel	**563.7**	570.9	(1.3)	
Capacity hire	**341.0**	287.4	18.6	
Other	**365.1**	411.9	(11.4)	
Share of net profit of associates and joint ventures	**(1.8)**	(19.7)	(90.9)	
Expenditure	**11,527.1**	10,255.5	12.4	
Earnings before interest and tax	**1,121.7**	1,098.2	2.1	
Net borrowing costs	**(94.5)**	(133.6)	(29.3)	
Profit from ordinary activities before related income tax expense	**1,027.2**	964.6	6.5	
Income tax expense relating to ordinary activities	**(262.8)**	(315.8)	(16.8)	
Net profit	**764.4**	648.8	17.8	
Outside equity interests in net profit	**(0.8)**	(0.4)	100.0	
Net profit attributable to members of Qantas	**763.6**	648.4	17.8	
FINANCIAL POSITION				
Total assets	**18,134.4**	17,574.2	3.2	
Total liabilities	**11,707.5**	11,733.9	(0.2)	
Total equity	**6,426.9**	5,840.3	10.0	
CASH FLOWS				
Net cash provided by operating activities	**1,950.0**	1,999.4	(2.5)	
Net cash used in investing activities	**(1,396.2)**	(2,232.6)	(37.5)	
Net cash used in financing activities	**(15.3)**	(417.4)	(96.3)	
Net increase/(decrease) in cash held	**538.5**	(650.6)	n/a	
PERFORMANCE RATIOS				
Net debt to net debt plus equity (ratio)	**31:69**	38:62	n/a	
Net debt to net debt plus equity including off balance sheet debt (ratio)	**44:56**	49:51	n/a	
Net debt to net debt plus equity including off balance sheet debt and revenue hedge receivables (ratio)	**45:55**	49:51	n/a	
Earnings per share (cents)	**40.8**	35.7	5.1	cents
Return on equity (percentage)	**11.9**	11.1	0.8	points
Return on equity including the notional capitalisation of non-cancellable operating leases on a hedged basis (percentage)	**13.2**	11.0	2.2	points
Earnings before interest and tax as a percentage of sales and operating revenue (percentage)	**8.9**	9.7	(0.8)	points
Profit from ordinary activities before related income tax expense as a percentage of sales and operating revenue (percentage)	**8.1**	8.5	(0.4)	points

~Discussion and Analysis of Performance Summary~
for the year ended 30 June 2005

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2005

	Unit	Qantas Group 2005	Qantas Group 2004	Increase/ (Decrease) %
QANTAS GROUP OPERATIONAL STATISTICS AND PERFORMANCE INDICATORS*				
Passengers carried	000	**32,658**	30,076	8.6
Revenue passenger kilometres (RPKs)	M	**86,986**	81,276	7.0
Available seat kilometres (ASKs)	M	**114,003**	104,200	9.4
Revenue seat factor	%	**76.3**	78.0	(1.7) points
Passenger yield (passenger revenue per RPK)	cents	**10.64**	10.46	1.7
Average full-time equivalent employees	#	**35,520**	33,862	4.9
Aircraft in service at balance date	#	**200**	190	10 aircraft
Return on total revenue	%	**6.0**	5.7	0.3 points
Return on equity	%	**11.9**	11.1	0.8 points

* A glossary of terms appears on page 124.

REVIEW OF FINANCIAL PERFORMANCE

- Profit from ordinary activities before tax was $1,027.2 million, an increase of $62.6 million or 6.5 per cent. Net profit attributable to members of Qantas was $763.6 million.
- Earnings before interest and tax (EBIT) increased by $23.5 million or 2.1 per cent to $1,121.7 million.
- Qantas mainline operations contributed EBIT of $965.1 million, an increase of $101.6 million or 11.8 per cent on the prior year. Excluding the impact of segmentation recharges, EBIT increased by 0.3 per cent reflecting the significant increase in fuel prices during the year. RPKs increased by 2.1 per cent on capacity growth of 4.4 per cent, resulting in a decline in seat factor of 1.8 percentage points. Yield, excluding the unfavourable impact of foreign exchange rate movements, improved by 2.6 per cent. The capacity increase reflected the addition of new A330-300 aircraft in the international business and the impact of reduced flying in the first quarter of the 2003/04 year due to SARS. Capacity was also increased on key business and long-sector routes in the domestic market, which offset the reduction in capacity following the transfer of the 717 aircraft to Jetstar.
- Australian Airlines reported an EBIT loss of $11.6 million compared to a profit of $1.1 million in the prior year. Excluding the impact of segmentation charges of $9.3 million, EBIT declined by $3.4 million. This underlying result reflected difficult trading conditions in the second half due to the impact of the Asian tsunami, travel warnings to Indonesia, weak leisure demand from Japan and higher fuel costs.
- QantasLink contributed $42.9 million in EBIT, down $54.1 million or 55.8 per cent on the prior year. Excluding segmentation recharges of $44.3 million, EBIT declined by $9.8 million or 10.1 per cent. The decline in EBIT largely reflects the retirement of five BAe146-100 aircraft in the first half, resulting in a capacity reduction of 3.4 per cent. RPKs decreased by 2.7 per cent, with seat factor improving by 0.5 percentage points. Yield, excluding the unfavourable impact of foreign exchange rate movements, improved by 1.7 per cent.
- Jetstar recorded an EBIT result of $44.1 million for the year, compared to an EBIT loss of $23.4 million in the prior year whilst largely in start-up mode. Jetstar's total cost per ASK for the year was 8.00 cents, which is below its full year operating cost target of 8.25 cents per ASK. Second-half unit cost was 7.62 cents per ASK.
- EBIT for non-flying subsidiary businesses declined by $78.8 million or 49.2 per cent reflecting the progressive implementation of financial reporting system changes to transition the Qantas Group into three separate business types (Flying, Flying Services and Associated Businesses) supported by a Corporate Centre. Recharges from Qantas to subsidiaries totalled $98.6 million. The recharges included IT, airport and distribution costs based on a more accurate allocation of activities.

REVIEW OF SALES AND OPERATING REVENUE

- Total revenue for the year increased by $1,295.1 million to $12.6 billion, an increase of 11.4 per cent versus the prior year. Excluding the unfavourable impact of foreign exchange movements, revenue increased by $1,334.6 million or 11.8 per cent.
- Net passenger revenue increased by $856.8 million to $9.8 billion, an increase of 9.5 per cent. Excluding the unfavourable impact of exchange rate movements, revenue increased by 9.8 per cent due to growth in RPKs of 7.0 per cent and an improvement in yield (excluding exchange) of 2.0 per cent. Overall Qantas Group capacity (ASKs) increased by 9.4 per cent compared with the prior year.
- Other revenue categories increased by $438.3 million to $2.8 billion, an increase of 18.5 per cent. This was primarily due to additional wet-leased freighter capacity, freight fuel surcharge, growth in outbound tours and travel, various service fees and charges and the release of surplus revenue provisions of $52.1 million.

~Discussion and Analysis of Performance Summary~

REVIEW OF EXPENDITURE

- Total expenditure, including net borrowing costs, increased by $1,232.5 million or 11.9 per cent to $11.6 billion. Excluding the favourable impact of movements in foreign exchange rates, total expenditure increased by $1,363.5 million or 13.1 per cent. Excluding fuel and oil price increases of $484.9 million, expenditure increased by $747.6 million or 7.2 per cent, which was lower than the 9.4 per cent increase in capacity. This outcome reflects cost saving initiatives delivered under the Sustainable Future Program and favourable foreign exchange movements of $34.1 million.
- Net expenditure cost per ASK, excluding the favourable impact of foreign exchange rate movements, increased by 1.2 per cent. After eliminating the impact of unfavourable fuel and oil cost movements, unit costs improved by 5.8 per cent.
- Manpower and staff related expenditure increased by $306.4 million or 10.4 per cent. This included Enterprise Bargaining Agreement wage increases of 3.0 per cent and a 4.9 per cent increase in average full-time equivalent employees. The result also includes the provision of executive and staff bonuses following the achievement of profitability targets for the year.
- Selling and marketing expenditure decreased by $21.8 million or 4.7 per cent largely due to lower advertising costs and favourable foreign exchange. The prior year included expenditure on the Rugby World Cup, Skybed, "I Still Call Australia Home" and the launch of Jetstar.
- Aircraft operating variable costs increased by $209.0 million or 9.4 per cent. Excluding favourable foreign exchange, costs increased by $226.6 million largely due to increased landing fees and route navigation charges, security charges and other operating costs.
- Fuel and oil costs increased by 42.5 per cent or $576.1 million. The underlying jet fuel price was 51.2 per cent higher than the prior year, increasing costs by $770.4 million, while increased consumption increased costs by $188.0 million. Total hedging benefits of $403.5 million were $285.5 million higher than the prior year and contributed to reduce the impact of the underlying fuel price rise to $484.9 million. Favourable foreign exchange rate movements contributed to reduce costs by $96.8 million.
- Property costs decreased by $9.3 million or 3.0 per cent largely due to the reversal of a rental provision for the Canberra Hangar following an agreement with Canberra Airport to permit QDS to utilise the hangar for the duration of the lease.
- Computer and communication costs increased by $52.8 million or 12.0 per cent. This included transition and implementation costs associated with the replacement of the 30-year old Data Centre. Computer Reservation System (CRS) fees and IT project and software maintenance costs were higher, offset by SFP benefits and favourable foreign exchange of $9.7 million.
- Depreciation and amortisation increased by $94.4 million or 9.4 per cent due to increased depreciation on aircraft acquisitions and modifications and software, offset by reduced spares depreciation.
- Non-cancellable operating lease rentals increased by 17.6 per cent or $46.5 million mainly due to additional A320s operated by Jetstar.
- Capacity hire costs increased by $53.6 million or 18.6 per cent. This was due to a combination of increased freighter costs, reduced leased-in capacity and the return of three 737-300 aircraft. Favourable foreign exchange rate movements decreased costs by $4.9 million.
- Other expenditure decreased by $46.8 million or 11.4 per cent, primarily as a result of lower contract work material costs, insurance costs and consultancy costs.

REVIEW OF OTHER PERFORMANCE SUMMARY ITEMS

- Net borrowing costs decreased by $39.1 million or 29.3 per cent, driven by lower average net debt and higher capitalised interest, offset by lower interest income.
- The favourable net impact of foreign exchange rate movements on the overall profit before tax was $91.5 million.
- The effective tax rate decreased by 7.1 percentage points to 25.6 per cent, primarily due to a one-off tax credit as a result of tax consolidation.
- Earnings per share increased by 5.1 cents to 40.8 cents. Diluted earnings per share increased by 5.2 cents to 40.7 cents.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2005

The net assets of the Qantas Group increased by 10.0 per cent to $6,426.9 million during the financial year. The major movements are discussed below.

REVIEW OF TOTAL ASSETS

- Total cash and current receivables increased by $581.9 million mainly reflecting an increase of $538.5 million in net cash as discussed below. Trade and sundry debtors also increased by 4.1 per cent compared to an increase in RPKs of 7.0 per cent reflecting tight control of working capital.
- Property, plant and equipment increased by 2.9 per cent due to aircraft acquisitions under the aircraft fleet plan (24 aircraft entered service during the financial year), partially offset by depreciation and amortisation charges and the sale and operating leaseback of aircraft during the year. Significant investment was also made in airline product and aircraft reconfigurations.

REVIEW OF TOTAL LIABILITIES

- Interest-bearing liabilities decreased by 6.0 per cent to $5,549.7 million due mainly to the repayment of borrowings during the year and favourable foreign exchange rate movements, partially offset by new borrowings to fund fleet acquisitions.

REVIEW OF TOTAL EQUITY

- Contributed equity increased by $178.5 million due to the issue of 52.5 million shares as part of the Dividend Reinvestment Plan.

GEARING

- Qantas Group gearing (including the notional capitalisation of non-cancellable operating leases) on a hedged basis at 30 June 2005 was 45:55 compared to 48:52 at 31 December 2004 and 49:51 at 30 June 2004. The decrease in gearing was principally a result of the profit earned during the year, partially offset by capital investment in product and fleet.
- Gearing is determined by dividing the book value of the Qantas Group's net debt (short and long-term plus the present value of non-cancellable operating leases less related hedge receivables and cash and cash equivalents) by the same amount plus the book value of total equity.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2005

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

REVIEW OF CASH FLOWS FROM OPERATING ACTIVITIES

- Cash flows provided by operations decreased by 2.5 per cent to $1,950.0 million primarily due to higher tax payments in the current year (due to a refund received from the Australian Taxation Office in the prior year relating to realised foreign exchange losses on the hedging of aircraft acquisitions) and adverse working capital movements.

REVIEW OF CASH FLOWS FROM INVESTING ACTIVITIES

- Cash flows used in investing activities decreased by $836.4 million to $1,396.2 million.
- Total capital expenditure of $1,682.9 million for the year predominantly related to the acquisition of aircraft under the aircraft fleet plan, aircraft progress payments, reconfigurations, product investment, engine modifications and spares.
- Proceeds from the sale and leaseback of non-current assets of $257.9 million relate to the sale and subsequent leaseback of five A320 aircraft. Included in this amount was $18.8 million in relation to an A320 aircraft. The rights to this aircraft were sold prior to delivery of the aircraft to a lessor and leased back via operating lease.
- Payments for investments made during the year of $44.6 million mainly comprised the investments in Jetstar Asia Airways Pte Limited, Jet Turbine Services Pty Limited, Thai Air Cargo Co., Ltd. and the acquisition of the remaining 49 per cent equity in Caterair Airport Services (Sydney) Pty Limited.

REVIEW OF CASH FLOWS FROM FINANCING ACTIVITIES

- Cash flows used in financing activities decreased by $402.1 million to $15.3 million.
- Repayments of borrowings of $1,144.5 million comprised repayments of short-term borrowings, swaps, loans and leases.
- Proceeds from borrowings/swaps of $1,302.9 million included secured loans required to purchase new aircraft under the Fleet Plan.
- Dividend payments of $175.0 million represent total dividends paid and is net of $178.5 million which was converted directly to shares issued under the Dividend Reinvestment Plan.

The Qantas Group held cash of $1,903.8 million and had access to additional funding of $1,270.0 million as at 30 June 2005. The latter comprised a $500.0 million stand-by facility and a $770.0 million revolving facility under a syndicated loan.

~Contents~
for the year ended 30 June 2005

~Directors' Report~
for the year ended 30 June 2005

The Directors of Qantas Airways Limited (Qantas) present their report together with the Financial Report of the consolidated entity, being Qantas and its controlled entities (Qantas Group), for the financial year ended 30 June 2005 and the Independent Audit Report thereon.

DIRECTORS

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

Margaret Jackson, AC
Peter Gregg
Mike Codd, AC
Patricia Cross
Garry Hounsell (appointed 1 January 2005)
Roger Maynard (resigned 8 September 2004)
John Schubert
Geoff Dixon
Paul Anderson
Peter Cosgrove, AC, MC (appointed 6 July 2005)
Trevor Eastwood, AM (resigned 31 March 2005)
Jim Kennedy, AO, CBE
James Packer
Nick Tait, OBE (resigned 8 September 2004)

Details of Directors, their qualifications, experience and any special responsibilities, including Qantas Committee Memberships, are set out on pages 32 to 34.

PRINCIPAL ACTIVITIES

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

DIVIDENDS

The Directors declared a final dividend of $189.8 million (final ordinary dividend of 10.0 cents per share) for the year ended 30 June 2005 (2004: final ordinary dividend of 9.0 cents per share). The final dividend will be fully franked and follows a fully franked interim ordinary dividend of $186.8 million (10.0 cents per share), which was paid during the financial year.

REVIEW OF OPERATIONS AND STATE OF AFFAIRS

A review of, and information about, the Qantas Group's operations, including the results of those operations and changes in the state of affairs of the Qantas Group during the financial year together with information about the financial position of the Qantas Group appears on pages 15 to 31. In the opinion of the Directors, there were no other significant changes in the state of affairs of the Qantas Group that occurred during the financial year under review.

EVENTS SUBSEQUENT TO BALANCE DATE

For reporting periods beginning on or after 1 July 2005, the Qantas Group must comply with Australian equivalents to International Financial Reporting Standards (A-IFRS) applicable at 30 June 2005 as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting A-IFRS are detailed in Note 39 to the Financial Statements.

With the exception of the final dividend identified above and the increase in fuel costs referred to on page 12, there has not arisen since the end of the financial year and the date of this Directors' Report any matter or circumstance that has significantly affected or may significantly affect the Qantas Group's operations, results of those operations or state of affairs in future financial years.

LIKELY DEVELOPMENTS

Further information about the likely developments in the operations of the Qantas Group in future financial years and the expected results of those operations has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the Qantas Group. Further information about the Qantas Group's business strategies and its prospects for future financial years has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the Qantas Group.

~Directors' Report~
for the year ended 30 June 2005

DIRECTORS' MEETINGS

The number of Directors' Meetings held (including Meetings of Committees of Directors[1]) and the number of Meetings attended by each of the Directors during the financial year are as follows:

	Qantas Board											
	Scheduled Meetings		Unscheduled Meetings		Audit Committee		Safety, Environment & Security Committee		Chairman's Committee[2]		Remuneration Committee[3]	
Directors	Attended	Held[4]	Attended	Held[4]	Attended	Held[4]	Attended	Held[4]	Attended	Held[4]	Attended	Held[4]
Margaret Jackson	9	9	1	1	4[5]	4	3[5]	4	4	4	1	1
Geoff Dixon	9	9	1	1	4[5]	4	4	4	3[5]	4	1[5]	1
Peter Gregg	9	9	1	1	4[5]	4	1[5]	4	1[5]	4	–	–
Paul Anderson	9	9	1	1	–	–	–	–	–	–	1	1
Mike Codd	9	9	1	1	4	4	4	4	–	–	–	–
Patricia Cross	9	9	1	1	3[5]	4	3[5]	4	2[5]	4	1	1
Trevor Eastwood	7	7	–	–	2	3	–	–	4	4	–	–
Garry Hounsell	3	3	1	1	1[6]	2	2[5]	2	1	1	–	–
Jim Kennedy	9	9	1	1	4	4	–	–	4	4	1	1
Roger Maynard	3	3	–	–	1	1	–	–	2	2	–	–
James Packer	8	9	1	1	–	–	–	–	–	–	–	–
John Schubert	9	9	1	1	–	–	4	4	3[5]	4	–	–
Nick Tait	3	3	–	–	–	–	1	1	2	2	–	–

1 No Nominations Committee Meetings were held during the relevant period.
2 The Chairman's Committee functions were split and separate Remuneration and Nominations Committees were established on 18 May 2005.
3 The Remuneration Committee was established on 18 May 2005.
4 Reflects the number of Meetings held during the time that the Director held office during the financial year.
5 Attended Meetings in an ex-officio capacity.
6 Garry Hounsell was appointed as a Member of the Audit Committee on 18 May 2005. There was only one Audit Committee Meeting held since his appointment to that Committee.

~Directors' Report~
for the year ended 30 June 2005

DIRECTORSHIPS OF LISTED COMPANIES HELD BY THE MEMBERS OF THE BOARD – 1 JULY 2002 TO 30 JUNE 2005

Margaret Jackson	
Qantas Airways Limited	– current, appointed 1 July 1992
Australia and New Zealand Banking Group Limited	– current, appointed 22 March 1994
Billabong International Limited	– current, appointed 4 July 2000
John Fairfax Holdings Limited	– ceased, appointed 1 March 2003 and ceased 31 August 2004
Southcorp Limited (formerly Southcorp Holdings Limited)	– ceased, appointed 23 August 2004 and ceased 26 May 2005
Geoff Dixon	
Qantas Airways Limited	– current, appointed 1 August 2000
Leighton Holdings Limited	– current, appointed 19 August 1999
Peter Gregg	
Qantas Airways Limited	– current, appointed 13 September 2000
Paul Anderson	
Qantas Airways Limited	– current, appointed 2 September 2002
BHP Billiton Limited	– ceased, appointed 1 December 1998 and ceased 4 November 2002
Mike Codd	
Qantas Airways Limited	– current, appointed 16 January 1992
Patricia Cross[1]	
Qantas Airways Limited	– current, appointed 1 January 2004
AMP Limited	– ceased, appointed 30 August 2000 and ceased 26 February 2003
Wesfarmers Limited	– current, appointed 11 February 2003
Garry Hounsell	
Qantas Airways Limited	– current, appointed 1 January 2005
Nufarm Limited	– current, appointed 1 October 2004
Orica Limited	– current, appointed 21 September 2004
Jim Kennedy	
Qantas Airways Limited	– current, appointed 18 October 1995
Australian Stock Exchange Limited	– current, appointed 26 February 1990
GWA International Limited	– current, appointed 28 August 1992
Macquarie Goodman Management Limited	– ceased, appointed 26 October 2000 and ceased 24 January 2003
Suncorp-Metway Limited	– current, appointed 1 August 1997
James Packer	
Qantas Airways Limited	– current, appointed 1 March 2004
Challenger Financial Services Group Limited	– current, appointed 6 November 2003
Crown Limited	– current, appointed 22 July 1999
eCorp Limited[2]	– current, appointed 9 March 1994
Publishing and Broadcasting Limited	– current, appointed 28 April 1992
Seek Limited	– current, appointed 31 October 2004
John Schubert	
Qantas Airways Limited	– current, appointed 23 October 2000
BHP Billiton Limited	– current, appointed 1 June 2000
Commonwealth Bank of Australia	– current, appointed 8 October 1991
Hanson PLC	– ceased, appointed 1 May 2000 and ceased 15 May 2003
WorleyParsons Limited (formerly Worley Group Limited)	– ceased, appointed 11 October 2002 and ceased 28 February 2005

1 In addition, Patricia Cross has been appointed to the Board of National Australia Bank Limited effective December 2005.
2 Delisted in the relevant period.

~Directors' Report~
for the year ended 30 June 2005

QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF THE COMPANY

Brett Johnson – General Counsel & Company Secretary, Bachelor of Laws (Syd), FAICD.

- joined Qantas in July 1995 just prior to the listing on the Australian Stock Exchange (ASX);
- responsible for developing and implementing the Corporate Governance structure to ensure compliance with the Corporations Act, Listing Rules and Trade Practices Act;
- responsible for the management of all the legal and public company issues arising within the Qantas Group;
- Independent Non-Executive Director of Heggies Bulkhaul Limited since 10 March 2005;
- Member of the ASX Listing Appeals Committee;
- admitted as a Solicitor of Supreme Court of New South Wales in 1982;
- 1989 to 1995 – General Counsel & Company Secretary, Memtec Limited; and
- 23 years legal experience working in Australia and overseas.

Janine Smith – Assistant Company Secretary, Bachelor of Laws (Honours) (Syd), Bachelor of Economics (Syd).

- joined Qantas in August 2002 as a Corporate Lawyer;
- responsible for the day-to-day management of all public company issues arising within the Qantas Group;
- 1999 to 2002 – Lawyer, Mallesons Stephen Jaques;
- admitted as a Solicitor of Supreme Court of New South Wales in 2001; and
- seven years legal experience working in Australia.

DIRECTORS' INTERESTS AND BENEFITS

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

	Ordinary Shares	
Director	**2005 Number**	2004 Number
Margaret Jackson	**122,997**	122,997
Geoff Dixon	**394,974**	108,174
Peter Gregg	**151,730**[1]	64,676
Paul Anderson	**25,000**	25,000
Mike Codd	**12,236**	11,577
Peter Cosgrove	**–**	–
Patricia Cross	**2,163**	2,047
Garry Hounsell	**30,854**	–
Jim Kennedy	**1,975**	1,975
James Packer	**–**	–
John Schubert	**34,753**	34,753

1 Includes the 45,000 deferred shares "called for" in July 2005 under the 2004/05 Executive Director Deferred Share & Performance Rights Plan.

In addition to the interests shown above, indirect interests in Qantas shares held on behalf of Mr Dixon and Mr Gregg are as follows:

Geoff Dixon	**Number**	Number
Deferred Shares held in trust under:		
– 2002 Executive Director Long-Term Incentive Plan	**250,000**	250,000
– 2003/04 Executive Director Deferred Share & Performance Rights Plan	**–**	62,500
– 2004/05 Executive Director Performance Share & Performance Rights Plan	**150,000**	–
– 2005/06 Executive Director Performance Share & Performance Rights Plan (17 Aug 05)	**150,000**	–
	550,000	312,500
Rights granted under:		
– 2002 Performance Bonus Plan	**–**	3,057
– 2002 Executive Director Long-Term Incentive Plan	**27,777**	27,777
– 2003/04 Executive Director Deferred Share & Performance Rights Plan	**125,000**	125,000
– 2004/05 Executive Director Performance Share & Performance Rights Plan	**450,000**	–
	602,777	155,834
Entitlements awarded under the Qantas Long-Term Executive Incentive Plan	**1,738,693**	2,045,000[1]

1 61,313 Entitlements lapsed effective 1 July 2004.

DIRECTORS' INTERESTS AND BENEFITS continued

Peter Gregg	2005 Number	2004 Number
Deferred Shares held in trust under:		
– 2002 Executive Director Long-Term Incentive Plan	**150,000**	150,000
– 2003/04 Executive Director Deferred Share & Performance Rights Plan	**–**	40,000
– 2004/05 Executive Director Performance Share & Performance Rights Plan	**45,000**[2]	–
– 2005/06 Executive Director Performance Share & Performance Rights Plan (17 Aug 05)	**90,000**	–
	285,000	190,000
Rights granted under:		
– 2002 Performance Bonus Plan	**–**	2,054
– 2002 Executive Director Long-Term Incentive Plan	**16,666**	16,666
– 2003/04 Executive Director Deferred Share & Performance Rights Plan	**80,000**	80,000
– 2004/05 Executive Director Performance Share & Performance Rights Plan	**90,000**	–
– 2005/06 Executive Director Performance Share & Performance Rights Plan (17 Aug 05)	**90,000**	–
	276,666	98,720
Entitlements awarded under the Qantas Long-Term Executive Incentive Plan	**705,603**	838,000[3]

2 Excludes the 45,000 deferred shares "called for" in July 2005 under the 2004/05 Executive Director Performance Share & Performance Rights Plan.
3 9,900 Entitlements lapsed effective 1 July 2004.

SHARE ENTITLEMENTS

In previous years, Entitlements over unissued ordinary shares in Qantas were awarded to Executive Directors and Senior Executives under the Qantas Long-Term Executive Incentive Plan as detailed on page 79.

During the 2005 financial year, the following movements in Entitlements took place:

Qantas Long-Term Executive Incentive Plan	Number	Number
Entitlements available for vesting at 1 July	**5,528,644**	31,352,488
Entitlements issued	**–**	–
Entitlements lapsed	**(1,180,325)**	(598,244)
Entitlements vested	**–**	(25,225,600)
Entitlements available for vesting at 30 June	**4,348,319**[1]	5,528,644[2]

1 Of these Entitlements, 3,998,319 lapsed on 1 July 2005.
2 Of these Entitlements, 597,150 lapsed on 1 July 2004.

The following Entitlements were outstanding at 30 June 2005:

			Number of Entitlements[1]					
Expiry Date	Exercise Price	Value at Grant Date[2]	Net Vested 2005	Unvested 2005	Total 2005	Net Vested 2004	Unvested 2004	Total 2004
17 Nov 07	$4.99	$1.13	**3,993,306**	**–**	**3,993,306**[3]	4,710,850	597,150	5,308,000
24 Nov 08	$3.44	$0.82	**18,645,188**	**3,874,188**	**22,519,376**[4]	22,833,169	4,457,363	27,290,532
20 Feb 09	$3.62	$0.77	**635,869**	**124,131**	**760,000**[5]	635,869	124,131	760,000
06 Dec 09	$3.25	$1.14	**–**	**350,000**	**350,000**	–	350,000	350,000
			23,274,363	**4,348,319**	**27,622,682**	28,179,888	5,528,644	33,708,532

1 The Entitlements do not allow the holder to participate in any pro rata or bonus share issue of Qantas. No dividends are payable on Entitlements.
2 The estimated value per Entitlement at grant date disclosed above is calculated using the Black-Scholes Option Valuation Methodology.
3 Of these Entitlements, 284,000 lapsed since 30 June 2005.
4 Of these Entitlements, 3,874,188 lapsed on 1 July 2005 and 1,016,554 lapsed subsequently.
5 Of these Entitlements, 124,131 lapsed on 1 July 2005 and 184,067 lapsed subsequently.

RIGHTS

Performance Rights Plan	2005 Number	2004 Number
Rights outstanding at 1 July	**1,586,000**	–
Rights granted	**1,959,500**	1,596,000
Rights lapsed	**(69,000)**	(10,000)
Rights vested	**–**	–
Rights outstanding at 30 June	**3,476,500**	1,586,000

The following Rights were outstanding at 30 June 2005:

			Number of Rights[1]					
Testing period	Grant Date	Value at Grant Date	Net Vested 2005	Unvested 2005	Total 2005	Net Vested 2004	Unvested 2004	Total 2004
30 Jun 06[2]	15 Oct 03	$3.09[4]	**–**	**250,000**	**250,000**	–	250,000	250,000
30 Jun 06[2]	16 Oct 03	$3.04[4]	**–**	**205,000**	**205,000**	–	205,000	205,000
30 Jun 06[2]	10 Dec 03	$2.86[4]	**–**	**60,000**	**60,000**	–	60,000	60,000
30 Jun 06[2]	27 Feb 04	$3.24[4]	**–**	**1,015,000**	**1,015,000**	–	1,071,000	1,071,000
30 Jun 06[2]	08 Jul 04	$3.10[4]	**–**	**41,000**	**41,000**	–	–	–
30 Jun 07 – 30 Jun 09[3]	18 Aug 04	$2.25[5]	**–**	**390,000**	**390,000**	–	–	–
30 Jun 07 – 30 Jun 09[3]	21 Oct 04	$2.28[5]	**–**	**540,000**	**540,000**	–	–	–
30 Jun 07 – 30 Jun 09[3]	13 Jan 05	$2.47[5]	**–**	**970,500**	**970,500**	–	–	–
30 Jun 07 – 30 Jun 09[3]	20 Jun 05	$1.88[5]	**–**	**5,000**	**5,000**	–	–	–
			–	**3,476,500**	**3,476,500**	–	1,586,000	1,586,000

1 The Rights do not allow the holder to participate in any share issue of Qantas. No dividends are payable on Rights.

2 These awards may vest on 30 June 2006.

3 While these Rights vest on the tenth anniversary of the date of award, Executives may "call for" the Rights to be converted to ordinary shares to the extent performance hurdles have been achieved upon testing which is to commence 30 June 2007.

4 The estimated value of Rights granted under Plans before 1 July 2004 is calculated at the date of grant using the Black-Scholes Option Valuation Methodology. This does not include any discount to take into consideration the likelihood of vesting.

5 The fair value of Rights granted under Plans post 1 July 2004 is calculated at the date of grant using a Monte-Carlo Valuation Methodology. Black-Scholes Option Valuation Methodology is no longer used as it does not meet the AASB 1046 requirement to include market conditions in the valuation.

A pool of Rights (not to exceed 2,030,000 Rights) was approved for allocation to Qantas Executives by the Board on 17 August 2005. 530,000 of these Rights were for allocation to the Chief Financial Officer and Executive General Managers.

REMUNERATION REPORT

Details of the nature and amount of each major element of the remuneration of each Director of Qantas and each of the Specified Executive Officers of Qantas and the Qantas Group and reference to where they have been incorporated into the Qantas Annual Report is set out below:

Requirement	Included in the Qantas Annual Report
Corporations Act	
– Remuneration Policy	Refer below
– elements of remuneration for each required individual	Refer below
Australian Accounting Standards Board (AASB) 1046	
– Director and Executive Remuneration disclosures	Refer below
– Director and Executive Equity Instrument disclosures	Note 5 to the Financial Statements
ASX Corporate Governance Council: Corporate Governance Principle 9	
– remunerate fairly and responsibly	Refer below
– 2005 Executive Remuneration Philosophy and Objectives	Refer below

2005 EXECUTIVE REMUNERATION PHILOSOPHY AND OBJECTIVES

Qantas' Philosophy for Executive Remuneration is to ensure that remuneration properly reflects the duties and responsibilities of its Executives and that remuneration is competitive in attracting, motivating and retaining people of the highest calibre. As part of this, Executives should be rewarded for performance and challenged to achieve rigorous and continuously improving performance targets.

These objectives are achieved via a reward program that involves a mixture of:

- Fixed Annual Remuneration (FAR);
- the Performance Plan, comprising:
  - i. the Performance Cash Plan – a short-term cash incentive; and
  - ii. the Performance Equity Plan – made up of a medium-term incentive (the Performance Share Plan) and a long-term incentive (the Performance Rights Plan); and
- Concessionary Travel Entitlements, some targeted retention arrangements and other discretionary benefits considered appropriate from time to time.

The Remuneration Committee (which is a Committee of the Qantas Board) plays a critical role in reviewing and recommending to the Board on matters of remuneration policy, specific recommendations relating to Senior Executives and all matters concerning equity plans and awards.

The guiding principles in managing remuneration for Executives are that:

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

<table>
<tr><td colspan="4">Fixed Annual Remuneration</td><td colspan="4">Set with reference to role, market and experience</td></tr>
<tr><td rowspan="4">Performance Plan</td><td colspan="2">Performance Cash Plan</td><td>Short-term</td><td colspan="4">Group Financial Target</td></tr>
<tr><td rowspan="3">Performance Equity Plan</td><td rowspan="2">Performance Share Plan</td><td rowspan="2">Medium-term</td><td colspan="4">Balanced Scorecard Target</td></tr>
<tr><td>Customer</td><td>Operational</td><td>People</td><td>Financial</td></tr>
<tr><td>Performance Rights Plan</td><td>Long-term</td><td colspan="4">Total Shareholder Return Target allocations to selected Executives</td></tr>
<tr><td colspan="4">Other benefits eg concessionary travel, discretionary and retention programs</td><td colspan="4">Reflects industry and market practice</td></tr>
</table>

Overall, the mix of the remuneration program is consistent with market practice.

Fixed Annual Remuneration

Salary decisions are based on the concept of FAR, which involves a guaranteed salary level from which superannuation and certain other benefits, such as a maintained motor vehicle, are able to be deducted at the election of the employee on a salary sacrifice basis.

FAR is set with reference to market data, reflecting the scope of the role, the unique value of the role and the performance of the person in the role. FAR is reviewed annually and reflects a middle-of-the-market approach, as compared to similar comparative roles within Australia, having particular reference to large public companies for the most senior roles.

Performance Plan

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

2005 EXECUTIVE REMUNERATION PHILOSOPHY AND OBJECTIVES continued

Performance Cash Plan

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

The target reward is a percentage of FAR dependent on each individual's level of responsibility. The actual incentive earned is based on a combination of Qantas' results and individual performance and may be greater than or less than the target amount.

Performance against a financial target determines the amount (if any) of the pool of money available for payment. The target is set with an inherent stretch component. It is anticipated that the target would be achieved 75% of the time.

Once a pool has been approved, based on Qantas' performance, the assessment of the performance of individuals against their specific annual goals takes place along with a further assessment of the relative contribution of Executives. This results in a differentiated distribution of the bonus pool between participating Executives.

Performance Equity Plan

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

Performance Share Plan

The medium-term incentive component is delivered via deferred shares under the Terms and Conditions of the Qantas Deferred Share Plan (approved by shareholders at the October 2002 Annual General Meeting), subject to satisfactory results on a balanced scorecard basis.

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

Performance of the Group against the balanced scorecard determines the amount (if any) of the pool of shares available for payment. The Balanced Scorecard for 2005/06 contains target measures from the corporate Key Performance Indicator measures set by the Board (ie Customer, Operational, People and Financial performance). The targets are approved by the Board at the beginning of the financial year with a focus on business improvement. It is anticipated that the target would be achieved 75% of the time.

The Board has the capacity to adjust reward outcomes based on performance, if it feels it is appropriate to recognise an extraordinary effort in performance or as a way of providing specific retention allocations of deferred shares.

Assessment of the performance of individuals against their specific annual goals and a further assessment of the relative contribution of Executives, results in a differentiated distribution in the number of deferred shares.

Deferred shares awarded under this Plan are purchased on-market and are held subject to a holding lock for 10 years. Participants may "call for" the shares prior to the expiration of the holding lock but not before the end of the financial year in relation to up to one-half of the shares and the end of the following financial year in relation to the remaining shares. Generally, any shares held subject to the holding lock are forfeited on cessation of employment.

Performance Rights Plan

The aims of the Performance Rights Plan as the long-term incentive component are to:

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

As a retention tool, the program is specifically targeted to Senior Executives in key roles or identified as high potential developing Executives.

Rights granted under this Plan are subject to a performance hurdle, being Total Shareholder Return (TSR) in comparison to a basket of listed global airlines and the largest Australian listed public companies as measured by the S&P/ASX 100 Index. The TSR will first be tested three years after the Rights are granted and re-tested at quarterly intervals over the subsequent two-year period.

The Plan allows re-testing of the TSR hurdle because:

- the impacts of long-term decision making may not neatly coincide with a fixed three-year period; and
- a re-test of the cumulative TSR measure is more onerous than the original test.

This then provides flexibility to allow long-term decision making to flow through to corporate results within a time window, rather than reviewing only at specific points in time.

Retention Reward Plan

Selected Executives may also be invited to participate in a deferred cash retention scheme, involving operational performance objectives and a deferral period typically of between three and five years. A portion of the deferred reward under this Plan may be forfeited if the retention period requirement is not met.

2005 EXECUTIVE REMUNERATION PHILOSOPHY AND OBJECTIVES continued

Operation of Incentive Plans

Under all of the Executive Incentive Plans operating within Qantas, the Chief Executive Officer may recommend changes to the Board, which has discretion to amend the operation of the Plan as appropriate, given changes in business circumstances or to recognise a particular degree of difficulty or the effects of events external to management, in any performance year. Any such change and its outcome for reward would be disclosed in the relevant Qantas Annual Report.

Total Reward Mix

Consistent with market practice, the proportion of Remuneration attributable to each component of the Performance Plan is dependent on the level of seniority of the Executive. The total reward mix is as follows:

	% of Total Reward Opportunity (at Target)		
	FAR %	Performance Cash Plan %	Performance Equity Plan %
Chief Executive Officer	50	30	20
Chief Financial Officer	55	25	20
Executive General Managers	65	20	15
Other Executives depending on level of seniority	70 to 90	5 to 15	5 to 15

The above table is used to determine the allocation of performance-based remuneration on an annual basis and is based on the Executive's FAR at the date of the allocation. It excludes accrual of end of service payments and any non-cash benefits.

This target reward mix reflects remuneration over a holding lock period subject to meeting vesting conditions and does not necessarily reflect the actual remuneration received by the Executive in the current year.

For those Executives eligible to participate in the Performance Rights Plan, the "at target" component of the Performance Equity Plan is expected to be delivered in equal proportions via the Performance Share Plan and the Performance Rights Plan.

Concessionary travel entitlements, service payments and retention arrangements

Travel concessions are provided to all Executives within Qantas, consistent with practice in the airline industry. Travel at concessionary prices is on a sub-load (stand-by) basis, ie subject to considerable restrictions and limits on availability and includes specified direct family members or parties. There is also a post retirement element of this entitlement for all staff who qualify through retirement or redundancy.

In addition to this and consistent with practice in the airline industry, a small number of Senior Executives are entitled to a number of free trips for personal purposes and includes specified direct family members or parties. The value of these entitlements is accrued over the expected service of the individual. Eligibility for new participants is now restricted to members of the Qantas Executive Committee.

The primary elements of retention within Qantas are the provision of appropriate development opportunities for high performing Executives and the recognition of performance on an ongoing basis through the remuneration programs detailed above. In addition, it is occasionally appropriate to establish specific milestone reward programs which link agreed performance outcomes to an opportunity for award either in the form of cash, or by way of special allocations under the Performance Share Plan or Performance Rights Plan.

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

Continuous Improvement

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

~Directors' Report~
for the year ended 30 June 2005

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES (AUDITED)

The disclosure on pages 54 to 63 (excluding page 61) forms part of the Financial Report as required by AASB 1046 – Director and Executive Disclosures by Disclosing Entities.

Elements of Remuneration of Specified Directors and Specified Executives

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

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

		Specified Directors		Specified
	Elements of Remuneration	Non-Executive	Executive	Executives
Minimum salary level	Fixed Annual Remuneration	✔	✔	✔
	Superannuation contributions	✔	✔	✔
	Travel entitlements	✔	✔	✔
	Other benefits	✔	✔	✔
Short-term incentives	Performance Cash Plan (PCP)	–	✔	✔
Medium-term incentives	Performance Share Plan (PSP)	–	✔	✔
Long-term incentives	Performance Rights Plan (PRP)	–	✔	✔
Legacy plans	2002 Executive Director Long-Term Incentive Plan (Exec Director LTI)/Senior Manager Long-Term Incentive Plan (Sen Mgr LTI)	–	✔	✔
	2002 Performance Bonus Plan (2002 Bonus)	–	✔	✔
	Qantas Long-Term Executive Incentive Plan (QLTEIP)	–	✔	✔
Post employment	End of service payments	–	✔	✔
	Travel entitlements	✔	✔	✔

Description	Rationale
PRIMARY BENEFITS	
Fixed Annual Remuneration (FAR)	
Cash FAR is the FAR remaining after salary sacrifice components such as motor vehicles and superannuation have been deducted.	
Non-Executive Directors (NEDs)	
Non-Executive Director FAR is determined within an aggregate Directors' fee pool limit. An annual total pool of $2.5 million was approved by shareholders on 21 October 2004. FAR comprises Directors' Fees, Committee Fees and superannuation. For details of actual FAR paid, see page 58.	FAR and payments to NEDs reflect the demands and responsibilities which are made of Directors and reflects the advice of independent remuneration consultants to ensure NED FAR and payments are appropriate. The level of NED FAR is reviewed annually.
Executive Directors and Specified Executives	
FAR is the guaranteed salary level from which superannuation and other benefits are deducted through salary sacrifice.	For further information on the Executive Remuneration Philosophy and Objectives, see page 51.
Performance Cash Plan[1]	
The PCP is a cash incentive and is set as a percentage of FAR payable on achievement of a financial target. For 2004/05, the financial target was Return on Total Gross Assets (RoTGA). The threshold for payment was 90% of target and actual payments were dependent on individual performance relating to Customer, Operational, People and Financial goals.	The performance condition of RoTGA, being Earnings before Depreciation, Rentals, Interest and Tax (EBDRIT) divided by Total Gross Assets, was chosen for 2004/05 as it measures financial performance that reflects an appropriate return on capital. Non-financial measures ensure appropriate balance is reflected in the Executive's performance.
Non-Cash Benefits	
Includes salary sacrifice components such as motor vehicles, memberships of appropriate professional associations, travel entitlements and the accrual of statutory long service leave. Industry standard travel entitlements are in addition to FAR.	Reflects market practice.

1 Regardless of whether targets are achieved, the Board retains absolute discretion to determine whether any payments and/or rewards are to be made under the Performance Plan. This discretionary element is in place to take into account adverse external factors that may impact the Qantas Group. The rationale for this is the Executive Directors and Specified Executives have no control over external global events.

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

Description	Rationale
PRIMARY BENEFITS continued	
Travel Entitlements	
Directors and Specified Executives and their eligible beneficiaries are entitled to receive a number of international and domestic trips annually at no cost to the individual concerned.	Travel entitlements provide an effective form of remuneration as the value to the individual is high and the cost to Qantas is minimal as the only cash outflow from Qantas is for the associated taxes and the marginal cost of carrying the passenger.
POST EMPLOYMENT BENEFITS	
End of Service Payments	
Executive Directors and Specified Executives are entitled to end of service payments on termination, generally based on FAR, as set out in individual employment contracts.	End of service payments are considered effective retention mechanisms. These are payable upon cessation of employment and provide compensation for constraints regarding working for a competitor for up to 12 months.
Superannuation Contributions	
Statutory and salary sacrifice superannuation payments are made on behalf of the Specified Directors and Specified Executives.	Statutory requirement.
Travel Entitlements	
See commentary above on travel entitlements under non-cash benefits.	
EQUITY BENEFITS	
Qantas Deferred Share Plan (DSP)	
The DSP Terms & Conditions were approved by shareholders on 17 October 2002. The DSP governs the provision of equity benefits.	The provision of equity benefits establishes a link between shareholder value creation, financial performance and Executive remuneration.
Performance Share Plan[1]	
Deferred shares (Shares) are awarded with the value being a percentage of FAR, based on the achievement of a Balanced Scorecard relating to Customer, Operational, People and Financial performance. Customer satisfaction is measured by reference to an external survey. The Operational performance (punctuality) measure relates to the metrics published monthly by the Government. Financial performance uses an internal cost measure. People performance is focused on Occupational Health & Safety. Shares are purchased on-market and are held subject to a holding lock for 10 years. However, Executives can "call for" the Shares prior to the expiration of the holding lock, but not before the end of the financial year in relation to up to one-half of the Shares and the end of the following financial year in relation to the remaining Shares. Any dividends paid on the Shares will be distributed to the relevant Executive. Generally, any Shares which remain subject to the holding lock will be forfeited if the relevant Executive ceases employment with the Qantas Group.	The Balanced Scorecard performance condition aligns Executive remuneration with value drivers for the Qantas Group without undue emphasis on the short-term financial targets. Targets are set at the start of the financial year and readily available external measures are used where appropriate. Internal measures are used in relation to key focus areas (Safety and Sustainable Future Program). The metrics are quantifiable and provide clarity to Executives on the key priorities for Qantas in the short to medium-term.

1 Refer footnote 1 on page 54.

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

Description / **Rationale**

EQUITY BENEFITS continued

Performance Rights Plan[1]

2004/05 and 2005/06 Awards

Rights are awarded to selected Executives. Subject to achievement of the Performance Hurdle, Rights may be converted (on a one-for-one basis) to ordinary Qantas shares.

The Performance Hurdle set by the Board for these awards is the Total Shareholder Return (TSR) of Qantas in comparison to:

- companies with ordinary shares included in the S&P/ASX 100 Index excluding NewsCorp and Qantas in relation to one-half of the Rights; and
- a basket of global listed airlines comprising Air France-KLM, Air New Zealand, AMR Corporation (American Airlines), British Airways, Cathay Pacific, Delta Airlines, Japan Airlines, Lufthansa, Ryan Air, Singapore Airlines, Southwest Airlines and Virgin Blue in relation to the other half of the Rights.

The TSR will be first tested as at 30 June 2007 for the 2004/05 award and 30 June 2008 for the 2005/06 award and, if required, re-tested quarterly over the subsequent two years.

The Performance Hurdle will be considered satisfied in accordance with the following table:

Qantas TSR Performance Compared to the Relevant Target	Satisfaction of the Performance Hurdle
0 to 24th percentile	Nil
25th to 49th percentile	Default nil, but subject to Board discretion
50th to 74th percentile	50% to 99% satisfied
75th to 100th percentile	100% satisfied

Rationale: In August 2004, Qantas changed its long-term incentive performance condition from RoTGA to relative TSR. Relative TSR is a commonly used performance condition in Australia.

The relative TSR performance condition provides reward to the Executive only if the return to shareholders has been positive relative to other airlines and other large Australian companies. Qantas believes that these two peer groups are the most appropriate peer groups against which to assess its TSR growth. The S&P/ASX 100 Index represents the broader Australian market, whilst the basket of global airlines represents Qantas' key competitors. NewsCorp's ordinary and preference shares were excluded as at the time of approval in October 2004 it was assumed that NewsCorp would be successful in moving its exchange in attendant index domicile to the United States. NewsCorp continues to be excluded to ensure consistency.

The vesting scale is widely used in Australian industry. It prevents payment for below median performance (except in unusual circumstances at Board discretion), and does not deliver full reward until 75th percentile performance is achieved.

Generally, any Rights which have not vested will lapse if the relevant Executive ceases employment with the Qantas Group. Rights will also lapse if the Executive is guilty of gross misconduct in relation to the Qantas Group.

In relation to the Chief Executive Officer, Geoff Dixon, the Performance Hurdle will be tested initially as at 30 June 2007 (the same date as the first testing of the Hurdle for Qantas Executives). However, given Mr Dixon's contract expiry of 1 July 2007, it will be tested again once each quarter over 2007/08, with the last test to occur, if required, as at 30 June 2008. These tests will occur regardless of whether Mr Dixon is an employee during 2007/08.

Rationale: It is considered this is appropriate as the strategy implemented by Mr Dixon during his tenure as Chief Executive Officer may take some time to be reflected in Qantas' TSR.

2003/04 Awards

Vesting for the 2003/04 grants is based on the achievement of average annual RoTGA targets over the three years to 30 June 2006. If the target is not met or the Executive ceases employment prior to vesting, all of the Rights granted will lapse.

Rationale: The performance condition of target RoTGA was chosen in 2003/04 as it measures financial performance that reflects an appropriate return on capital. The RoTGA target was achieved in both 2003/04 and 2004/05.

1 Refer footnote 1 on page 54.

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

Description	Rationale
LEGACY PLANS	
Senior Manager Long-Term Incentive Plan[2]	
Certain Executives were awarded a number of shares subject to a four-year holding lock provided the Executive remains employed by the Qantas Group. These shares will be held on behalf of each Executive by the Trustee until the expiry of the holding lock period. Any dividends paid on the shares will be distributed to the relevant Executive.	This was an interim plan following the suspension of the Qantas Long-Term Executive Incentive Plan. No awards have been made since April 2003.
2002 Performance Bonus Plan	
In 2001/02, the CEO, CFO and select Executives were required to salary sacrifice at least 10 per cent of their bonus into deferred shares (Shares). Under a matching award, participants were granted one Right for every nine Shares allocated.	The program aligned remuneration and growth in shareholder value. No Shares have been allocated under this Plan since October 2002.
Qantas Long-Term Executive Incentive Plan – suspended in 2002	
Under QLTEIP, Executives were granted Entitlements to unissued shares in Qantas in the years ended 30 June 2000, 2001 and 2002. Vesting is based on Qantas relative TSR compared to ASX 200 Industrials Index and a basket of global airlines. Entitlements vest between three and five years following award date and are generally conditional on the Executive remaining employed. To the extent that Entitlements vest, they may be converted into ordinary shares within eight years of the award date in proportion to the gain in share price. Entitlements will lapse on the eighth anniversary of the date of award. The first index is determined as the percentile performance of Qantas (based on average Relative TSR) within a modified S&P/ASX 200 Industrials Index. The index excludes Banks, Infrastructure and Utilities, Insurance, Investments and Financial Services, Media, Property Trusts and Telecommunications. At grant date, it included 86 stocks. At grant date, the basket of global airlines included Air Canada, Air New Zealand, AMR Corporation (American Airlines), British Airways, Cathay Pacific, Delta Airlines, Japan Airlines, KLM Royal Dutch Airlines (data no longer applicable), Lufthansa, Northwest Airlines, Singapore Airlines and UAL Corporation (United Airlines). For further details of QLTEIP, see page 49.	This performance condition aligns remuneration and growth in shareholder value. The plan was suspended in July 2002.

2 The relevant plan for the Executive Directors is the 2002 Executive Director Long-Term Incentive Plan.

~Directors' Report~
for the year ended 30 June 2005

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

Set out in the following tables are the remuneration for the Specified Directors and Specified Executives of Qantas during the financial year ended 30 June 2005:

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2005

		Primary Benefits				Post Employment Benefits				Equity Benefits[7]	Total
Specified Directors	Year	Cash FAR $	Cash Incentives $	Non-Cash Benefits $	Total $	End of Service $	Superannuation $	Travel $	Total $	$	$
Margaret Jackson, Chairman	**2005**	**372,171**[3]	**–**	**113,060**	**485,231**	**–**	**11,585**	**9,550**	**21,135**	**–**	**506,366**
	2004	371,756	–	92,656	464,412	–	11,002	9,300	20,302	–	484,714
Paul Anderson, Non-Executive Director	**2005**	**114,348**	**–**	**–**	**114,348**	**–**	**–**	**4,775**	**4,775**	**–**	**119,123**
	2004	100,000	–	285	100,285	–	–	4,650	4,650	–	104,935
Mike Codd, Non-Executive Director	**2005**	**76,020**[3]	**–**	**37,257**	**113,277**	**–**	**95,980**	**4,775**	**100,755**	**–**	**214,032**
	2004	66,641	–	25,685	92,326	–	91,149	4,650	95,799	–	188,125
Patricia Cross, Non-Executive Director	**2005**	**77,096**[3,5]	**–**	**119,834**	**196,930**	**–**	**18,251**	**4,775**	**23,026**	**–**	**219,956**
	2004	65,000	–	–	65,000	–	5,501	2,325	7,826	–	72,826
Trevor Eastwood, Non-Executive Director (1 Jul 04 – 31 Mar 05)	**2005**	**105,311**	**–**	**11,419**	**116,730**	**–**	**8,689**	**3,581**	**12,270**	**–**	**129,000**
	2004	140,000	–	5,756	145,756	–	11,002	4,650	15,652	–	161,408
Garry Hounsell, Non-Executive Director (1 Jan 05 – 30 Jun 05)	**2005**	**53,097**	**–**	**46,089**	**99,186**	**–**	**5,251**	**2,388**	**7,639**	**–**	**106,825**
	2004	–	–	–	–	–	–	–	–	–	–
Jim Kennedy, Non-Executive Director	**2005**	**172,000**	**–**	**20,517**	**192,517**	**–**	**–**	**4,775**	**4,775**	**–**	**197,292**
	2004	150,000	–	13,916	163,916	–	11,002	4,650	15,652	–	179,568
Roger Maynard, Non-Executive Director (1 Jul 04 – 8 Sep 04)	**2005**	**22,768**[6]	**–**	**662**	**23,430**	**–**	**2,049**	**796**	**2,845**	**–**	**26,275**
	2004	120,000	–	–	120,000	–	10,800	4,650	15,450	–	135,450
James Packer, Non-Executive Director	**2005**	**101,920**	**–**	**–**	**101,920**	**–**	**10,080**	**4,775**	**14,855**	**–**	**116,775**
	2004	33,333	–	–	33,333	–	3,000	1,550	4,550	–	37,883
John Schubert, Non-Executive Director	**2005**	**122,763**	**–**	**18,536**	**141,299**	**–**	**11,585**	**4,775**	**16,360**	**–**	**157,659**
	2004	120,000	–	14,845	134,845	–	10,800	4,650	15,450	–	150,295
Nick Tait, Non-Executive Director (1 Jul 04 – 8 Sep 04)	**2005**	**26,564**	**–**	**1,370**	**27,934**	**–**	**2,391**	**796**	**3,187**	**–**	**31,121**
	2004	140,000	–	7,071	147,071	–	11,002	4,650	15,652	–	162,723
Geoff Dixon, Chief Executive Officer	**2005**	**1,905,863**[1]	**1,490,000**	**301,396**	**3,697,259**	**1,414,785**	**95,979**	**19,100**	**1,529,864**	**1,255,550**	**6,482,673**
	2004	1,640,856	1,593,435[2]	354,077	3,588,368	1,466,232	72,000	18,600	1,556,832	946,072	6,091,272
Peter Gregg, Chief Financial Officer	**2005**	**1,164,415**[1]	**755,000**	**248,459**	**2,167,874**	**788,501**	**28,800**	**19,100**	**836,401**	**626,724**	**3,630,999**
	2004	988,833	868,605[2]	340,941	2,198,379	844,209	17,800	18,600	880,609	532,572	3,611,560
Total remuneration for Specified Directors	**2005**	**4,314,336**[4]	**2,245,000**	**918,599**	**7,477,935**	**2,203,286**	**290,640**	**83,961**	**2,577,887**	**1,882,274**	**11,938,096**
	2004	3,936,419	2,462,040[2]	855,232	7,253,691	2,310,441	255,058	82,925	2,648,424	1,478,644	11,380,759
Trevor Kennedy, Non-Executive Director (1 Jul 03 – 17 Nov 03)	**2005**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2004	38,250	–	3,855	42,105	–	3,443	1,938	5,381	–	47,486
Total remuneration for Specified Directors	**2005**	**4,314,336**[4]	**2,245,000**	**918,599**	**7,477,935**	**2,203,286**	**290,640**	**83,961**	**2,577,887**	**1,882,274**	**11,938,096**
	2004	3,974,669	2,462,040[2]	859,087	7,295,796	2,310,441	258,501	84,863	2,653,805	1,478,644	11,428,245

1 Mr Dixon's FAR for the year was $2,070,000 from 1 July 2004 to 31 December 2004 and $2,160,000 from 1 January 2005 to 30 June 2005 (2004: $1,800,000) less salary sacrificed components of $209,137 (2004: $159,144). Mr Gregg's FAR for the year was $1,260,000 from 1 July 2004 to 31 December 2004 and $1,310,000 from 1 January 2005 to 30 June 2005 (2004: $1,080,000) less salary sacrificed components of $120,585 (2004: $91,167).

2 Comprises cash incentive of $1,310,000 and long-term incentive of $283,435 for Mr Dixon and cash incentive of $675,000 and long-term incentive of $193,605 for Mr Gregg. These long-term incentive programs were closed during 2004/05.

3 Cash FAR for the Non-Executive Directors is stated after deducting statutory superannuation contributions and the following additional salary sacrificed amounts: $28,244 (2004: $28,244) for Ms Jackson, $84,395 (2004: $83,359) for Mr Codd and $55,666 (2004: $nil) for Ms Cross.

4 Total NED Cash FAR paid inclusive of additional salary sacrificed elements was $1,412,363 (2004: $1,456,583). Effective 1 July 2004, each Director was paid an annual base fee inclusive of superannuation of $112,000 and the Chairman $412,000. Committee fees were $20,000 per Committee Membership and $40,000 per Committee Chairmanship.

5 Includes payments for services rendered as Chairman of Qantas Superannuation Limited until her resignation on 1 April 2005.

6 Director's fees for Roger Maynard were paid directly to British Airways Plc until his resignation on 8 September 2004.

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for the year ended 30 June 2005

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2005 continued

7 Equity Benefits

	Year	PSP $	PRP $	Exec Director LTI $	QLTEIP $	Total $
Geoff Dixon	**2005**	**513,798**	**363,375**	**378,377**	**–**	**1,255,550**
	2004	326,750	71,250	377,239	170,833	946,072
Peter Gregg	**2005**	**314,184**	**119,700**	**192,840**	**–**	**626,724**
	2004	209,120	45,600	192,435	85,417	532,572
Total	**2005**	**827,982**	**483,075**	**571,217**	**–**	**1,882,274**
	2004	535,870	116,850	569,674	256,250	1,478,644

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

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

REMUNERATION OF SPECIFIED EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2005

		Primary Benefits				Post Employment Benefits				Equity Benefits[3]	Other Benefits	Total
Specified and Highest Remunerated Executives	Year	Cash FAR $	Cash Incen-tives[1] $	Non-Cash Benefits $	Total $	End of Service $	Super-annuation $	Travel $	Total $	$	Termin-ation $	$
Denis Adams, EGM Associated Businesses	**2005**	**673,467**	**219,000**	**123,860**	**1,016,327**	**45,000**	**17,457**	**9,550**	**72,007**	**224,515**	**–**	**1,312,849**
	2004	574,310	231,000	108,860	914,170	142,500	82,054	9,300	233,854	151,491	–	1,299,515
Fiona Balfour, EGM Qantas Business Services and CIO	**2005**	**538,540**	**176,000**	**111,466**	**826,006**	**155,489**	**58,419**	**9,550**	**223,458**	**171,282**	**–**	**1,220,746**
	2004	506,862	190,000	190,143	887,005	158,175	56,172	9,300	223,647	92,891	–	1,203,543
John Borghetti, EGM Qantas	**2005**	**729,080**	**311,000**	**230,555**	**1,270,635**	**153,434**	**106,654**	**9,550**	**269,638**	**303,863**	**–**	**1,844,136**
	2004	658,321	290,000	193,285	1,141,606	133,428	110,209	9,300	252,937	166,350	–	1,560,893
Kevin Brown, EGM People	**2005**	**646,932**	**241,000**	**175,728**	**1,063,660**	**173,674**	**36,754**	**9,550**	**219,978**	**265,189**	**–**	**1,548,827**
	2004	630,289	221,000	131,810	983,099	166,299	36,754	9,300	212,353	223,772	–	1,419,224
Grant Fenn, EGM Airports and Catering	**2005**	**656,118**	**241,000**	**174,932**	**1,072,050**	**97,097**	**11,585**	**9,550**	**118,232**	**216,526**	**–**	**1,406,808**
	2004	629,561	221,000	174,560	1,025,121	135,622	11,918	9,300	156,840	140,598	–	1,322,559
Alan Joyce, EGM Jetstar Airways	**2005**	**532,273**	**324,000[2]**	**95,908**	**952,181**	**288,059**	**12,550**	**9,550**	**310,159**	**156,259**	**–**	**1,418,599**
	2004	–	–	–	–	–	–	–	–	–	–	–
Total remuneration for Specified Executives	**2005**	**3,776,410**	**1,512,000**	**912,449**	**6,200,859**	**912,753**	**243,419**	**57,300**	**1,213,472**	**1,337,634**	**–**	**8,751,965**
	2004	2,999,343	1,153,000	798,658	4,951,001	736,024	297,107	46,500	1,079,631	775,102	–	6,805,734
David Forsyth, EGM Aircraft Operations (1 Jul 03 – 15 Dec 03)	**2005**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2004	314,911	3,587	83,828	402,326	130,000	38,878	9,300	178,178	100,291	328,500	1,009,295
Total remuneration for Specified Executives	**2005**	**3,776,410**	**1,512,000**	**912,449**	**6,200,859**	**912,753**	**243,419**	**57,300**	**1,213,472**	**1,337,634**	**–**	**8,751,965**
	2004	3,314,254	1,156,587	882,486	5,353,327	866,024	335,985	55,800	1,257,809	875,393	328,500	7,815,029

1 Comprises cash incentives totalling $1,512,000 (2004: $1,153,000) and long-term incentives of $nil (2004: $3,587).

2 During the year Mr Joyce received a milestone reward payment relating to the establishment of Jetstar Airways of $100,000.

~Directors' Report~
for the year ended 30 June 2005

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

REMUNERATION OF SPECIFIED EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2005 continued

3 Equity Benefits

	Year	PSP $	PRP $	Sen Mgr LTI $	QLTEIP $	Total $
Denis Adams	2005	88,083	55,966	80,466	–	**224,515**
	2004	–	22,122	80,397	48,972	151,491
Fiona Balfour	2005	75,500	48,444	47,338	–	**171,282**
	2004	–	18,961	50,013	23,917	92,891
John Borghetti	2005	138,416	73,415	92,032	–	**303,863**
	2004	–	25,282	92,096	48,972	166,350
Kevin Brown	2005	88,083	51,752	69,937	55,417	**265,189**
	2004	–	18,961	71,811	133,000	223,772
Grant Fenn	2005	88,083	59,275	69,168	–	**216,526**
	2004	–	22,122	69,504	48,972	140,598
Alan Joyce	2005	81,818	39,768	34,673	–	**156,259**
	2004	–	–	–	–	–
Total	2005	559,983	328,620	393,614	55,417	**1,337,634**
	2004	–	107,448	363,821	303,833	775,102

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

	Performance Related Remuneration				FAR & Other[1]	Total
	Cash-based	Equity-based				
Remuneration Components as a Proportion of Total Remuneration	PCP	PSP & Sen Mgr LTI[2]	PRP & QLTEIP	Total		
Geoff Dixon	23%	14%	6%	43%	57%	**100%**
Peter Gregg	21%	14%	3%	38%	62%	**100%**
Denis Adams	17%	13%	4%	34%	66%	**100%**
Fiona Balfour	14%	10%	4%	28%	72%	**100%**
John Borghetti	17%	12%	4%	33%	67%	**100%**
Kevin Brown	16%	10%	7%	33%	67%	**100%**
Grant Fenn	17%	11%	4%	32%	68%	**100%**
Alan Joyce	23%	8%	3%	34%	66%	**100%**

1 Other Remuneration consists of travel entitlements, the annual accrual of end of service payments and other benefits.
2 In the case of Mr Dixon and Mr Gregg, this was the 2002 Executive Director Long-Term Incentive Plan.

The total percentages are derived from the 2005 Remuneration tables on pages 58 to 59. As the Remuneration table is prepared on an accrual basis and the equity benefit is valued at grant date in accordance with Accounting Standards, the percentages disclosed do not reflect the annual allocation of performance related remuneration. To understand the target annual reward mixes of each of the Executives, refer to the Executive Remuneration Philosophy and Objectives on page 51.

In accordance with the Corporations Amendment Regulations 2004 (No. 7) the following information is provided:

	Cash Plan Incentive		Performance Remuneration Affecting Future Periods[1]		
	Awarded	Forfeited	2006	2007	2008
Geoff Dixon	115%	0%	374,302	134,738	–
Peter Gregg	115%	0%	276,993	143,737	62,894
Denis Adams	100%	0%	116,455	66,380	34,941
Fiona Balfour	90%	10%	76,942	39,927	17,471
John Borghetti	115%	0%	193,397	106,307	52,412
Kevin Brown	110%	0%	116,455	66,380	34,941
Grant Fenn	110%	0%	116,455	66,380	34,941
Alan Joyce	115%[2]	0%	116,455	66,380	34,941

1 Performance remuneration granted under the Performance Equity Plan for the 2004/05 year provides remuneration in future years. The maximum value has been determined at grant date and amortised in accordance with the accounting standard. The minimum value of the grant is $nil should performance conditions not be satisfied. Performance remuneration granted in prior years has not been included in the above disclosure. This disclosure includes the 2005 Final Dividend payable on 28 September 2005 (and any related distributions payable by the Qantas Deferred Share Plan Trustee) but does not include future dividends yet to be declared.

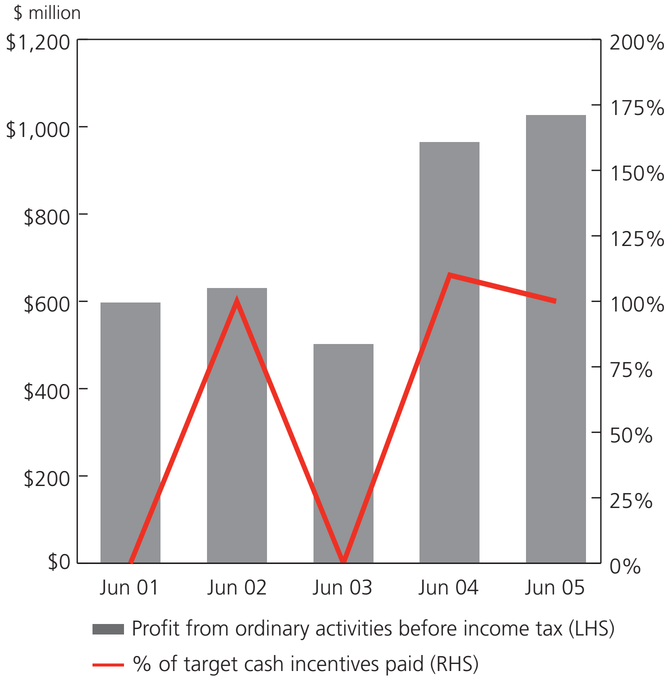
2 During the year Mr Joyce received a $100,000 milestone payment related to the establishment of Jetstar Airways. The remainder of his incentive payment was paid at 115 per cent of target.

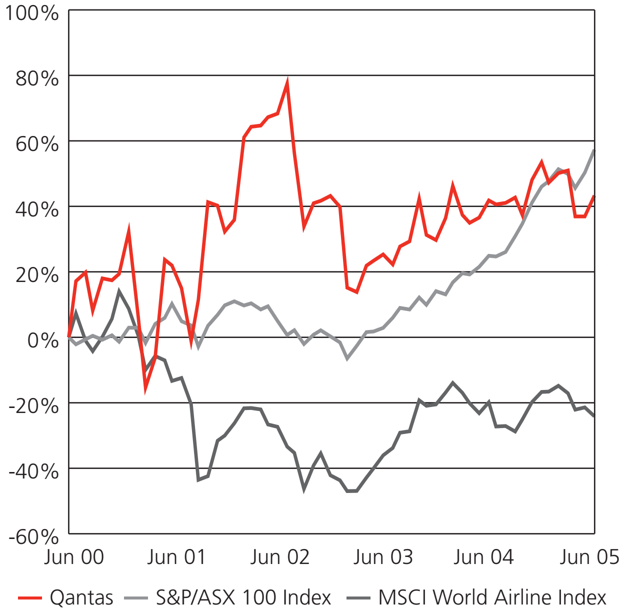
DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

SUMMARY OF PERFORMANCE CONDITIONS

Link between Remuneration Policy and Qantas' performance

The graph on the left below shows Qantas' full-year profit from ordinary activities before income tax and the percentage of target cash incentives that were paid to Executives over the past five financial years. The graph on the right below shows Qantas' TSR performance compared to the S&P/ASX 100 Index and the MSCI World Airline Index over the past five financial years.





Source: Morgan Stanley Capital International (MSCI) World Airline Index – reproduced with permission.

In line with the Executive Remuneration Philosophy and Objectives, FAR is set with reference to market data and is not related to Qantas' performance in a specific year. The outcomes for the Performance Cash Plan (short-term incentive plan) are related to Qantas' financial results. The Performance Share Plan outcomes are driven by performance against the achievement of a Balanced Scorecard relating to Customer, Operational, People and Financial performance (medium-term incentive plan). Total Shareholder Return (including dividends, changes in the Qantas share price and return of capital if applicable) is used for the Performance Rights Plan (long-term incentive plan).

Relationship between cash incentives and Qantas' performance

As indicated in the graph above, cash incentives were paid in three out of the past five financial years. Cash incentives were not paid for 2000/01, were paid at target for 2001/02, were not paid for 2002/03, were paid at 110% of target for 2003/04 and at 100% of target for 2004/05 in line with Qantas' achievement against its financial targets in these years. From July 2001 to June 2003, a profit before tax target determined the pool of money available for payment and in 2003/04 and 2004/05 the pool of money available was subject to the achievement of a RoTGA target for members of the Executive Committee and an EBDRIT target for other Executives.

Relationship between employee equity and Qantas' performance

Allocations under the 2004/05 PSP are dependent on Qantas' corporate performance against a Balanced Scorecard. For 2003/04, 100% of the target level of performance shares were awarded to Executives following over-achievement on the Balanced Scorecard. For 2004/05, the Board exercised its discretion to award 100% of target to Executives.

Reward outcomes under the 2004/05 PRP are linked to Qantas' performance because the vesting of these rights is dependent on Qantas' performance against the S&P/ASX 100 Index and a basket of international airlines. This performance hurdle rewards Qantas' Executives for Qantas' TSR growth in comparison to the TSR growth rates of its two peer groups over the three to five-year performance period.

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

SUMMARY OF KEY CONTRACT TERMS

Non-Executive Directors

In addition to FAR and the associated superannuation contributions, all Non-Executive Directors and eligible beneficiaries receive travel entitlements. The Chairman is entitled to four international trips and 12 domestic trips per calendar year and all other Non-Executive Directors are entitled to two international trips and six domestic trips each calendar year. These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement relates. Post employment, the Chairman is entitled to two international trips and six domestic trips per year of service and all other Non-Executive Directors are entitled to one international trip and three domestic trips per year of service.

Executive Directors

The key contract and other terms of the two Executive Directors are set out below:

Contract details	Geoff Dixon	Peter Gregg
Length of existing contract	1 July 2004 to 1 July 2007	1 January 2002 to 31 December 2006
Fixed Annual Remuneration	$2,070,000 (1 July 2004 – 31 December 2004) $2,160,000 (from 1 January 2005)	$1,260,000 (1 July 2004 – 31 December 2004) $1,310,000 (from 1 January 2005)
	FAR can be taken as cash or non-cash components such as motor vehicles and superannuation contributions.	
End of service payments	Number of months FAR and other payments available on early termination of contract:	
	37.2 months plus $500,000	18 months plus $120,000
	Additional months FAR and other payments available on termination:	
	Not applicable	18 months plus $275,000 after 31 December 2006
Termination of employment	Termination without notice: employment can be terminated immediately without notice (or payment in lieu of notice) if, in the opinion of the CEO (or the Board in the case of the CEO), the Executive is or has been engaged in serious misconduct, becomes bankrupt or makes an arrangement or composition with creditors or wilfully and persistently breaches their employment contract.	
	Termination with notice: employment can be terminated during the contract period with 12 months written notice.	
	Voluntary termination: voluntary termination requires written notice of six months.	
	Mr Gregg is entitled to 12 months FAR (in addition to existing end of service arrangements) if his employment is not required by an incoming CEO or he is offered a position which is significantly diminished in terms of responsibility. Mr Gregg is also entitled to six months FAR (in addition to existing end of service arrangements) if he voluntarily terminates after a change in CEO.	
Travel entitlements	Available to the Executive and eligible beneficiaries: Each calendar year throughout contract term and post employment:	
	◣ four international trips ◣ 12 domestic trips	◣ four international trips ◣ 12 domestic trips
Performance Cash Plan	Target of 60% of FAR	Target of 50% of FAR
	May be greater than or less than the target amount as determined by the Board to reflect achievement of personal key performance indicators.	

DIRECTOR AND EXECUTIVE REMUNERATION DISCLOSURES continued

SUMMARY OF KEY CONTRACT TERMS continued

Specified Executives

Contract details	Denis Adams	Fiona Balfour	John Borghetti	Kevin Brown	Grant Fenn	Alan Joyce
Existing contract end date	31 Dec 2006	1 Nov 2006	31 Dec 2007	21 Oct 2006	31 Oct 2009	30 Oct 2008
Fixed Annual Remuneration at 30 June 2005	$730,000	$650,000	$900,000	$730,000	$730,000	$650,000
	FAR can be taken as cash or non-cash components such as motor vehicles and superannuation contributions.					
End of service payments	Expressed as number of months FAR if completed at least five years service under a fixed contract.					
	18 months	12 months	12 months	12 months	12 months	12 months
Termination of employment	Termination without notice: employment can be terminated immediately without notice (or payment in lieu of notice) if, in the opinion of the CEO, the Executive is or has been engaged in serious misconduct, becomes bankrupt or makes an arrangement or composition with creditors, or wilfully and persistently breaches their employment contract.					
	Termination with notice: employment can be terminated during the contract period with 12 months written notice or payment in lieu.					
	Voluntary termination: voluntary termination requires written notice. The contract notice periods are between three and six months, however Qantas may choose to make payment in lieu.					
	Mr Brown is entitled to six months FAR (in addition to existing end of service arrangements) if his employment is not required by an incoming CEO or he is offered a position which is significantly diminished in terms of responsibility.					
	Mr Borghetti receives an additional six months FAR if he remains in employment with Qantas until 31 December 2007.					
Travel entitlements	Specified Executives and eligible beneficiaries are entitled to between two and four international and six and 12 domestic trips per annum, at no cost to the individual. Post employment the entitlements are two international and six domestic trips.					
Performance Cash Plan	Annual target cash incentive is 30% of FAR. Actual may be greater than or less than the target amount, as determined by the Remuneration Committee, to reflect achievement of personal key performance indicators.					

ENVIRONMENTAL OBLIGATIONS (UNAUDITED)

The Qantas Group's operations are subject to a range of Commonwealth, State, Territory and international environmental legislation. The Qantas Group is committed to a high standard of environmental performance and the Board places particular focus on the environmental aspects of its operations through the SESC, which is responsible for monitoring compliance with these regulations and reporting to the Board.

The Directors are satisfied that adequate systems are in place for the management of the Qantas Group's environmental exposures and environmental performance. The Directors are also satisfied that all relevant licences and permits are held and that appropriate monitoring procedures are in place to ensure compliance with those licences and permits. Any significant environmental incidents are reported to the Board.

The Directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the financial year which are material in nature.

INDEMNITIES AND INSURANCE (UNAUDITED)

Under the Qantas Constitution, Qantas indemnifies, to the extent permitted by law, each Director and Secretary of Qantas against any liability incurred by that person as an officer of Qantas.

The Directors listed on pages 32 to 34 and the Secretaries of Qantas, being Brett Johnson and Janine Smith, have the benefit of the indemnity in the Qantas Constitution. Members of the Qantas Executive Committee listed on page 34 have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board of Directors. In respect of non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2004/05 or to the date of this report.

Qantas has insured against amounts which it may be liable to pay on behalf of Directors and Officers or which it otherwise agrees to pay by way of indemnity.

During the financial year, Qantas paid a premium for Directors' and Officers' liability insurance policies, which cover all Directors and Officers of the Qantas Group.

Details of the nature of the liabilities covered, and the amount of the premium paid in respect of, the Directors' and Officers' insurance policies are not disclosed, as such disclosure is prohibited under the terms of the contracts.

~Directors' Report~
for the year ended 30 June 2005

NON-AUDIT SERVICES

During the year, KPMG, Qantas' auditor, has performed certain other services in addition to its statutory duties.

The Directors are satisfied that:

(a) the non-audit services provided during the 2004/05 financial year by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and

(b) any non-audit services provided during the 2004/05 financial year by KPMG as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

(i) KPMG services have not involved partners or staff acting in a managerial or decision making capacity within the Qantas Group or being involved in the processing or originating of transactions;

(ii) KPMG non-audit services have only been provided where Qantas is satisfied that the related function or process will not have a material bearing on the audit procedures;

(iii) KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes;

(iv) a description of all non-audit services undertaken by KPMG and the related fees have been reported to the Board to ensure complete transparency in relation to the services provided; and

(v) the declaration required by section 307C of the Corporations Act confirming independence has been received from KPMG.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included below.

Details of the amounts paid to the auditor of Qantas, KPMG, for audit and non-audit services provided during the year are set out in Note 6 to the Financial Statements.

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the Directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005, there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Sydney, 29 August 2005

Mark Epper

ROUNDING

Qantas is a company of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in this Financial Report and Directors' Report have been rounded to the nearest one hundred thousand dollars unless otherwise indicated.

Signed pursuant to a Resolution of the Directors:

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

Sydney, 29 August 2005

~Statements of Financial Performance~
for the year ended 30 June 2005

	Notes	Qantas Group 2005 $M	Qantas Group 2004 $M	Qantas 2005 $M	Qantas 2004 $M
SALES AND OPERATING REVENUE					
Net passenger revenue[1,2]		**9,835.1**	8,978.3	**8,605.1**	8,182.7
Net freight revenue[1,3]		**759.9**	520.5	**759.4**	467.3
Tours and travel revenue		**707.8**	711.1	**–**	–
Contract work revenue		**484.9**	502.6	**367.0**	276.5
Other sources[3,4,5]		**861.1**	641.2	**780.5**	943.3
Sales and operating revenue	2	**12,648.8**	11,353.7	**10,512.0**	9,869.8
EXPENDITURE					
Manpower and staff related		**3,244.9**	2,938.5	**2,649.8**	2,501.9
Selling and marketing		**444.3**	466.1	**423.4**	434.7
Aircraft operating – variable		**2,435.8**	2,226.8	**2,193.8**	2,150.9
Fuel and oil		**1,931.7**	1,355.6	**1,691.3**	1,232.8
Property		**300.5**	309.8	**257.8**	284.8
Computer and communication		**491.9**	439.1	**398.8**	411.6
Depreciation and amortisation		**1,100.0**	1,005.6	**961.1**	871.0
Non-cancellable operating lease rentals		**310.0**	263.5	**295.4**	237.3
Tours and travel		**563.7**	570.9	**–**	–
Capacity hire		**341.0**	287.4	**346.6**	255.5
Other[6]		**365.1**	411.9	**310.0**	424.0
Share of net profit of associates and joint ventures	30	**(1.8)**	(19.7)	**–**	–
Expenditure	3	**11,527.1**	10,255.5	**9,528.0**	8,804.5
Earnings before interest and tax	34	**1,121.7**	1,098.2	**984.0**	1,065.3
Borrowing costs	3	**(211.5)**	(259.5)	**(216.3)**	(263.5)
Interest revenue	2	**117.0**	125.9	**101.4**	112.3
Net borrowing costs		**(94.5)**	(133.6)	**(114.9)**	(151.2)
Profit from ordinary activities before related income tax expense		**1,027.2**	964.6	**869.1**	914.1
Income tax expense relating to ordinary activities	4	**(262.8)**	(315.8)	**(239.6)**	(238.1)
Net profit		**764.4**	648.8	**629.5**	676.0
Outside equity interests in net profit	22	**(0.8)**	(0.4)	**–**	–
Net profit attributable to members of Qantas	20	**763.6**	648.4	**629.5**	676.0
Non-owner transaction changes in equity:					
Net exchange differences relating to self-sustaining foreign operations	19	**(2.6)**	0.4	**–**	–
Total changes in equity from non-owner related transactions attributable to members of Qantas	21	**761.0**	648.8	**629.5**	676.0
Basic earnings per share	35	**40.8 cents**	35.7 cents		
Diluted earnings per share	35	**40.7 cents**	35.5 cents		

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

2 Passenger recoveries (including fuel surcharge on passenger tickets) are disclosed as part of net passenger revenue.

3 Freight fuel surcharge is now disclosed as part of net freight revenue. Previously, it was disclosed as part of revenue from other sources. Comparatives have been adjusted accordingly. The impact of this change for the prior year is to increase net freight revenue and decrease revenue from other sources by $50.8 million.

4 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, age availed revenue and other miscellaneous income (including the release of surplus revenue accounting provisions related to prior years of $52.1 million).

5 Excludes interest revenue of Qantas Group $117.0 million, Qantas $101.4 million (2004: $125.9 million, $112.3 million) which is included in net borrowing costs.

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

The Statements of Financial Performance are to be read in conjunction with the Notes to the Financial Statements on pages 68 to 118.

~Statements of Financial Position~

as at 30 June 2005

	Notes	Qantas Group 2005 $M	Qantas Group 2004 $M	Qantas 2005 $M	Qantas 2004 $M
CURRENT ASSETS					
Cash	7	**198.0**	335.9	**339.9**	254.7
Receivables	8	**2,836.1**	2,116.3	**2,841.3**	2,203.4
Net receivables under hedge/swap contracts		**185.1**	302.1	**184.8**	301.8
Inventories	9	**333.0**	375.5	**295.5**	348.4
Other	11	**157.7**	192.2	**165.9**	210.5
Total current assets		**3,709.9**	3,322.0	**3,827.4**	3,318.8
NON-CURRENT ASSETS					
Receivables	8	**287.7**	304.6	**969.4**	1,977.9
Net receivables under hedge/swap contracts		**853.7**	997.0	**831.6**	952.3
Investments accounted for using the equity method	30	**343.7**	339.7	**–**	–
Other investments	10	**99.9**	110.1	**746.6**	777.2
Property, plant and equipment	12	**12,612.5**	12,256.6	**11,242.0**	10,673.0
Intangible assets	13	**142.0**	152.4	**45.3**	47.2
Deferred tax assets		**0.2**	0.9	**–**	–
Other	11	**84.8**	90.9	**64.3**	64.9
Total non-current assets		**14,424.5**	14,252.2	**13,899.2**	14,492.5
Total assets		**18,134.4**	17,574.2	**17,726.6**	17,811.3
CURRENT LIABILITIES					
Payables	14	**2,111.2**	2,167.5	**1,931.5**	2,078.9
Interest-bearing liabilities	15	**315.0**	821.9	**315.1**	826.4
Net payables under hedge/swap contracts		**142.8**	250.8	**164.8**	262.9
Provisions	16	**400.2**	381.6	**344.4**	328.8
Current tax liabilities	17	**85.9**	30.1	**83.8**	27.2
Revenue received in advance		**1,535.8**	1,493.3	**1,398.1**	1,348.1
Deferred lease benefits/income		**44.1**	45.0	**38.5**	40.2
Total current liabilities		**4,635.0**	5,190.2	**4,276.2**	4,912.5
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	15	**5,234.7**	5,081.8	**5,831.4**	6,134.3
Net payables under hedge/swap contracts		**450.0**	131.6	**450.0**	131.6
Provisions	16	**336.3**	331.7	**303.1**	302.3
Deferred tax liabilities		**910.6**	806.9	**910.6**	788.3
Deferred lease benefits/income		**140.9**	191.7	**124.1**	166.2
Total non-current liabilities		**7,072.5**	6,543.7	**7,619.2**	7,522.7
Total liabilities		**11,707.5**	11,733.9	**11,895.4**	12,435.2
Net assets		**6,426.9**	5,840.3	**5,831.2**	5,376.1
EQUITY					
Contributed equity	18	**4,173.4**	3,994.9	**4,173.4**	3,994.9
Reserves	19	**56.2**	54.4	**82.9**	82.9
Retained profits	20	**2,193.1**	1,776.3	**1,574.9**	1,298.3
Equity attributable to members of Qantas		**6,422.7**	5,825.6	**5,831.2**	5,376.1
Outside equity interests in controlled entities	22	**4.2**	14.7	**–**	–
Total equity	21	**6,426.9**	5,840.3	**5,831.2**	5,376.1

The Statements of Financial Position are to be read in conjunction with the Notes to the Financial Statements on pages 68 to 118.

~Statements of Cash Flows~
for the year ended 30 June 2005

	Notes	Qantas Group 2005 $M	Qantas Group 2004 $M	Qantas 2005 $M	Qantas 2004 $M
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		**13,211.0**	12,328.5	**11,050.7**	10,111.3
Cash payments in the course of operations		**(11,015.9)**	(10,128.6)	**(9,186.3)**	(8,396.0)
Interest received		**116.9**	126.0	**101.2**	112.3
Borrowing costs paid		**(287.2)**	(305.6)	**(206.6)**	(312.1)
Dividends received		**28.1**	12.4	**12.8**	222.6
Income taxes paid		**(102.9)**	(33.3)	**(60.8)**	134.8
Net cash provided by operating activities	37	**1,950.0**	1,999.4	**1,711.0**	1,872.9
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		**(1,682.9)**	(2,007.0)	**(1,214.8)**	(1,210.8)
Proceeds from sale of property, plant and equipment		**71.5**	50.1	**66.9**	46.6
Proceeds from sale and leaseback of non-current assets[1]		**257.9**	171.7	**257.9**	171.7
Payments for investments, net of cash acquired		**(44.6)**	(271.9)	**(29.4)**	(271.7)
Repayments/(advances) of investment loans		**1.9**	(128.2)	**–**	(128.2)
Payments for other intangibles		**–**	(47.3)	**–**	(47.3)
Net cash used in investing activities		**(1,396.2)**	(2,232.6)	**(919.4)**	(1,439.7)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayments of borrowings		**(1,144.5)**	(1,822.9)	**(1,180.4)**	(2,834.9)
Proceeds from borrowings/swaps		**1,302.9**	1,413.2	**1,322.2**	1,701.4
Net proceeds from the issue of shares		**–**	90.6	**–**	90.6
Receipts for aircraft security deposits		**1.3**	63.1	**0.9**	59.3
Dividends paid		**(175.0)**	(161.4)	**(172.7)**	(159.1)
Net cash used in financing activities		**(15.3)**	(417.4)	**(30.0)**	(1,142.7)
RECONCILIATION OF CASH PROVIDED BY/(USED IN)					
Operating activities		**1,950.0**	1,999.4	**1,711.0**	1,872.9
Investing activities		**(1,396.2)**	(2,232.6)	**(919.4)**	(1,439.7)
Financing activities		**(15.3)**	(417.4)	**(30.0)**	(1,142.7)
Net increase/(decrease) in cash held		**538.5**	(650.6)	**761.6**	(709.5)
Cash at the beginning of the financial year		**1,365.3**	2,015.9	**1,284.1**	1,993.6
Cash at the end of the financial year	37	**1,903.8**	1,365.3	**2,045.7**	1,284.1

1 Included in the proceeds from sale and leaseback of non-current assets was $18.8 million in relation to an A320 aircraft. The rights to this aircraft were sold prior to delivery of the aircraft to a lessor and leased back via operating lease.

The Statements of Cash Flows are to be read in conjunction with the Notes to the Financial Statements on pages 68 to 118.

1. Statement of significant accounting policies

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

(a) BASIS OF PREPARATION

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

This Financial 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 are consistent with those of the prior year.

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

(b) PRINCIPLES OF CONSOLIDATION

CONTROLLED ENTITIES

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

ASSOCIATES AND JOINT VENTURES

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

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

(c) FOREIGN CURRENCY TRANSACTIONS

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

TRANSLATION OF CONTROLLED FOREIGN ENTITIES

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

HEDGING OF FOREIGN CURRENCY COMMITMENTS

Gains and losses on derivatives used to hedge the specific purchase or sale of capital equipment and goods and services are deferred in the Statements of Financial Position and included in the measurement of the related purchase or sale. Net deferred gains/losses associated with hedges of foreign currency revenue relating to future transportation services are included in the Statements of Financial Position as payables/receivables. These gains/losses will be included in the measurement of the relevant future foreign currency revenue at the time the transportation services are provided. As at 30 June 2005, net deferred gains were $228.4 million (2004: losses $19.2 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.

1. Statement of significant accounting policies continued

(d) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

(e) REVENUE RECOGNITION

PASSENGER, FREIGHT AND TOURS AND TRAVEL SALES REVENUE

Passenger, freight and tours and travel sales revenue is included in the Statements of Financial Performance at the fair value of the consideration received net of sales discount passenger and freight interline/IATA commission 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 passengers or freight are uplifted or when tours and travel air tickets and land content are utilised.

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.

CATERING REVENUE

Revenue from the sale of catering products is recognised when control of the goods passes to the customer and is disclosed as part of contract work revenue.

INTEREST REVENUE

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

ASSET SALES

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

AIRCRAFT FINANCING FEES

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

DIVIDENDS

Distributions from controlled entities are recognised as revenue by Qantas when dividends are declared by the controlled entities. Dividends/distributions from associates and joint ventures and other investments are recognised when dividends are received.

Dividend/distribution revenue is recognised net of any franking credits.

1. Statement of significant accounting policies continued

(f) GOODS AND SERVICES TAX

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

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

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

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

(g) TAXATION

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

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

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

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

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

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

(h) TAX CONSOLIDATION

Qantas is the head entity in the tax-consolidated group comprising all the Australian wholly-owned entities[1] set out in Note 28. The implementation date for the tax-consolidated group was 1 July 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (including intra-group transactions as allowed for in the financial year ended 30 June 2005). The Qantas Group determined that wholly-owned entities will recognise an income tax expense referable to the tax arising on their profits adjusted for permanent differences with a consequential adjustment to intercompany assets and liabilities.

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

(i) RECEIVABLES

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

(j) INVENTORIES

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

(k) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS

The carrying amounts of non-current assets valued on the cost basis are reviewed regularly to determine whether they are in excess of their recoverable amount at balance 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 writedown is made if the carrying amount of a non-current asset exceeds its recoverable amount. The writedown is expensed in the financial year in which it occurs.

1 The tax-consolidated group also includes the partnership between Qantas and AAL Aviation Limited and between Qantas Flight Catering Limited and AAL Aviation Limited.

1. Statement of significant accounting policies continued

(l) INVESTMENTS

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

(m) ACQUISITION OF ASSETS

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

Major modifications to aircraft and the costs associated with placing the aircraft into service are capitalised as part of the cost of the asset to which they relate. All aircraft maintenance costs are expensed as incurred. Manpower costs in relation to employees that are dedicated to major modifications to aircraft are capitalised as part of the cost of the modification to which they relate. 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.

Software development expenditure 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	3-40	0
Jet aircraft and engines	20	0-20
Non-jet aircraft and engines	10-20	0-20
Aircraft spare parts	15-20	0-20

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

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

(o) LEASED AND HIRE PURCHASE ASSETS

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

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

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

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

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

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

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.

1. Statement of significant accounting policies continued

(p) INTANGIBLE ASSETS

GOODWILL

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

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

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

OTHER INTANGIBLES

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

(q) PAYABLES

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

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

(r) FREQUENT FLYER ACCOUNTING

The Qantas Group receives revenue from the sale of Frequent Flyer points to third parties. This revenue is recognised in the Statements of Financial Performance when it is received. The obligation to provide travel rewards to members of the Qantas Frequent Flyer program is progressively accrued as points are accumulated, net of estimated points that will not be redeemed. 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 balance date. These are calculated at undiscounted amounts based on remuneration wage and salary rates that the Qantas Group expects to pay as at balance date including related on-costs, such as workers' compensation insurance and payroll tax.

LONG SERVICE LEAVE

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

EMPLOYEE SHARE PLANS

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

SUPERANNUATION

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

1. Statement of significant accounting policies continued

(t) PROVISIONS

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

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

DIVIDENDS

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

EMPLOYEE TERMINATION BENEFITS

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

SURPLUS LEASED PREMISES

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

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

INSURANCE AND OTHER

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

(u) EARNINGS PER SHARE

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

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

(v) STATEMENTS OF CASH FLOWS

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

(w) BORROWING COSTS

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

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

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

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed generally, borrowing costs are capitalised using the average interest rate applicable to the Qantas Group's debt facilities being 7.0 per cent (2004: 6.6 per cent) in the current year. During the year, borrowing costs totalling $74.4 million (2004: $49.2 million) were capitalised into the cost of qualifying assets.

(x) EXPENDITURE CARRIED FORWARD

Material items of expenditure are deferred to the extent that the Qantas Group considers it is probable that future economic benefits embodied in the expenditure will eventuate and can be measured reliably, do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the Qantas Group. Deferred expenditure items include guarantee fees, bank fees and other fees associated with the establishment of lending facilities as well as option premiums and are amortised over the period that the future economic benefits will be received. The deferred expenditure in the Qantas Group Statements of Financial Position at 30 June 2005 is $159.2 million (2004: $146.7 million).

~Notes to the Financial Statements~
for the year ended 30 June 2005

1. Statement of significant accounting policies continued

(y) INTEREST-BEARING LIABILITIES

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

(z) USE AND REVISION OF ACCOUNTING ESTIMATES

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

2. Revenue from ordinary activities

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
REVENUE FROM OPERATING ACTIVITIES				
Sales and operating revenue				
Related parties				
– controlled entities	**–**	–	**133.0**	177.3
– associates and joint ventures	**92.7**	90.1	**88.9**	87.6
– other related parties	**2.8**	25.3	**2.8**	16.8
Other parties	**12,552.1**	11,237.8	**10,274.5**	9,428.4
Dividend revenue				
Related parties				
– controlled entities	**–**	–	**–**	156.3
– associates and joint ventures	**–**	–	**12.6**	2.9
Other parties	**1.2**	0.5	**0.2**	0.5
Sales and operating revenue	**12,648.8**	11,353.7	**10,512.0**	9,869.8
REVENUE FROM OUTSIDE OPERATING ACTIVITIES				
Interest revenue				
Related parties				
– controlled entities	**–**	–	**0.1**	1.3
– associates and joint ventures	**10.3**	5.1	**10.3**	5.1
Other parties	**106.7**	120.8	**91.0**	105.9
Proceeds from sale of property, plant and equipment	**71.5**	50.1	**66.9**	46.6
Proceeds from sale and leaseback of non-current assets	**257.9**	171.7	**257.9**	171.7
	13,095.2	11,701.4	**10,938.2**	10,200.4

~Notes to the Financial Statements~
for the year ended 30 June 2005

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

	Qantas Group 2005 $M	Qantas Group 2004 $M	Qantas 2005 $M	Qantas 2004 $M
Profit from ordinary activities before related income tax expense includes the charging/(crediting) of the following items:				
Borrowing costs				
Related parties				
– controlled entities	**–**	–	**84.1**	72.9
Other parties				
– finance charges on capitalised leases	**34.6**	16.9	**35.4**	15.2
– other borrowing costs	**251.3**	291.8	**171.2**	224.6
Capitalised borrowing costs	**(74.4)**	(49.2)	**(74.4)**	(49.2)
Total borrowing costs	**211.5**	259.5	**216.3**	263.5
Depreciation				
Buildings	**6.7**	6.2	**4.6**	4.4
Plant and equipment	**134.9**	120.5	**121.1**	102.3
Aircraft and engines – normal depreciation	**612.5**	409.8	**455.7**	375.2
Aircraft and engines – accelerated depreciation	**45.1**	61.4	**45.1**	61.4
Aircraft spare parts	**48.5**	75.4	**42.9**	70.8
Total depreciation	**847.7**	673.3	**669.4**	614.1
Amortisation				
Leasehold buildings	**1.6**	7.1	**0.8**	0.9
Leasehold improvements	**57.7**	50.0	**33.0**	28.5
Leased plant and equipment	**0.4**	1.4	**–**	–
Leased and hire purchased aircraft and engines	**173.9**	257.5	**254.3**	225.7
Leased aircraft spare parts	**1.7**	1.8	**1.7**	1.8
Goodwill	**15.1**	14.4	**–**	–
Airport landing slots	**1.9**	0.1	**1.9**	0.1
Total amortisation	**252.3**	332.3	**291.7**	257.0
Net foreign currency loss	**21.8**	40.9	**11.7**	31.7
Loss/(profit) on sale of aircraft, engines and spares	**(13.0)**	4.0	**(12.2)**	3.0
Loss/(profit) on sale of property, plant and equipment	**3.4**	(3.5)	**2.4**	(2.5)
Bad and doubtful debts	**(1.1)**	3.0	**(1.4)**	3.0
Operating lease charges				
Cancellable operating leases	**148.2**	166.3	**127.2**	162.1

4. Income tax

	Qantas Group 2005 $M	Qantas Group 2004 $M	Qantas 2005 $M	Qantas 2004 $M
The prima facie income tax on profit from ordinary activities differs from the income tax charged in the Statements of Financial Performance and is calculated as follows:				
Profit from ordinary activities	**1,027.2**	964.6	**869.1**	914.1
Prima facie income tax expense at 30 per cent of profit	**308.2**	289.4	**260.7**	274.2
Add/(less) adjustments for:				
Non-assessable income				
Deferred lease benefits	**0.1**	0.1	**0.1**	0.1
Imputation gross-up on dividends received	**3.1**	1.3	**1.3**	20.2
Franking credits on dividends received	**(10.3)**	(4.4)	**(4.3)**	(67.5)
Share of associates' and joint ventures' net profit	**(0.5)**	(5.9)	**–**	–
Other non-assessable income	**(0.8)**	(0.5)	**(0.6)**	(0.5)
Non-deductible expenditure				
Depreciation on buildings	**0.8**	0.6	**0.8**	0.7
Amortisation of goodwill and other intangibles	**4.5**	4.4	**–**	–
Amortisation of lease residual values	**1.8**	0.8	**1.8**	0.8
Writedown of investments	**2.2**	–	**16.9**	–
Other non-deductible expenditure	**14.4**	18.2	**8.9**	5.5
Other assessable/(deductible) items	**(0.8)**	13.1	**14.9**	7.8
(Over)/under provision in prior years	**1.8**	(1.3)	**0.8**	(3.2)
Tax consolidation benefit due to reset tax values of depreciable assets	**(52.1)**	–	**(52.1)**	–
Tax consolidation benefit due to recognition of previously unbooked tax losses	**(9.6)**	–	**(9.6)**	–
Income tax expense related to current and deferred tax transactions of the wholly-owned entities in the tax-consolidated group	**–**	–	**38.6**	73.0
Recovery of income tax expense from wholly-owned subsidiaries in the tax-consolidated group	**–**	–	**(38.6)**	(73.0)
Income tax expense relating to ordinary activities	**262.8**	315.8	**239.6**	238.1
Comprising:				
Australian income tax expense	**258.9**	313.3	**237.7**	238.0
Overseas income tax expense	**3.9**	2.5	**1.9**	0.1
	262.8	315.8	**239.6**	238.1
Future income tax benefit arising from tax losses, not recognised as an asset because recovery is not virtually certain	**13.3**	24.5	**13.3**	14.9

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 benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the ability of the Qantas Group to realise the benefit.

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

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

5. Director and Executive disclosures

This note discloses equity instruments for Executive Directors and Specified Executives as required by AASB 1046 – Director and Executive Disclosures by Disclosing Entities. Disclosure of Specified Directors and Specified Executive Remuneration is detailed in the Directors' Report at pages 54 to 63.

EQUITY INSTRUMENTS

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

PERFORMANCE SHARE PLAN (PSP)

Details of entitlements over shares in Qantas provided as remuneration during the financial year to Executive Directors and Specified Executives are set out below. For more information on the operation of the PSP, see page 55.

	Grant Date	Value at Grant Date	Balance at 30 June 2004	Number of Performance Shares Granted during the Year	Number of Performance Shares Vested and Transferred to the Executive during the Year	Balance at 30 June 2005	Not Available to Call	Available to Call
Executive Directors								
Geoff Dixon	21 Oct 04	$3.34	–	150,000	–	150,000[1]	75,000	75,000
	16 Oct 03	$3.62	62,500	–	62,500	–	–	–
			62,500	150,000	62,500	150,000	75,000	75,000
Peter Gregg	21 Oct 04	$3.34	–	90,000	–	90,000[1]	45,000	45,000[2]
	16 Oct 03	$3.62	40,000	–	40,000	–	–	–
			40,000	90,000	40,000	90,000	45,000	45,000
Specified Executives								
Denis Adams	18 Aug 04	$3.32	–	35,000	–	35,000[3]	35,000	–
Fiona Balfour	18 Aug 04	$3.32	–	30,000	–	30,000[3]	30,000	–
John Borghetti	18 Aug 04	$3.32	–	55,000	–	55,000[3]	55,000	–
Kevin Brown	18 Aug 04	$3.32	–	35,000	–	35,000[3]	35,000	–
Grant Fenn	18 Aug 04	$3.32	–	35,000	–	35,000[3]	35,000	–
Alan Joyce	18 Aug 04	$3.32	–	30,000	–	30,000[3]	30,000	–
Alan Joyce[4]	18 May 05	$3.18	–	25,000	–	25,000[5]	25,000	–

1 Up to one-half of these shares may be "called for" from 30 June 2005.
2 Mr Gregg "called for" these 45,000 deferred shares in July 2005.
3 Up to one-half of these shares may be "called for" from 1 July 2005.
4 In its discretion, the Board resolved to make an allocation of deferred shares to Mr Joyce under the Performance Share Plan.
5 Up to one-half of these shares may be "called for" from 1 March 2006.

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

5. Director and Executive disclosures continued

PERFORMANCE RIGHTS PLAN (PRP)

Details of rights over ordinary shares and vesting criteria for each Executive Director and Specified Executive are set out below. For more information on the operation of the PRP, see page 56.

	Grant Date	Value at Grant Date	Total Value	Balance at 30 June 2004	Number of Performance Rights Granted during the Year	Performance Rights Vested and Transferred to the Executive during the Year	Balance at 30 June 2005[3]
Executive Directors							
Geoff Dixon	21 Oct 04	$2.28[1]	$1,026,000	–	450,000	–	450,000
	16 Oct 03	$3.04[2]	$285,000	125,000	–	–	125,000
				125,000	450,000	–	575,000
Peter Gregg	21 Oct 04	$2.28[1]	$205,200	–	90,000	–	90,000
	16 Oct 03	$3.04[2]	$182,400	80,000	–	–	80,000
				80,000	90,000	–	170,000
Specified Executives							
Denis Adams	18 Aug 04	$2.25[1]	$90,000	–	40,000	–	40,000
	15 Oct 03	$3.09[2]	$81,113	35,000	–	–	35,000
				35,000	40,000	–	75,000
Fiona Balfour	18 Aug 04	$2.25[1]	$78,750	–	35,000	–	35,000
	15 Oct 03	$3.09[2]	$69,525	30,000	–	–	30,000
				30,000	35,000	–	65,000
John Borghetti	18 Aug 04	$2.25[1]	$135,000	–	60,000	–	60,000
	15 Oct 03	$3.09[2]	$92,700	40,000	–	–	40,000
				40,000	60,000	–	100,000
Kevin Brown	18 Aug 04	$2.25[1]	$90,000	–	40,000	–	40,000
	15 Oct 03	$3.09[2]	$69,525	30,000	–	–	30,000
				30,000	40,000	–	70,000
Grant Fenn	18 Aug 04	$2.25[1]	$101,250	–	45,000	–	45,000
	15 Oct 03	$3.09[2]	$81,113	35,000	–	–	35,000
				35,000	45,000	–	80,000
Alan Joyce	18 Aug 04	$2.25[1]	$78,750	–	35,000	–	35,000
	10 Dec 03	$2.86[2]	$42,900	20,000	–	–	20,000
				20,000	35,000	–	55,000

1 The fair value of Rights granted under Plans post 1 July 2004 is calculated at the date of grant using a Monte-Carlo Valuation Methodology. Black-Scholes Option Valuation Methodology is no longer used as it does not meet the AASB 1046 requirement to include market conditions in the valuation.

2 The estimated value of Rights granted under Plans before 1 July 2004 is calculated at the date of grant using the Black-Scholes Option Valuation Methodology. This does not include any discount to take into consideration the likelihood of vesting. The total value reflects a 75% probability of achievement.

3 At 30 June 2005, no Rights had vested and none had lapsed.

All Rights were granted with a nil exercise price. No amount has been paid, or is payable by the Executive, in relation to these Rights.

5. Director and Executive disclosures continued

2002 EXECUTIVE DIRECTOR LONG-TERM INCENTIVE PLAN (EXEC DIRECTOR LTI) AND SENIOR MANAGER LONG-TERM INCENTIVE PLAN (SEN MGR LTI)

The number of Qantas shares provided as remuneration under the Exec Director LTI and Sen Mgr LTI to each Executive Director and Specified Executive is set out below. No shares were granted under these Plans in the year ended 30 June 2005. For more information on the operation of the Exec Director LTI and Sen Mgr LTI, see page 57.

	Grant Date	Balance at 30 June 2004	Balance at 30 June 2005
Executive Directors			
Geoff Dixon	17 Oct 02	250,000	250,000
Peter Gregg	17 Oct 02	150,000	150,000
Specified Executives			
Denis Adams	31 Dec 02	70,000	70,000
Fiona Balfour	31 Dec 02	40,000	40,000
John Borghetti	31 Dec 02	80,000	80,000
Kevin Brown	31 Dec 02	60,000	60,000
Grant Fenn	31 Dec 02	60,000	60,000
Alan Joyce	10 Jan 03	30,000	30,000

No amounts have been paid or are payable by the Executives in relation to the shares.

2002 EXECUTIVE DIRECTOR LONG-TERM INCENTIVE PLAN (EXEC DIRECTOR LTI) AND 2002 PERFORMANCE BONUS PLAN (2002 BONUS)

The number of Qantas Rights provided as remuneration under the Exec Director LTI and 2002 Bonus to each Executive Director and Specified Executive is set out below. No Rights were granted under these Plans in the year ended 30 June 2005. For more information on the operation of the 2002 Bonus, see page 57.

	Grant Date	Balance at 30 June 2004	Rights Vested and Converted during the Year	Balance at 30 June 2005
Executive Directors				
Geoff Dixon	17 Oct 02	30,834	(3,057)	27,777
Peter Gregg	17 Oct 02	18,720	(2,054)	16,666
Specified Executives				
Denis Adams	23 Oct 02	1,054	(1,054)	–
Fiona Balfour	23 Oct 02	2,751	(2,751)	–
John Borghetti	23 Oct 02	1,317	(1,317)	–
Kevin Brown	23 Oct 02	2,433	(2,433)	–
Grant Fenn	23 Oct 02	1,216	(1,216)	–
Alan Joyce	n/a	–	–	–

No amounts have been paid or are payable by the Executives in relation to the Rights.

QANTAS LONG-TERM EXECUTIVE INCENTIVE PLAN (QLTEIP)

Details of entitlements over shares in Qantas provided as remuneration under the QLTEIP to each Executive Director and Specified Executive are set out below. For more information on the operation of the QLTEIP, see page 57.

	Number of Entitlements Granted	Balance at 30 June 2004	Lapsed	Balance at 30 June 2005	Number Vested at 30 June 2005	Number Unvested at 30 June 2005
Executive Directors						
Geoff Dixon	2,045,000	2,045,000	(61,313)	1,983,687	1,738,693	244,994[1]
Peter Gregg	838,000	838,000	(9,900)	828,100	705,603	122,497[1]
Specified Executives						
Denis Adams	518,000	518,000	(9,900)	508,100	437,869	70,231[1]
Fiona Balfour	210,000	210,000	–	210,000	175,701	34,299[1]
John Borghetti	518,000	518,000	(9,900)	508,100	437,869	70,231[1]
Kevin Brown	350,000	350,000	–	350,000	–	350,000
Grant Fenn	496,000	496,000	(7,425)	488,575	418,344	70,231[1]
Alan Joyce	220,000	220,000	–	220,000	184,067	35,933[1]

1 These Entitlements lapsed on 1 July 2005.

No further vesting occurred for Executives in the year to 30 June 2005. All vested Entitlements may be converted into ordinary shares, however, this is not on a one-for-one basis. At the time QLTEIP Entitlements lapsed, they were out-of-the-money.

5. Director and Executive disclosures continued

EQUITY HOLDINGS AND TRANSACTIONS

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

	Interest in Shares at 30 June 2004	Acquired as Remuneration[1]	Rights Converted to Shares	Acquired through DRP[2]	Purchased/ (Sold)	Lapsed	Interest in Shares at 30 June 2005[3]
Directors							
Margaret Jackson	147,338	–	–	–	–	–	147,338
Geoff Dixon	455,001	150,000	3,057	7,444	215,000	–	830,502
Peter Gregg	254,676	90,000	2,054	–	–	–	346,730
Paul Anderson	25,000	–	–	–	–	–	25,000
Mike Codd	11,577	–	–	659	–	–	12,236
Patricia Cross	2,047	–	–	116	–	–	2,163
Trevor Eastwood	13,078	–	–	362	–	–	13,440
Garry Hounsell	–	–	–	854	30,000	–	30,854
Jim Kennedy	1,975	–	–	–	–	–	1,975
Roger Maynard	–	–	–	–	–	–	–
James Packer	–	–	–	–	–	–	–
John Schubert	34,753	–	–	–	–	–	34,753
Nick Tait	1,675	–	–	–	–	–	1,675
Specified Executives							
Denis Adams	87,961	35,000	1,054	986	(2,375)	–	122,626
Fiona Balfour	73,101	30,000	2,751	1,791	–	–	107,643
John Borghetti	96,176	55,000	1,317	789	13,859	–	167,141
Kevin Brown	81,901	35,000	2,433	–	(24,334)	–	95,000
Grant Fenn	76,373	35,000	1,216	966	–	–	113,555
Alan Joyce	30,273	55,000	–	–	–	–	85,273

1 See details of the PSP on page 77 in this Note.

2 Qantas Dividend Reinvestment Plan (DRP).

3 For Trevor Eastwood and Nick Tait, the number shown is at the date of resignation from the Board, being 31 March 2005 and 8 September 2004 respectively.

LOANS AND OTHER TRANSACTIONS WITH SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

Loans

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

Other Transactions with the Qantas Group

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

The Publishing and Broadcasting Limited (PBL) group is a related entity to Mr Packer. During the year, PBL purchased air travel of $12.6 million (2004: $11.8 million) and advertising space of $6.8 million from Qantas. Qantas purchased directly or indirectly advertising services from the PBL group of $2.1 million during the year. In addition, Jetstar Airways and PBL entered into a contra transaction allowing PBL to derive all advertising revenue from the in-flight magazine in exchange for producing the Jetstar in-flight magazine. All transactions were conducted on normal commercial terms.

Until July 2005, Roger Donazzan, husband of Qantas Chairman Ms Jackson, was a Partner of Minter Ellison. Mr Donazzan performed no work for Qantas. Total legal fees paid to the Minter Ellison Group during the year were $3.5 million. During the year, the Minter Ellison Group purchased air travel of $2.7 million.

Paul Meadows, husband of Qantas Director Ms Cross is a partner of Allens Arthur Robinson. Mr Meadows performs no work for Qantas. Total legal fees paid to the Allens Arthur Robinson Group during the year were $240. During the year, the Allens Arthur Robinson Group purchased air travel of $0.4 million.

6. Auditors' remuneration

	Qantas Group		Qantas	
	2005 $000	2004 $000	**2005 $000**	2004 $000
Audit services				
Auditors of Qantas – KPMG				
Audit and review of financial reports	**2,295**	1,965	**1,749**	1,497
Other services				
Auditors of Qantas – KPMG				
Other assurance services	**993**	497	**734**	475
Financial reporting assistance	**445**	177	**445**	177
Due diligence	**67**	207	**67**	207
Tax compliance	**274**	617	**224**	567
Total other services	**1,779**	1,498	**1,470**	1,426
KPMG related practices	**–**	152	**–**	152
	4,074	3,615	**3,219**	3,075

7. Cash

	$M	**$M**	**$M**	**$M**
Cash on hand	**2.8**	3.3	**2.7**	3.2
Cash at bank	**112.5**	107.5	**254.5**	26.8
Cash at call	**82.7**	225.1	**82.7**	224.7
	198.0	335.9	**339.9**	254.7

8. Receivables

	$M	**$M**	**$M**	**$M**
CURRENT				
Trade debtors	**1,020.4**	958.3	**957.9**	901.7
Less: provision for doubtful debts	**6.1**	18.0	**4.7**	16.7
	1,014.3	940.3	**953.2**	885.0
Trade debtors				
Related parties				
– controlled entities	**–**	–	**47.3**	116.1
– associates and joint ventures	**13.6**	11.8	**13.6**	11.7
– other related parties	**–**	58.2	**–**	58.2
	13.6	70.0	**60.9**	186.0
Loans owing from				
Related parties				
– controlled entities	**–**	–	**40.3**	38.9
Short-term money market securities and term deposits	**1,705.8**	1,029.4	**1,705.8**	1,029.4
Aircraft security deposits	**8.3**	9.4	**5.4**	6.3
Sundry debtors				
Related parties				
– controlled entities	**–**	–	**2.4**	2.5
Other parties	**94.1**	67.2	**73.3**	55.3
	2,836.1	2,116.3	**2,841.3**	2,203.4

Short-term money market securities of $185.0 million (2004: $150.0 million) held by the Qantas Group are pledged as collateral under the terms of certain financing facilities.

~Notes to the Financial Statements~
for the year ended 30 June 2005

8. Receivables continued

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NON-CURRENT				
Loans owing from				
Related parties				
– controlled entities	**–**	–	**703.8**	1,699.0
– associates and joint ventures	**128.2**	128.2	**128.2**	128.2
Other parties	**13.5**	15.4	**–**	–
Aircraft security deposits	**119.1**	125.5	**119.1**	125.3
Sundry debtors				
Other parties	**26.9**	35.5	**18.3**	25.4
	287.7	304.6	**969.4**	1,977.9

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

9. Inventories

	$M	$M	**$M**	$M
At cost				
Engineering expendables	**264.7**	304.9	**244.0**	287.7
Consumable stores	**47.1**	36.8	**36.6**	28.5
Work in progress	**20.8**	32.6	**14.5**	31.0
	332.6	374.3	**295.1**	347.2
At net realisable value				
Aircraft spare parts held for sale	**0.4**	1.2	**0.4**	1.2
	333.0	375.5	**295.5**	348.4

10. Other investments

	$M	$M	**$M**	$M
NON-CURRENT				
Unlisted investments				
Controlled entities at net book value (refer Note 28)	**–**	–	**439.1**	472.5
Associates and joint ventures at cost	**–**	–	**295.7**	284.3
Other corporations at net book value	**99.9**	110.1	**11.8**	20.4
	99.9	110.1	**746.6**	777.2

11. Other assets

	$M	$M	**$M**	$M
CURRENT				
Advances, prepayments and other	**82.1**	133.6	**102.2**	162.0
Deferred expenditure	**75.6**	58.6	**63.7**	48.5
	157.7	192.2	**165.9**	210.5
NON-CURRENT				
Deferred expenditure	**83.6**	88.1	**64.2**	63.3
Other	**1.2**	2.8	**0.1**	1.6
	84.8	90.9	**64.3**	64.9

~Notes to the Financial Statements~
for the year ended 30 June 2005

12. Property, plant and equipment

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NON-CURRENT				
Freehold land – owned				
At cost	**53.0**	59.4	**47.1**	47.2
At valuation	**15.0**	–	**–**	–
	68.0	59.4	**47.1**	47.2
Leasehold land				
At cost	**0.3**	0.1	**–**	–
Total land at cost and valuation	**68.3**	59.5	**47.1**	47.2
Buildings – owned				
At cost	**238.1**	155.2	**194.3**	110.5
Less: accumulated depreciation	**63.7**	63.1	**47.5**	48.1
	174.4	92.1	**146.8**	62.4
Buildings – leased				
At cost	**60.7**	61.2	**29.0**	29.0
Less: accumulated amortisation	**43.3**	42.2	**18.7**	17.9
	17.4	19.0	**10.3**	11.1
Total buildings				
At cost	**298.8**	216.4	**223.3**	139.5
Less: accumulated depreciation and amortisation	**107.0**	105.3	**66.2**	66.0
Total buildings at net book value	**191.8**	111.1	**157.1**	73.5
Leasehold improvements				
At cost	**1,264.9**	1,351.9	**762.8**	771.9
Less: accumulated amortisation	**670.2**	728.5	**367.5**	372.3
Total leasehold improvements at net book value	**594.7**	623.4	**395.3**	399.6
Plant and equipment – owned				
At cost	**1,803.9**	1,681.5	**1,403.0**	1,298.4
Less: accumulated depreciation	**1,134.4**	1,055.0	**794.9**	722.0
	669.5	626.5	**608.1**	576.4
Plant and equipment – leased				
At cost	**7.0**	7.0	**–**	–
Less: accumulated amortisation	**6.5**	6.1	**–**	–
	0.5	0.9	**–**	–
Total plant and equipment				
At cost	**1,810.9**	1,688.5	**1,403.0**	1,298.4
Less: accumulated depreciation and amortisation	**1,140.9**	1,061.1	**794.9**	722.0
Total plant and equipment at net book value	**670.0**	627.4	**608.1**	576.4

12. Property, plant and equipment continued

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Aircraft and engines – owned				
At cost	**10,180.2**	9,599.7	**6,988.9**	6,532.7
Less: accumulated depreciation	**3,237.2**	3,036.9	**2,663.9**	2,581.3
	6,943.0	6,562.8	**4,325.0**	3,951.4
Aircraft and engines – hire purchased				
At cost	**3,262.0**	3,014.0	**5,503.2**	5,158.1
Less: accumulated amortisation	**748.8**	611.9	**960.6**	735.3
	2,513.2	2,402.1	**4,542.6**	4,422.8
Aircraft and engines – leased				
At cost	**742.8**	745.2	**455.5**	455.5
Less: accumulated amortisation	**375.0**	340.3	**206.7**	183.7
	367.8	404.9	**248.8**	271.8
Total aircraft and engines				
At cost	**14,185.0**	13,358.9	**12,947.6**	12,146.3
Less: accumulated depreciation and amortisation	**4,361.0**	3,989.1	**3,831.2**	3,500.3
Total aircraft and engines at net book value	**9,824.0**	9,369.8	**9,116.4**	8,646.0
Aircraft spare parts – owned				
At cost	**704.0**	729.9	**594.7**	646.3
Less: accumulated depreciation	**319.9**	363.8	**295.6**	345.5
	384.1	366.1	**299.1**	300.8
Aircraft spare parts – leased				
At cost	**20.8**	20.8	**20.8**	20.8
Less: accumulated amortisation	**4.7**	3.0	**4.7**	3.0
	16.1	17.8	**16.1**	17.8
Total aircraft spare parts				
At cost	**724.8**	750.7	**615.5**	667.1
Less: accumulated depreciation and amortisation	**324.6**	366.8	**300.3**	348.5
Total aircraft spare parts at net book value	**400.2**	383.9	**315.2**	318.6
Manufacturers' deposits				
Progress payments at cost	**863.5**	1,081.5	**602.8**	611.7
Total property, plant and equipment				
At cost	**19,216.2**	18,507.4	**16,602.1**	15,682.1
Less: accumulated depreciation and amortisation	**6,603.7**	6,250.8	**5,360.1**	5,009.1
Total property, plant and equipment at net book value	**12,612.5**	12,256.6	**11,242.0**	10,673.0

12. Property, plant and equipment continued

Qantas Group	Opening Written Down Value 2005 $M	Additions 2005 $M	Disposals 2005 $M	Transfers 2005 $M	Depreciation 2005 $M	Other* 2005 $M	Closing Written Down Value 2005 $M
RECONCILIATIONS							
Freehold land – owned	59.4	–	(0.1)	–	–	8.7	68.0
Leasehold land	0.1	0.2	–	–	–	–	0.3
Total land	59.5	0.2	(0.1)	–	–	8.7	68.3
Buildings – owned	92.1	89.5	(0.5)	–	(6.7)	–	174.4
Buildings – leased	19.0	–	–	–	(1.6)	–	17.4
Total buildings	111.1	89.5	(0.5)	–	(8.3)	–	191.8
Leasehold improvements	623.4	23.6	(2.7)	–	(57.7)	8.1	594.7
Plant and equipment – owned	626.5	178.2	(6.9)	–	(134.9)	6.6	669.5
Plant and equipment – leased	0.9	–	–	–	(0.4)	–	0.5
Total plant and equipment	627.4	178.2	(6.9)	–	(135.3)	6.6	670.0
Aircraft and engines – owned	6,562.8	158.2	(287.4)	1,159.2	(657.6)	7.8	6,943.0
Aircraft and engines – hire purchased	2,402.1	249.8	(2.9)	–	(135.8)	–	2,513.2
Aircraft and engines – leased	404.9	1.0	–	–	(38.1)	–	367.8
Total aircraft and engines	9,369.8	409.0	(290.3)	1,159.2	(831.5)	7.8	9,824.0
Aircraft spare parts – owned	366.1	64.5	(5.0)	–	(48.5)	7.0	384.1
Aircraft spare parts – leased	17.8	–	–	–	(1.7)	–	16.1
Total aircraft spare parts	383.9	64.5	(5.0)	–	(50.2)	7.0	400.2
Manufacturers' deposits	1,081.5	917.9	(26.6)	(1,159.2)	–	49.9	863.5
Total property, plant and equipment	12,256.6	1,682.9	(332.1)	–	(1,083.0)	88.1	12,612.5

* Other for the Qantas Group includes revaluation of land and buildings, transfers to inventory and capitalised interest.

Qantas	$M	$M	$M	$M	$M	$M	$M
RECONCILIATIONS							
Freehold land – owned	47.2	–	(0.1)	–	–	–	47.1
Total land	47.2	–	(0.1)	–	–	–	47.1
Buildings – owned	62.4	89.5	(0.5)	–	(4.6)	–	146.8
Buildings – leased	11.1	–	–	–	(0.8)	–	10.3
Total buildings	73.5	89.5	(0.5)	–	(5.4)	–	157.1
Leasehold improvements	399.6	23.0	(2.4)	–	(33.0)	8.1	395.3
Plant and equipment – owned	576.4	153.3	(6.1)	(1.9)	(121.1)	7.5	608.1
Total plant and equipment	576.4	153.3	(6.1)	(1.9)	(121.1)	7.5	608.1
Aircraft and engines – owned	3,951.4	0.8	(281.3)	1,145.8	(500.8)	9.1	4,325.0
Aircraft and engines – hire purchased	4,422.8	353.9	(2.8)	–	(231.3)	–	4,542.6
Aircraft and engines – leased	271.8	–	–	–	(23.0)	–	248.8
Total aircraft and engines	8,646.0	354.7	(284.1)	1.145.8	(755.1)	9.1	9,116.4
Aircraft spare parts – owned	300.8	36.5	(5.0)	–	(42.9)	9.7	299.1
Aircraft spare parts – leased	17.8	–	–	–	(1.7)	–	16.1
Total aircraft spare parts	318.6	36.5	(5.0)	–	(44.6)	9.7	315.2
Manufacturers' deposits	611.7	557.8	(26.6)	(590.0)	–	49.9	602.8
Total property, plant and equipment	10,673.0	1,214.8	(324.8)	553.9	(959.2)	84.3	11,242.0

* Other for Qantas includes transfers to inventory and capitalised interest.

12. Property, plant and equipment continued

Independent valuations of land and buildings were obtained as at 30 June 2005. The valuations for each asset class were in excess of their carrying amounts, however, no additional revaluations have been recognised. Details of the valuations obtained for the Qantas Group were:

	Qantas Group					
	2005			2004		
	Valuation Amount $M	Carrying Amount $M	Excess $M	Valuation Amount $M	Carrying Amount $M	Excess $M
ASSET CLASS						
Freehold land and buildings[1]	**278.8**	**242.4**	**36.4**	252.7	151.5	101.2
Leasehold buildings and improvements	**959.6**	**612.1**	**347.5**	907.8	642.4	265.4
	1,238.4	**854.5**	**383.9**	1,160.5	793.9	366.6

1 Freehold land and buildings for Qantas have been independently valued at $240.8 million (2004: $219.3 million).

The 2005 independent valuation of land, buildings and leasehold improvements was carried out by Mr Russell Cowell, FVLE, AREI, of Knight Frank Valuations (NSW) Pty Limited. Valuations were performed after physically inspecting a sample of properties and all significant additions. The property valuations were performed using the open market or special use value to the Qantas Group.

SECURED ASSETS

Certain aircraft and engines act as security against related financings. Under the terms of certain financing facilities entered into by the Qantas Group, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters. The total carrying amount of assets under pledge was $5,075.3 million as at 30 June 2005 (2004: $3,598.7 million).

13. Intangible assets

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NON-CURRENT				
Goodwill at cost	**157.9**	151.3	**–**	–
Less: accumulated amortisation	**61.2**	46.1	**–**	–
	96.7	105.2	**–**	–
Airport landing slots	**47.3**	47.3	**47.3**	47.3
Less: accumulated amortisation	**2.0**	0.1	**2.0**	0.1
	45.3	47.2	**45.3**	47.2
	142.0	152.4	**45.3**	47.2

14. Payables

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
CURRENT				
Trade creditors				
Related parties				
– controlled entities	**–**	–	**80.4**	167.3
– associates and joint ventures	**0.2**	25.6	**0.2**	25.6
– other related parties	**–**	99.5	**–**	99.5
Other parties	**1,687.6**	1,572.7	**1,575.3**	1,460.9
	1,687.8	1,697.8	**1,655.9**	1,753.3
Other creditors and accruals				
Other parties	**206.7**	218.1	**58.9**	74.0
Frequent Flyer points liability	**216.7**	251.6	**216.7**	251.6
	2,111.2	2,167.5	**1,931.5**	2,078.9

15. Interest-bearing liabilities

	$M	$M	**$M**	$M
CURRENT				
Bank loans				
– secured	**217.6**	196.4	**104.4**	81.7
– unsecured	**–**	133.3	**–**	133.3
Other loans				
Related parties – unsecured				
– associates and joint ventures	**13.6**	14.2	**13.6**	14.2
Other parties				
– unsecured	**–**	418.1	**–**	418.1
Finance lease and hire purchase liabilities (refer Note 23)	**83.8**	59.9	**197.1**	179.1
	315.0	821.9	**315.1**	826.4
NON-CURRENT				
Bank loans				
– secured	**2,507.9**	2,558.5	**1,243.6**	1,083.2
– unsecured	**630.0**	364.1	**630.0**	364.1
Other loans				
Related parties – unsecured				
– controlled entities	**–**	–	**137.3**	592.6
Other parties				
– unsecured	**1,157.6**	1,283.5	**1,157.6**	1,283.5
Finance lease and hire purchase liabilities (refer Note 23)	**939.2**	875.7	**2,662.9**	2,810.9
	5,234.7	5,081.8	**5,831.4**	6,134.3

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

16. Provisions

	Qantas Group 2005 $M	Qantas Group 2004 $M	Qantas 2005 $M	Qantas 2004 $M
CURRENT				
Dividends	**1.7**	1.4	**1.7**	–
Employee benefits (refer Note 32)				
– annual leave	**334.9**	317.7	**291.1**	281.0
– long service leave	**31.8**	28.8	**25.0**	23.2
– staff redundancy	**0.2**	0.4	**–**	–
Under-recovery of rentals on sub-let premises	**5.9**	7.5	**5.3**	6.8
Insurance and other	**25.7**	25.8	**21.3**	17.8
	400.2	381.6	**344.4**	328.8
NON-CURRENT				
Employee benefits (refer Note 32)				
– long service leave	**267.9**	257.7	**244.3**	235.4
Under-recovery of rentals on sub-let premises	**3.3**	15.8	**1.7**	13.9
Insurance and other	**65.1**	58.2	**57.1**	53.0
	336.3	331.7	**303.1**	302.3

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

	Qantas Group 2005 $M	Qantas 2005 $M
RECONCILIATIONS		
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:		
Dividends		
Carrying amount at the beginning of the financial year	**1.4**	**–**
Provisions made during the year	**353.8**	**352.9**
Payments made during the year	**(175.0)**	**(172.7)**
Dividends settled in shares under the Dividend Reinvestment Plan	**(178.5)**	**(178.5)**
Carrying amount at the end of the financial year	**1.7**	**1.7**
Under-recovery of rentals on sub-let premises		
Carrying amount at the beginning of the financial year	**23.3**	**20.7**
Provisions released during the year	**(8.0)**	**(7.6)**
Payments made during the year	**(6.1)**	**(6.1)**
Carrying amount at the end of the financial year	**9.2**	**7.0**
Included in the Financial Statements as follows:		
Current	**5.9**	**5.3**
Non-current	**3.3**	**1.7**
	9.2	**7.0**
Insurance and other		
Carrying amount at the beginning of the financial year	**84.0**	**70.8**
Provisions made during the year	**29.0**	**26.3**
Payments made during the year	**(22.2)**	**(18.7)**
Carrying amount at the end of the financial year	**90.8**	**78.4**
Included in the Financial Statements as follows:		
Current	**25.7**	**21.3**
Non-current	**65.1**	**57.1**
	90.8	**78.4**

17. Current tax liabilities

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Income tax				
– Australia	**82.6**	25.8	**81.9**	25.1
– overseas	**3.3**	4.3	**1.9**	2.1
	85.9	30.1	**83.8**	27.2

18. Contributed equity

	$M	$M	**$M**	$M
Issued and paid up capital: 1,897,648,748 (2004: 1,845,115,040) ordinary shares, fully paid as at 30 June	**4,173.4**	3,994.9	**4,173.4**	3,994.9

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

Date	Details	Number of Shares M	2005 $M
1 July 2004	Balance at the beginning of the financial year	**1,845.1**	**3,994.9**
29 September 2004	Dividend Reinvestment Plan	**22.7**	**73.8**
6 April 2005	Dividend Reinvestment Plan	**29.8**	**104.7**
30 June 2005	Balance at the end of the financial year	**1,897.6**[1]	**4,173.4**

1 Includes the conversion of an amount of 1,280,109 QLTEIP Entitlements into 388 shares on 18 August 2004 and a further amount of 1,844,861 QLTEIP Entitlements into 59,177 shares on 16 February 2005.

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.

19. Reserves

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Asset revaluation reserve	**59.9**	55.5	**82.9**	82.9
Foreign currency translation reserve	**(3.7)**	(1.1)	**–**	–
	56.2	54.4	**82.9**	82.9
MOVEMENTS IN RESERVES				
Asset revaluation reserve				
Balance at the beginning of the financial year	**55.5**	55.5	**82.9**	82.9
Revaluation of land and buildings on acquisition of outside equity interest of subsidiary	**4.4**	–	**–**	–
Balance at the end of the financial year	**59.9**	55.5	**82.9**	82.9
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(1.1)**	(1.5)	**–**	–
Net exchange differences relating to self-sustaining foreign operations	**(2.6)**	0.4	**–**	–
Balance at the end of the financial year	**(3.7)**	(1.1)	**–**	–

NATURE AND PURPOSE OF RESERVES

Asset revaluation reserve

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets measured at fair value in accordance with AASB 1041 – Revaluation of Non-Current Assets in prior financial years. An amount for the Qantas Group and Qantas of $52.6 million (2004: $52.6 million) is not available for future asset writedowns as a result of using the deemed cost election for land when adopting AASB 1041.

Foreign currency translation reserve

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

20. Retained profits

	$M	$M	**$M**	$M
Retained profits at the beginning of the financial year	**1,776.3**	1,435.9	**1,298.3**	927.8
Net profit attributable to members of Qantas	**763.6**	648.4	**629.5**	676.0
Net effect of acquisition of outside equity interest of subsidiary	**7.0**	–	**–**	–
Dividends recognised during the year	**(353.8)**	(308.0)	**(352.9)**	(305.5)
Retained profits at the end of the financial year	**2,193.1**	1,776.3	**1,574.9**	1,298.3

~Notes to the Financial Statements~
for the year ended 30 June 2005

21. Total equity reconciliation

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Total equity at the beginning of the financial year	**5,840.3**	5,262.1	**5,376.1**	4,768.6
Net profit attributable to members of Qantas	**763.6**	648.4	**629.5**	676.0
Contributions of equity	**178.5**	237.0	**178.5**	237.0
Dividends	**(353.8)**	(308.0)	**(352.9)**	(305.5)
Acquisition of outside equity interest of subsidiary	**7.0**	–	**–**	–
Total change in reserves	**1.8**	0.4	**–**	–
Total change in outside equity interests	**(10.5)**	0.4	**–**	–
Total equity at the end of the financial year	**6,426.9**	5,840.3	**5,831.2**	5,376.1

22. Outside equity interests

	$M	$M	**$M**	$M
Interest in profit from ordinary activities after income tax	**0.8**	0.4	**–**	–
Interest in retained profits at the end of the financial year	**4.0**	14.5	**–**	–
Interest in share capital	**0.2**	0.2	**–**	–
	4.2	14.7	**–**	–

23. Finance lease and hire purchase commitments

	$M	$M	**$M**	$M
Included in the Financial Statements as finance lease and hire purchase liabilities are the present values of future rentals of the following:				
Aircraft and engines	**1,022.8**	935.4	**2,860.0**	2,990.0
Computer and communications equipment	**0.2**	0.2	**–**	–
	1,023.0	935.6	**2,860.0**	2,990.0
Payable				
Not later than one year	**123.8**	99.2	**314.0**	301.3
Later than one year but not later than five years	**578.9**	606.6	**1,467.4**	1,488.0
Later than five years	**499.7**	394.0	**1,692.2**	1,887.6
	1,202.4	1,099.8	**3,473.6**	3,676.9
Less: future lease and hire purchase finance charges	**179.4**	164.2	**613.6**	686.9
	1,023.0	935.6	**2,860.0**	2,990.0
Lease and hire purchase liabilities provided for in the Financial Statements				
Current liability (refer Note 15)	**83.8**	59.9	**197.1**	179.1
Non-current liability (refer Note 15)	**939.2**	875.7	**2,662.9**	2,810.9
	1,023.0	935.6	**2,860.0**	2,990.0

24. Operating lease and hire commitments

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Future net operating lease and hire commitments not provided for in the Financial Statements	**2,428.7**	2,189.9	**1,865.1**	1,973.7
Payable				
Not later than one year	**508.0**	457.2	**405.7**	386.6
Later than one year but not later than five years	**1,258.8**	1,255.2	**982.8**	1,110.0
Later than five years	**671.1**	500.8	**483.6**	497.8
	2,437.9	2,213.2	**1,872.1**	1,994.4
Less: provision for potential under-recovery of rentals on unused premises available for sub-lease (refer Note 16)	**9.2**	23.3	**7.0**	20.7
	2,428.7	2,189.9	**1,865.1**	1,973.7
Operating lease commitments represent:				
Cancellable operating leases	**1,025.8**	988.6	**1,017.5**	982.7
Non-cancellable operating leases:				
Aircraft leases	**1,402.9**	1,201.3	**847.6**	991.0
	2,428.7	2,189.9	**1,865.1**	1,973.7
Non-cancellable operating lease commitments, excluding unguaranteed residual payments, not provided for in the Financial Statements:				
Payable				
Not later than one year	**352.3**	308.1	**252.3**	239.3
Later than one year but not later than five years	**857.8**	864.4	**587.6**	722.9
Later than five years	**192.8**	28.8	**7.7**	28.8
	1,402.9	1,201.3	**847.6**	991.0

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 original lease inception, then total lease liabilities would increase by $2,194.5 million and assets under operating leases would have an implied carrying value of $2,127.4 million at 30 June 2005.

The value of non-cancellable operating leases above has been calculated assuming the assets are owned and debt funded and is not consistent with the disclosure requirements of AASB 1008 – Leases.

25. Capital expenditure commitments

	$M	$M	**$M**	$M
Capital expenditure commitments contracted but not provided for in the Financial Statements:				
Aircraft	**4,246.4**	5,130.1	**4,232.2**	5,120.0
Building works	**155.7**	224.3	**147.7**	222.0
Other	**136.4**	190.1	**120.5**	169.1
	4,538.5	5,544.5	**4,500.4**	5,511.1
Payable				
Not later than one year	**1,566.8**	1,710.8	**1,557.1**	1,692.4
Later than one year but not later than five years	**2,971.7**	3,833.7	**2,943.3**	3,818.7
	4,538.5	5,544.5	**4,500.4**	5,511.1

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

26. Contingent liabilities

Details of contingent liabilities arising outside the normal course of business, where the probability of future payments is not considered remote, are set out below. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Guarantees and letters of comfort to support operating lease commitments and other arrangements entered into with other parties by controlled entities	**22.5**	24.2	**–**	–
Guarantees and letters of comfort to support leveraged and operating lease commitments to other parties on behalf of associates	**0.1**	11.1	**0.1**	11.0
General guarantees in the normal course of business	**122.4**	126.6	**122.4**	126.6
Contingent liabilities relating to current and threatened litigation	**17.0**	10.6	**15.9**	9.6
	162.0	172.5	**138.4**	147.2

TERMINAL FUEL FACILITIES

The Qantas Group, together with other airlines, has entered into various agreements in order to facilitate the funding and installation of jet turbine fuel hydrant systems and terminal equipment facilities at Los Angeles and Hawaii Airports. The airlines have jointly and severally agreed to repay any unpaid balance (including interest) of the loans totalling $186.2 million (2004: $214.1 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.

UNREALISED GAINS/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 2005, total unrealised exchange gains on hedges of net revenue designated to service long-term debt were $228.4 million (2004: $19.2 million losses).

27. Superannuation commitments

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

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

The various Plans were last actuarially assessed as detailed in the table on the following page. The actuarial valuations confirmed that the value of the assets of the Plans were sufficient to meet all anticipated liabilities including vested benefits.

27. Superannuation commitments continued

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	Mr Mark Thompson, BSc, FIAA	30 June 2002
	Accumulation	n/a	
Australian Airlines Flight Engineers' Superannuation Plan[2]	Defined benefit	Mr Mark Thompson, BSc, FIAA	30 June 2003

1 Actuarial valuations performed by actuary then employed by Towers Perrin (now Russell Investment Group) in Australia.
2 This Plan has been wound up with effect from 1 July 2005.

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

As at 30 June 2005, the net market value of the Qantas Superannuation Plan assets was estimated to be in excess of the vested benefits of the Plan.

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

	Qantas Group 2005				
Plan	Present value of accrued benefits as at the most recent actuarial valuation $M	Net market value of Plan assets as at 30 June 2004[1] $M	Excess $M	Employer contributions to Plan for year ended 30 June 2004[1] $M	Vested benefits as at 30 June 2004[1] $M
Qantas Superannuation Plan[2]	**3,636.5**	**4,205.1**	**568.6**	**230.1**	**4,040.0**
Australian Airlines Flight Engineers' Superannuation Plan[3]	**7.8**	**17.5**	**9.7**	**–**	**7.3**
Total	**3,644.3**	**4,222.6**	**578.3**	**230.1**	**4,047.3**

1 Extracted from the most recent audited financial statements of the Plans. The net market value of the Plan assets does not represent the actuarial value of assets, as it does not include allowance for fluctuations in the value of the Plans assets.
2 The most recent actuarial valuation of the Qantas Superannuation Plan was as at 30 June 2002. The most recent audited financial statements prepared by the Qantas Superannuation Plan were as at 30 June 2004. Accordingly, comparison of accrued benefits as at 30 June 2002 to the net market value of Plan assets as at 30 June 2004 is inappropriate due to the different dates.
3 The most recent actuarial valuation was undertaken as at 30 June 2003.

	Qantas Group 2004				
Plan	Present value of accrued benefits as at the most recent actuarial valuation $M	Net market value of Plan assets as at 30 June 2003[1] $M	Excess/ (deficit) $M	Employer Contributions to Plan for year ended 30 June 2003[1] $M	Vested benefits as at 30 June 2003[1] $M
Qantas Superannuation Plan[2]	3,636.5	3,612.0	(24.5)	230.0	3,512.0
Australian Airlines Flight Engineers' Superannuation Plan[3]	7.8	16.7	8.9	–	7.8
Total	3,644.3	3,628.7	(15.6)	230.0	3,519.8

1 Extracted from the most recent audited financial statements of the Plans. The net market value of the Plan assets does not represent the actuarial value of assets, as it does not include allowance for fluctuations in the value of the Plans assets.
2 The most recent actuarial valuation of the Qantas Superannuation Plan was at 30 June 2002. The most recent audited financial statements prepared by the Qantas Superannuation Plan were as at 30 June 2003. Accordingly, comparison of accrued benefits as at 30 June 2002 to the net market value of Plan assets as at 30 June 2003 is inappropriate due to the different dates.
3 The most recent actuarial valuation was undertaken as at 30 June 2003.

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.

28. Particulars in relation to controlled entities

	Notes	ABN/ACN	Country of Incorporation	Qantas Group Ownership Interest 2005 %	2004 %
738 Leasing 1 Pty Limited		33 099 119 641	Australia	**100**	100
738 Leasing 2 Pty Limited		71 099 119 801	Australia	**100**	100
AAL Aviation Limited	1	83 008 642 886	Australia	**100**	100
Star Handling Services Pty Limited	1	32 010 434 296	Australia	**100**	100
Australian Airlines Express Courier Pty Limited	1	010 435 202	Australia	**100**	100
ARANS Superannuation Pty Limited	2	064 235 892	Australia	**100**	100
AAFE Superannuation Pty Limited		064 186 214	Australia	**100**	100
TAA Superannuation Pty. Ltd.		065 318 461	Australia	**100**	100
Australian Regional Airlines Pty. Ltd.	1	25 006 783 633	Australia	**100**	100
Australian Wetleasing Operations Pty Limited	1	15 094 477 077	Australia	**100**	100
Sunstate Airlines (Qld) Pty. Limited	1	82 009 734 703	Australia	**100**	100
Southern Australia Airlines Pty Ltd	1	38 006 604 217	Australia	**100**	100
Airlink Pty Limited	1	76 010 812 316	Australia	**100**	100
Australian Regional Airlines (Qld) Pty. Ltd.	1	010 795 347	Australia	**100**	100
Air Queensland Pty. Ltd.		009 656 599	Australia	**100**	100
Eastern Australia Airlines Pty. Limited	1	77 001 599 024	Australia	**100**	100
ACN 000 199 468 Pty Limited	1	000 199 468	Australia	**100**	100
Impulse Airlines Holdings Proprietary Limited	1	67 090 590 024	Australia	**100**	100
Impulse Airlines Australia Pty Ltd	1	17 090 379 285	Australia	**100**	100
Jetstar Airways Pty Limited	1	33 069 720 243	Australia	**100**	100
Impulse Communications Pty Limited	1	64 003 901 353	Australia	**100**	100
First Brisbane Airport Proprietary Limited	1	60 006 912 116	Australia	**100**	100
Second Brisbane Airport Proprietary Limited	1	49 006 912 072	Australia	**100**	100
First Brisbane Airport Unit Trust			n/a	**100**	100
Second Brisbane Airport Unit Trust			n/a	**100**	100
TAA Aviation Pty. Ltd.	1	17 008 596 825	Australia	**100**	100
Nostam Pty. Limited		003 337 497	Australia	**100**	100
In Tours Airline Unit Trust No 1			n/a	**100**	100
Denmell Pty. Limited	1	24 008 636 093	Australia	**100**	100
Denmint Pty. Limited	1	22 008 636 084	Australia	**100**	100
Denmost Pty. Limited	1	41 008 636 100	Australia	**100**	100
Denold Pty. Limited	1	64 008 636 262	Australia	**100**	100
Denpen Pty. Limited	1	66 008 636 271	Australia	**100**	100
Denpet Pty. Limited	1	60 008 636 244	Australia	**100**	100
Denpost Pty. Limited	1	58 008 636 235	Australia	**100**	100
Denrac Pty. Limited	1	56 008 636 226	Australia	**100**	100
Densale Pty. Limited	1	45 008 636 182	Australia	**100**	100
Denseed Pty. Limited	1	39 008 636 155	Australia	**100**	100
Denshore Pty. Limited	1	37 008 636 146	Australia	**100**	100
Densip Pty. Limited	1	35 008 636 137	Australia	**100**	100
Densound Pty. Limited	1	33 008 636 128	Australia	**100**	100
oneworld Handling Services Pty Limited	1	30 008 606 960	Australia	**100**	100
Engine No. 9 Pty. Ltd.	1	24 008 606 997	Australia	**100**	100
A.C.N. 009 864 546 Pty Limited		009 864 546	Australia	**100**	100
Airconnex Pty Limited	1	23 095 093 011	Australia	**100**	100
Asia Pacific Distribution Limited	1	70 003 696 973	Australia	**100**	100
Australian Airlines Limited	1	85 099 625 304	Australia	**100**	100
BD No 1 Limited			Cayman Islands	**100**	100
Express Ground Handling Pty Limited		19 107 638 326	Australia	**100**	100

28. Particulars in relation to controlled entities continued

	Notes	ABN/ACN	Country of Incorporation	Qantas Group Ownership Interest 2005 %	2004 %
Jetconnect Limited			New Zealand	**100**	100
Qantas Investments (NZ) Limited			New Zealand	**100**	100
Jetstar Asia Holdings Pty Limited	3	86 108 623 123	Australia	**100**	100
Kurrajong Limited			Cayman Islands	**100**	100
Mitokal Pty. Limited	1	98 008 658 722	Australia	**100**	100
QH Tours Ltd	1	81 001 262 433	Australia	**100**	100
Holiday Tours and Travel Pte Ltd			Singapore	**75**	75
Jetabout Holidays Pte Ltd			Singapore	**75**	75
Tour East Singapore (1996) Pte Ltd			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 Ltd			Taiwan	**75**	75
Holiday Tours and Travel Limited			Hong Kong	**75**	75
Holiday Tours and Travel (China) Limited			China	**75**	75
Holiday Tours and Travel (Korea) Limited			Korea	**56.25**	56.25
QH International Co, Limited			Japan	**100**	100
Jetabout Japan Inc			Japan	**100**	100
QH Tours (UK) Limited			United Kingdom	**100**	100
Qantas Holidays Limited	1	24 003 836 459	Australia	**100**	100
Qantas Viva! Holidays Limited		82 003 857 332	Australia	**100**	100
QH Cruises Pty. Limited.	1	13 003 895 556	Australia	**100**	100
Qanfad Pty Limited	1	071 955 578	Australia	**100**	100
Qanlease Limited	1	78 064 157 839	Australia	**100**	100
Qantair Ltd	1	44 000 090 639	Australia	**100**	100
Qantas Airline Systems and Research Limited	1	28 055 910 962	Australia	**100**	100
Qantas Cabin Crew (UK) Limited			United Kingdom	**100**	100
Qantas Defence Services Pty Limited	1	53 090 673 466	Australia	**100**	100
QDS Richmond Pty Ltd		58 092 691 140	Australia	**100**	100
Qantas Flight Catering Holdings Limited	1	34 003 836 440	Australia	**100**	100
Qantas Flight Catering Limited	1	35 003 530 685	Australia	**100**	100
Caterair Airport Services Pty. Limited	1	51 008 646 302	Australia	**100**	100
Caterair Airport Services (Sydney) Pty Limited	4	37 062 648 140	Australia	**100**	51
Airport Infrastructure Finance Pty. Limited		14 011 071 248	Australia	**100**	100
Waruda Holdings Pty Limited	1	47 072 876 503	Australia	**100**	100
Cairns Wholesale Bakery and Patisserie Pty Limited	1	28 072 876 487	Australia	**100**	100
Qantas Information Technology Ltd	1	99 000 005 372	Australia	**100**	100
Qantas Limited	1	73 003 613 465	Australia	**100**	100
Qantas Superannuation Limited		47 003 806 960	Australia	**100**	100
QF 738 Leasing 5 Pty Limited		75 100 511 706	Australia	**100**	100
QF 738 Leasing 6 Pty Limited		83 100 511 742	Australia	**100**	100
QF 744 Leasing 1 Pty Limited		41 100 511 564	Australia	**100**	100
QF 744 Leasing 2 Pty Limited		54 100 511 617	Australia	**100**	100
QF 744 Leasing 3 Pty Limited		18 100 511 466	Australia	**100**	100
QF 744 Leasing 4 Pty Limited		24 100 511 493	Australia	**100**	100
QF 744 Leasing 5 Pty Limited		12 100 511 439	Australia	**100**	100
QF 744 Leasing 6 Pty Limited		16 100 511 457	Australia	**100**	100
QF A332 Leasing 1 Pty Limited		11 100 511 813	Australia	**100**	100
QF A332 Leasing 2 Pty Limited		13 100 511 886	Australia	**100**	100

28. Particulars in relation to controlled entities continued

	Notes	ABN/ACN	Country of Incorporation	Qantas Group Ownership Interest 2005 %	2004 %
QF A332 Leasing 3 Pty Limited		86 100 510 503	Australia	**100**	100
QF A332 Leasing 4 Pty Limited		84 100 510 558	Australia	**100**	100
QF A332 Leasing 5 Pty Limited		22 100 510 674	Australia	**100**	100
QF A332 Leasing 6 Pty Limited		35 100 510 727	Australia	**100**	100
QF A333 Leasing 1 Pty Limited		49 100 510 790	Australia	**100**	100
QF A333 Leasing 2 Pty Limited		56 100 510 816	Australia	**100**	100
QF A333 Leasing 3 Pty Limited		50 100 510 352	Australia	**100**	100
QF A333 Leasing 4 Pty Limited		44 100 510 389	Australia	**100**	100
QF A388 Leasing 1 Pty Limited		62 100 510 843	Australia	**100**	100
QF A388 Leasing 2 Pty Limited		66 100 510 861	Australia	**100**	100
QF Dash 8 Leasing Pty Limited		86 107 164 750	Australia	**100**	100
Snap Fresh Pty Limited	1	55 092 536 475	Australia	**100**	100
Southern Cross Insurances Pte Limited			Singapore	**100**	100
Thai Air Cargo Holdings Pty Limited	5	19 112 083 584	Australia	**100**	–

1 Pursuant to ASIC Class Order 98/1418, these controlled entities are relieved from the Corporations Act requirements for preparation, audit and lodgement of Financial Reports.

2 On 24 May 2005, ASIC approved an application from this company pursuant to section 601AA of the Corporations Act to voluntarily deregister. On 31 July 2005, this company was deregistered.

3 AVBA Holdings Pty Limited changed its name to Jetstar Asia Holdings Pty Limited on 25 November 2004.

4 The remaining 49% interest in this company was acquired by the Qantas Group on 22 October 2004.

5 Thai Air Cargo Holdings Pty Limited was incorporated on 6 December 2004.

29. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended), the wholly-owned subsidiaries identified in Note 28 are relieved from the Corporations Act 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. If a winding-up occurs under other provisions of the Act, Qantas will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that Qantas is wound-up.

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

A consolidated Statement of Financial Performance and consolidated Statement of Financial Position, comprising Qantas and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed for the year ended 30 June 2005 are set out below:

	Consolidated 2005 $M	2004 $M
STATEMENT OF FINANCIAL PERFORMANCE		
Profit from ordinary activities before related income tax expense	**1,002.2**	948.9
Income tax expense relating to ordinary activities	**(258.6)**	(311.0)
Net profit	**743.6**	637.9
Retained profits at the beginning of the financial year	**1,728.2**	1,395.8
Dividends recognised during the year	**(352.8)**	(305.5)
Retained profits at the end of the financial year	**2,119.0**	1,728.2

29. Deed of Cross Guarantee continued

	Consolidated 2005 $M	Consolidated 2004 $M
STATEMENT OF FINANCIAL POSITION		
Current assets		
Cash	**155.0**	280.4
Receivables	**2,863.2**	2,131.5
Net receivables under hedge/swap contracts	**185.1**	302.1
Inventories	**332.7**	375.1
Other	**143.1**	189.8
Total current assets	**3,679.1**	3,278.9
Non-current assets		
Receivables	**1,038.7**	1,255.8
Net receivables under hedge/swap contracts	**853.7**	997.0
Investments accounted for using the equity method	**314.6**	328.5
Other investments	**85.2**	21.0
Property, plant and equipment	**12,299.1**	11,768.3
Intangible assets	**137.7**	155.1
Deferred tax assets	**–**	–
Other	**67.1**	68.3
Total non-current assets	**14,796.1**	14,594.0
Total assets	**18,475.2**	17,872.9
Current liabilities		
Payables	**2,278.3**	2,291.2
Interest-bearing liabilities	**205.2**	707.2
Net payables under hedge/swap contracts	**142.8**	250.8
Provisions	**393.9**	375.1
Current tax liabilities	**83.9**	27.2
Revenue received in advance	**1,533.9**	1,492.1
Deferred lease benefits/income	**44.1**	44.8
Total current liabilities	**4,682.1**	5,188.4
Non-current liabilities		
Interest-bearing liabilities	**5,611.4**	5,446.9
Net payables under hedge/swap contracts	**450.0**	131.6
Provisions	**331.9**	328.9
Deferred tax liabilities	**910.6**	806.6
Deferred lease benefits/income	**140.9**	191.7
Total non-current liabilities	**7,444.8**	6,905.7
Total liabilities	**12,126.9**	12,094.1
Net assets	**6,348.3**	5,778.8
Equity		
Contributed equity	**4,173.4**	3,994.9
Reserves	**55.9**	55.7
Retained profits	**2,119.0**	1,728.2
Total equity	**6,348.3**	5,778.8

30. Investments accounted for using the equity method

	Qantas Group	
	2005 $M	2004 $M
Share of net profit/(loss) accounted for using the equity method included in the Statements of Financial Performance		
– associates	**(10.8)**	8.1
– joint ventures	**12.6**	11.6
	1.8	19.7
Investments accounted for using the equity method included in the Statements of Financial Position		
– associates	**73.9**	69.7
– joint ventures	**269.8**	270.0
	343.7	339.7

(a) INVESTMENTS IN ASSOCIATES

Details of interests in associates are as follows:

			Ownership Interest				Amount of Investment	
			Qantas Group		Qantas		Qantas Group	
Name	Principal Activity	Balance Date	**2005 %**	2004 %	**2005 %**	2004 %	**2005 $M**	2004 $M
Air Pacific Limited	Air transport	31 Mar	**46.3**	46.3	**46.3**	46.3	**51.5**	45.0
Hallmark Aviation Services LP	Passenger handling services	31 Dec	**49.0**	49.0	**49.0**	49.0	**2.3**	2.7
Holiday Tours and Travel (Thailand) Limited	Tours and travel	31 Dec	**36.8**	36.8	**–**	–	**0.2**	0.1
Holiday Tours and Travel Vietnam Joint Venture Company	Tours and travel	30 Jun	**36.8**	–	**–**	–	**0.1**	–
Jetstar Asia Airways Pte Limited	Air transport	31 Mar	**49.0**	49.99	**–**	–	**5.0**	9.8
Jupiter Air Oceania Limited	Freight services	31 Dec	**47.6**	47.6	**47.6**	47.6	**0.5**	0.2
TET Limited	Tours and travel	31 Dec	**36.8**	36.8	**–**	–	**1.0**	1.0
Thai Air Cargo Co., Ltd.	Freight services	31 Dec	**49.0**	–	**–**	–	**2.4**	–
Travel Software Solutions Pty Limited	Reservations systems	30 Jun	**50.0**	50.0	**25.0**	25.0	**10.9**	10.9
Total associates							**73.9**	69.7

Dividends/distributions received from associates for the year ended 30 June 2005 by the Qantas Group amounted to $2.6 million (2004: $4.1 million) and by Qantas $2.6 million (2004: $2.9 million).

30. Investments accounted for using the equity method continued

	Qantas Group 2005 $M	Qantas Group 2004 $M
RESULTS OF ASSOCIATES		
Share of associates' profit/(loss) from ordinary activities before related income tax expense	**(5.2)**	11.7
Share of associates' income tax expense relating to ordinary activities	**(5.6)**	(3.6)
Share of associates' net profit/(loss)	**(10.8)**	8.1
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	**25.1**	21.1
Share of net profit/(loss) of associates accounted for using the equity method	**(10.8)**	8.1
Dividends/distributions from associates	**(2.6)**	(4.1)
Share of associates' retained profits at the end of the financial year	**11.7**	25.1
Asset revaluation reserve		
Share of associates' asset revaluation reserve at the beginning of the financial year	**2.9**	2.9
Share of associates' asset revaluation reserve at the end of the financial year	**2.9**	2.9
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENTS IN ASSOCIATES		
Carrying amount of investments in associates at the beginning of the financial year	**69.7**	55.5
Investments in associates acquired during the financial year	**17.6**	10.2
Share of net profit/(loss) of associates	**(10.8)**	8.1
Dividends/distributions received from associates	**(2.6)**	(4.1)
Carrying amount of investments in associates at the end of the financial year	**73.9**	69.7
SUMMARY FINANCIAL POSITION OF ASSOCIATES		
The Qantas Group's share of aggregate assets and liabilities of associates is as follows:		
Current assets	**120.9**	87.9
Non-current assets	**91.7**	115.3
Total assets	**212.6**	203.2
Current liabilities	**79.1**	66.6
Non-current liabilities	**62.4**	70.1
Total liabilities	**141.5**	136.7
Net assets	**71.1**	66.5
Adjustment arising from equity accounting:		
Goodwill (net of amortisation)	**2.8**	3.2
Net assets – equity accounting adjusted	**73.9**	69.7

(b) INTERESTS IN JOINT VENTURES

Details of interests in joint ventures are as follows:

			Ownership Interest				Amount of Investment	
			Qantas Group		Qantas		Qantas Group	
Name	Principal Activity	Balance Date	2005 %	2004 %	2005 %	2004 %	2005 $M	2004 $M
Australian air Express Pty Limited	Air cargo	30 Jun	**50.0**	50.0	**–**	–	**18.5**	17.8
Harvey Holidays Pty Ltd	Tours and travel	30 Jun	**50.0**	50.0	**50.0**	50.0	**1.6**	0.7
Jet Turbine Services Pty Limited	Maintenance services	30 Jun	**50.0**	50.0	**50.0**	50.0	**9.0**	2.4
Star Track Express Holdings Pty Limited	Express road freight	30 Jun	**50.0**	50.0	**50.0**	50.0	**240.7**	249.1
Total associates							**269.8**	270.0

30. Investments accounted for using the equity method continued

	Qantas Group 2005 $M	2004 $M
RESULTS OF JOINT VENTURES		
Revenues from ordinary activities	**478.1**	333.1
Expenses from ordinary activities	**(452.7)**	(313.0)
Profit from ordinary activities before income tax expense	**25.4**	20.1
Income tax expense relating to ordinary activities	**(12.8)**	(8.5)
Share of joint ventures net profit	**12.6**	11.6
SUMMARY FINANCIAL POSITION OF JOINT VENTURES		
The Qantas Group's share of aggregate assets and liabilities of joint ventures is as follows:		
Current assets	**78.0**	75.9
Non-current assets	**392.0**	391.9
Total assets	**470.0**	467.8
Current liabilities	**63.8**	62.5
Non-current liabilities	**136.9**	135.8
Total liabilities	**200.7**	198.3
Net assets	**269.3**	269.5
Adjustment arising from equity accounting:		
Goodwill (net of amortisation)	**0.5**	0.5
Net assets – equity accounting adjusted	**269.8**	270.0
SHARE OF POST-ACQUISITION RETAINED PROFITS ATTRIBUTABLE TO JOINT VENTURES		
Retained profits		
Share of joint ventures' retained profits at the beginning of the financial year	**8.9**	5.1
Share of net profit of joint ventures accounted for using the equity method	**12.6**	11.6
Drawings from joint ventures	**(24.2)**	(7.8)
Share of joint ventures' retained profits/(accumulated losses) at the end of the financial year	**(2.7)**	8.9
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENTS IN JOINT VENTURES		
Carrying amount of investments in joint ventures at the beginning of the financial year	**270.0**	12.8
Investments in joint ventures acquired during the financial year	**11.4**	253.4
Share of net profit of joint ventures	**12.6**	11.6
Drawings from joint ventures	**(24.2)**	(7.8)
Carrying amount of investments in joint ventures at the end of the financial year	**269.8**	270.0

31. Financial instruments

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

(a) INTEREST RATE RISK

The Qantas Group manages interest rate risk by reference to a duration target, being a measure of the sensitivity of the borrowing portfolio to changes in interest rates. The relative mix of fixed and floating interest rate funding is managed by using interest rate swaps, forward rate agreements and options. Interest payments and receipts under interest rate swaps are recognised on an accruals basis in the Statements 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:

2005	Notes	Weighted Average Interest Rate (%)	Floating Rate $M	Fixed Rate Maturing in: Less than 1 Year $M	1 to 5 Years $M	More than 5 Years $M	Non-Interest-Bearing $M	Total $M
RECOGNISED FINANCIAL ASSETS								
Cash	7	**5.50**	**198.0**	–	–	–	–	**198.0**
Trade debtors	8	–	–	–	–	–	**1,027.9**	**1,027.9**
Short-term money market securities and term deposits	8	**5.68**	–	**1,705.8**	–	–	–	**1,705.8**
Aircraft security deposits	8	**5.56**	**46.5**	**0.4**	**77.4**	–	**3.1**	**127.4**
Sundry debtors	8	–	–	–	–	–	**121.0**	**121.0**
Loans receivable	8	**7.96**	–	–	**13.5**	**128.2**	–	**141.7**
Net receivables under hedge/swap contracts[1]		–	**172.2**	**11.0**	**240.4**	**250.8**	–	**674.4**
Other investments	10	–	–	–	–	–	**11.8**	**11.8**
Convertible loan notes	10	–	–	–	–	–	**88.1**	**88.1**
			416.7	**1,717.2**	**331.3**	**379.0**	**1,251.9**	**4,096.1**
RECOGNISED FINANCIAL LIABILITIES								
Trade creditors	14	–	–	–	–	–	**1,687.8**	**1,687.8**
Other creditors and accruals	14	–	–	–	–	–	**206.7**	**206.7**
Bank loans – secured	15	**3.28**	**1,711.8**	**81.7**	**384.0**	**548.0**	–	**2,725.5**
Bank loans – unsecured	15	**6.06**	**630.0**	–	–	–	–	**630.0**
Other loans – unsecured	15	**7.38**	**717.2**	–	**454.0**	–	–	**1,171.2**
Finance lease and hire purchase liabilities	15	**7.18**	**445.9**	**22.7**	**369.1**	**185.3**	–	**1,023.0**
			3,504.9	**104.4**	**1,207.1**	**733.3**	**1,894.5**	**7,444.2**
Net financial assets/(liabilities)			**(3,088.2)**	**1,612.8**	**(875.8)**	**(354.3)**	**(642.6)**	**(3,348.1)**
UNRECOGNISED FINANCIAL LIABILITIES								
Interest rate swaps[2]			**1,054.6**	**(1,097.8)**	**(32.0)**	**75.2**	–	–

1 Notional principal amounts. Interest receivable/payable has been included in the calculation of the effective interest rate of the underlying financial asset or liability. Excludes unrealised amounts on revenue back-to-back hedges. As at 30 June 2005, the amount of deferred or unrecognised gains on hedges of net revenue designated to service long-term debt is $228.4 million.

2 Notional principal amounts.

31. Financial instruments continued

2004	Notes	Weighted Average Interest Rate (% pa)	Floating Rate $M	Fixed Rate Maturing in: Less than 1 Year $M	1 to 5 Years $M	More than 5 Years $M	Non-Interest-Bearing $M	Total $M
RECOGNISED FINANCIAL ASSETS								
Cash	7	5.06	335.9	–	–	–	–	335.9
Trade debtors	8	–	–	–	–	–	1,010.3	1,010.3
Short-term money market securities and term deposits	8	5.50	–	1,029.4	–	–	–	1,029.4
Aircraft security deposits	8	4.83	58.0	0.5	58.8	14.3	3.3	134.9
Sundry debtors	8	–	–	–	–	–	102.7	102.7
Loans receivable	8	7.96	–	–	15.4	128.2	–	143.6
Net receivables under hedge/swap contracts[1]		–	373.9	(51.1)	71.0	503.7	–	897.5
Other investments	10	–	–	–	–	–	20.4	20.4
Convertible loan notes	10	–	–	–	–	–	89.7	89.7
			767.8	978.8	145.2	646.2	1,226.4	3,764.4
RECOGNISED FINANCIAL LIABILITIES								
Trade creditors	14	–	–	–	–	–	1,697.8	1,697.8
Other creditors and accruals	14	–	–	–	–	–	218.1	218.1
Bank loans – secured	15	3.83	1,855.2	65.9	309.8	524.0	–	2,754.9
Bank loans – unsecured	15	5.17	186.8	310.6	–	–	–	497.4
Other loans – unsecured	15	6.97	956.8	250.0	509.0	–	–	1,715.8
Finance lease and hire purchase liabilities	15	6.97	425.9	11.5	401.9	96.3	–	935.6
			3,424.7	638.0	1,220.7	620.3	1,915.9	7,819.6
Net financial assets/(liabilities)			(2,656.9)	340.8	(1,075.5)	25.9	(689.5)	(4,055.2)
UNRECOGNISED FINANCIAL LIABILITIES								
Interest rate swaps[2]			224.6	(247.0)	(38.8)	61.2	–	–

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

2 Notional principal amounts.

(b) FOREIGN EXCHANGE RISK

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

(c) FUEL PRICE RISK

The Qantas Group uses options and swaps on aviation fuel and crude oil to hedge the exposure to movements in the price of aviation fuel. Hedging is conducted in accordance with Qantas Group policy. Up to 100 per cent of estimated fuel costs out to 12 months may be hedged and up to 50 per cent in the subsequent 12 months, with any hedging outside these parameters requiring approval by the Board of Directors. During the year, the net gain from fuel hedging was $403.5 million (2004: $118.0 million).

31. Financial instruments continued

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

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

As at 30 June 2005, the amount of deferred or unrecognised gains on hedges of net revenue designated to service long-term debt is $228.4 million (2004: $19.2 million loss). As at 30 June 2005, the amount of deferred gains on other hedges totalled $318.5 million (2004: $168.5 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 2005, this amounted to $1,027.9 million (2004: $1,010.3 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 2005, the credit risk of the Qantas Group to other financial asset counterparties amounted to $4,867.7 million (2004: $4,294.2 million) and was spread over a number of regions, including Australia, Asia, Europe and the United States.

(f) NET FAIR VALUE

RECOGNISED FINANCIAL INSTRUMENTS

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

The convertible loan notes issued by Air New Zealand Limited are convertible to a 4.99 per cent equity stake. The net fair value of the convertible loan notes 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.

31. Financial instruments continued

	Qantas Group Carrying Amount		Qantas Group Net Fair Value	
	2005 $M	2004 $M	**2005 $M**	2004 $M
RECOGNISED FINANCIAL INSTRUMENTS				
Financial assets				
Cash	**198.0**	335.9	**198.0**	335.9
Trade debtors	**1,027.9**	1,010.3	**1,027.9**	1,010.3
Short-term money market securities and term deposits	**1,705.8**	1,029.4	**1,714.7**	1,034.1
Aircraft security deposits	**127.4**	134.9	**133.6**	141.0
Sundry debtors	**121.0**	102.7	**121.0**	102.7
Loans receivable	**141.7**	143.6	**141.7**	143.6
Net receivables under hedge/swap contracts	**674.4**	897.5	**692.2**	937.9
Other investments	**11.8**	20.4	**11.8**	20.4
Convertible loan notes[1]	**88.1**	89.7	**59.3**	80.8
	4,096.1	3,764.4	**4,100.2**	3,806.7
Financial liabilities				
Trade creditors	**1,687.8**	1,697.8	**1,687.8**	1,697.8
Other creditors and accruals	**206.7**	218.1	**206.7**	218.1
Bank loans – secured	**2,725.5**	2,754.9	**2,798.5**	2,823.8
Bank loans – unsecured	**630.0**	497.4	**644.7**	507.7
Other loans – unsecured	**1,171.2**	1,715.8	**1,273.0**	1,803.1
Finance lease and hire purchase liabilities	**1,023.0**	935.6	**1,023.5**	942.4
	7,444.2	7,819.6	**7,634.2**	7,992.9
Net financial liabilities	**3,348.1**	4,055.2	**3,534.0**	4,186.2
UNRECOGNISED FINANCIAL INSTRUMENTS				
Financial liabilities				
Forward commodity contracts			**206.4**	56.5
Option contracts			**199.3**	84.8
Interest rate swaps			**(35.5)**	25.8
			370.2	167.1

1 Qantas holds 220,763,477 loan notes in Air New Zealand Limited (Air NZ), which are convertible to ordinary shares in Air NZ under certain circumstances. Based on the value of Air NZ ordinary shares as at 30 June 2005 as traded on the New Zealand Stock Exchange, the convertible loan notes would be valued at $59.3 million. The convertible loan notes are held by Qantas for strategic purposes in relation to the proposed commercial alliance with Air NZ, which is expected to provide significant benefits to both parties. As such, the carrying value of the convertible loan notes is considered recoverable.

32. Employee benefits

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Employee benefit liabilities				
Provisions for employee benefits				
– Current (refer Note 16)	**366.9**	346.9	**316.1**	304.2
– Non-current (refer Note 16)	**267.9**	257.7	**244.3**	235.4
Total	**634.8**	604.6	**560.4**	539.6
Average FTEs (number)	**35,520**	33,862	**27,585**	27,218

SUPERANNUATION

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

33. Dividends

Dividends recognised in the current year by Qantas are:

Type	Cents per Share	Total Amount $M	Date of Payment	Franked Tax Rate for Franking Credit %	Percentage Franked %
2005					
Interim – ordinary	**10.0**	**186.8**	6 April 2005	30	100
2004 final ordinary dividend recognised when declared during the year	**9.0**	**166.1**	29 September 2004	30	100
Total amount	**19.0**	**352.9**			
2004					
Interim – ordinary	8.0	145.8	7 April 2004	30	100
2003 final ordinary dividend recognised when declared during the year	9.0	159.7	1 October 2003	30	100
Total amount	17.0	305.5			
SUBSEQUENT EVENTS					
Since the end of the financial year ended 30 June 2005, the Directors have declared the following dividend:					
Final – ordinary	**10.0**	**189.8**	28 September 2005	30	100

Dividend franking amount	Qantas Group **2005** **$M**	Qantas Group 2004 $M	Qantas **2005** **$M**	Qantas 2004 $M
Total franking account balance at 30 per cent	**80.2**	149.3	**80.2**	144.6

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 out of which a dividend may be declared.

TAX CONSOLIDATION LEGISLATION

On 1 July 2003, Qantas and its wholly-owned controlled entities adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 June 2004 and 30 June 2005 have been measured under the new legislation as those available from the tax-consolidated group.

34. Segment information

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

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

- Qantas, Australian Airlines, QantasLink and Jetstar as the Qantas Group's Flying Businesses, which are supported by Engineering Technical Operations and Maintenance Services, Airports and Qantas Freight;
- Qantas Holidays, which comprises the Qantas Holidays segment which forms part of the Associated Businesses portfolio; and
- Catering, which reflects the wholly-owned catering entities within the Airports and Catering segment which forms part of the Flying Services Businesses.

~Notes to the Financial Statements~
for the year ended 30 June 2005

	Qantas		Australian Airlines		QantasLink		Jetstar		Qantas Holidays		Qantas Flight Catering		Eliminations		Consolidated	
	Jun 05	Jun 04	**Jun 05**	Jun 04	**Jun 05**	Jun 04	**Jun 05**	Jun 04	**Jun 05**	Jun 04	**Jun 05**	Jun 04	**Jun 05**	Jun 04	**Jun 05**	Jun 04
ANALYSIS BY BUSINESS SEGMENTS																
Sales and operating revenue																
External segment revenue	**10,458.7**	9,603.0	**305.5**	265.8	**561.9**	565.4	**440.1**	34.0	**707.8**	711.1	**174.8**	174.4	**–**	–	**12,648.8**	11,353.7
Inter-segment revenue	**227.4**	295.7	**25.3**	20.1	**8.9**	0.1	**75.5**	–	**233.6**	283.3	**377.3**	362.8	**(948.0)**	(962.0)	**–**	–
Total segment revenue	**10,686.1**	9,898.7	**330.8**	285.9	**570.8**	565.5	**515.6**	34.0	**941.4**	994.4	**552.1**	537.2	**(948.0)**	(962.0)	**12,648.8**	11,353.7
Share of net profit of associates and joint ventures	**1.8**	19.7	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1.8**	19.7
Earnings before interest and tax	**973.3**[1]	977.4	**(11.6)**[2]	1.1	**42.9**[2]	97.0	**44.1**	(23.4)	**50.9**[2]	54.1	**22.1**[2]	90.0	**–**	(98.0)[3]	**1,121.7**	1,098.2
Net borrowing costs															**94.5**	(133.6)
Profit from ordinary activities before related income tax expense															**1,027.2**	964.6
Income tax expense relating to ordinary activities															**262.8**	(315.8)
Net profit															**764.4**	648.8
Depreciation and amortisation	**1,057.3**	971.8	**1.0**	1.1	**22.0**	15.5	**7.5**	5.9	**1.9**	1.4	**10.3**	9.9			**1,100.0**	1,005.6
Non-cash (revenue)/ expense	**(62.0)**	(19.1)	**4.2**	1.1	**3.4**	5.5	**(0.3)**	–	**0.2**	(0.1)	**(0.1)**	(0.2)			**(54.6)**	(12.8)
Assets																
Segment assets	**16,875.1**	16,594.2	**15.3**	30.8	**687.2**	425.2	**199.3**	148.3	**341.8**	326.4	**280.5**	194.0	**(608.5)**	(484.4)	**17,790.7**	17,234.5
Equity accounted investments	**342.3**	338.4	**–**	–	**–**	–	**–**	–	**1.4**	1.3	**–**	–	**–**	–	**343.7**	339.7
Total assets	**17,217.4**	16,932.6	**15.3**	30.8	**687.2**	425.2	**199.3**	148.3	**343.2**	327.7	**280.5**	194.0	**(608.5)**	(484.4)	**18,134.4**	17,574.2
Liabilities																
Total liabilities	**11,163.0**	11,364.7	**32.5**	39.8	**434.6**	199.6	**267.0**	240.8	**223.2**	249.6	**195.7**	123.8	**(608.5)**	(484.4)	**11,707.5**	11,733.9
Acquisition of non-current assets	**1,581.6**	1,886.6	**1.2**	0.1	**55.4**	104.6	**36.0**	12.2	**2.6**	1.2	**6.1**	2.3	**–**	–	**1,682.9**	2,007.0

1 Includes segment revenue of $98.6 million.
2 Includes segment charges as follows: Australian Airlines $9.3 million; QantasLink $44.3 million; Qantas Holidays $7.6 million and Qantas Flight Catering $37.4 million.
3 Represents dividends received by Qantas from Q.H. Tours Limited of $58.3 million and Qantas Flight Catering Holdings Limited of $39.7 million.

34. Segment information continued

Passenger, freight and other services revenue from domestic services within Australia is attributed to the Australian geographic region. 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 region as it is impractical to do so.

	Qantas Group 2005 $M	Qantas Group 2004 $M
ANALYSIS OF TOTAL REVENUE BY GEOGRAPHIC REGION		
Sales and operating revenue		
Passenger, freight and other services revenue		
Australia	**7,253.4**	6,696.5
United Kingdom and Europe	**926.1**	839.7
Japan	**453.4**	426.9
South-East Asia/North-East Asia	**377.4**	342.3
The Americas and the Pacific	**886.6**	820.3
New Zealand	**390.3**	368.4
Other regions	**340.3**	221.6
	10,627.5	9,715.7
Other operating revenue		
Tours and travel revenue	**707.8**	711.1
Contract work revenue	**484.9**	502.6
Other unallocated revenue	**828.6**	424.3
Sales and operating revenue	**12,648.8**	11,353.7
Revenue from outside operating activities		
Interest revenue	**117.0**	125.9
Proceeds from sale of property, plant and equipment	**71.5**	50.1
Proceeds from sale and leaseback of non-current assets	**257.9**	171.7
Total revenue from outside operating activities	**446.4**	347.7
Total revenue from ordinary activities	**13,095.2**	11,701.4

For the year ended 30 June 2005, the principal assets of the Qantas Group comprised the aircraft fleet, all, except nine, 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.

35. Earnings per share

	Cents	Cents
Basic earnings per share based on net profit attributable to members of Qantas	**40.8**	35.7
Diluted earnings per share based on net profit attributable to members of Qantas	**40.7**	35.5

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

	Number M	Number M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,869.2**	1,815.4
Weighted average number of ordinary shares used in the calculation of diluted earnings per share[1]	**1,878.4**	1,826.6

1 Includes the effect of 27.6 million (2004: 33.7 million) Entitlements awarded under QLTEIP, which have a dilutive earnings per share impact of 9.2 million (2004: 11.2 million) ordinary shares.

36. Events subsequent to balance date

With the exception of the declaration of a final ordinary dividend subsequent to balance date (refer Note 33) and the increase in fuel costs referred to on page 12, there has not arisen in the interval between the end of the financial year and the date of this Financial 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.

37. Notes to the Statements of Cash Flows

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
RECONCILIATION OF CASH				
Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:				
Cash on hand and at bank	**115.3**	110.8	**257.2**	30.0
Cash at call	**82.7**	225.1	**82.7**	224.7
Short-term money market securities and term deposits	**1,705.8**	1,029.4	**1,705.8**	1,029.4
	1,903.8	1,365.3	**2,045.7**	1,284.1
RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net profit after tax attributable to members of Qantas	**763.6**	648.4	**629.5**	676.0
Add: depreciation and amortisation	**1,100.0**	1,005.6	**961.1**	871.0
Add/(less): loss/(profit) on sale of aircraft, engines and spares	**(13.0)**	4.0	**(12.2)**	3.0
Add/(less): loss/(profit) on sale of land and buildings	**1.1**	(3.4)	**0.7**	(3.3)
Add/(less): loss/(profit) on sale of property, plant and equipment	**2.3**	(0.1)	**1.7**	0.8
Less: capitalised interest	**(74.4)**	(49.2)	**(74.4)**	(49.2)
Add: writedown of/(reversal of provision against) investments	**7.4**	–	**56.3**	(130.7)
Less: share of associates' and joint ventures' net profit	**(1.8)**	(19.7)	**–**	
Add: dividends received from associates and joint ventures	**26.8**	11.9	**–**	–
Add: write-off of intercompany loan	**–**	–	**–**	5.2
Add/(less): other items	**(22.2)**	(35.6)	**3.8**	(12.2)
Movements in operating assets and liabilities:				
(Increase)/decrease in receivables	**(44.0)**	(173.9)	**37.6**	(181.3)
Decrease in inventories	**42.4**	98.9	**10.9**	96.6
(Increase)/decrease in other assets	**40.8**	(17.8)	**45.3**	(106.8)
Increase/(decrease) in provisions	**23.0**	(76.8)	**14.8**	(65.8)
Increase in current tax liabilities	**55.7**	34.8	**56.5**	59.4
Decrease in deferred tax assets	**0.5**	43.8	**–**	14.6
Increase in deferred tax liabilities	**103.7**	203.9	**122.3**	298.9
Increase/(decrease) in trade and other payables	**(52.8)**	58.4	**(143.9)**	2.1
Increase/(decrease) in net intercompany payables	**–**	–	**(5.3)**	163.8
Increase in revenue received in advance	**42.5**	334.9	**50.1**	291.8
Decrease in deferred lease benefits	**(51.6)**	(68.7)	**(43.8)**	(61.0)
Net cash provided by operating activities	**1,950.0**	1,999.4	**1,711.0**	1,872.9

37. Notes to the Statements of Cash Flows continued

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
ENTITIES ACQUIRED DURING THE YEAR				
Consideration	**14.5**	–	**–**	–
Cash acquired	**0.1**	–	**–**	–
	14.6	–	**–**	–
Fair value of net assets of entity acquired				
Property, plant and equipment	**14.3**	–	**–**	–
Deferred tax assets	**0.3**	–	**–**	–
Cash	**0.7**	–	**–**	–
Inventories	**0.2**	–	**–**	–
Receivables	**2.6**	–	**–**	–
Other assets	**3.8**	–	**–**	–
Loans from related parties	**(8.3)**	–	**–**	–
Payables	**(2.3)**	–	**–**	–
Current tax liability	**(0.2)**	–	**–**	–
Provision for restructuring	**(0.4)**	–	**–**	–
Other provisions	**(2.9)**	–	**–**	–
	7.8	–	**–**	–
Goodwill on acquisition	**6.8**	–	**–**	–
Consideration cash	**14.6**	–	**–**	–

Caterair Airport Services Pty. Limited acquired the remaining 49 per cent of Caterair Airport Services (Sydney) Pty Limited on 22 October 2004 for a purchase price of $14.5 million. As a result of this acquisition, additional goodwill on acquisition of $6.8 million has been recognised by the Qantas Group.

37. Notes to the Statements of Cash Flows continued

FINANCING FACILITIES

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

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
COMMITTED FINANCING FACILITIES				
Bank overdraft				
Facility available	**7.0**	7.0	**7.0**	7.0
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**7.0**	7.0	**7.0**	7.0
Syndicated revolving facility[1]				
Facility available	**770.0**	769.2	**770.0**	769.2
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**770.0**	769.2	**770.0**	769.2
Syndicated stand-by facility[2]				
Facility available	**500.0**	700.0	**500.0**	700.0
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**500.0**	700.0	**500.0**	700.0
Secured borrowings				
Facility available	**–**	231.4	**–**	231.4
Amount of facility used	**–**	–	**–**	–
Amount of facility unused	**–**	231.4	**–**	231.4
Commercial paper and medium term notes				
Facility available	**1,000.0**	1,000.0	**1,000.0**	1,000.0
Amount of facility used	**120.0**	160.0	**120.0**	160.0
Amount of facility unused	**880.0**	840.0	**880.0**	840.0

1 In October 2004, the syndicated revolving facility was refinanced into two tranches and extended, with $192 million maturing on 5 October 2008 and $578 million maturing on 5 April 2010.

2 In October 2004, the syndicated stand-by facility was refinanced into two tranches and extended, with $300 million maturing on 5 October 2007 and $200 million maturing on 5 October 2009.

The bank overdraft facility held with 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. Commonwealth Bank of Australia may terminate this facility without notice.

38. Non-Director related parties

CONTROLLED ENTITIES

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

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

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

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

	Qantas	
	2005 $M	2004 $M
Sales and operating revenue (refer Note 2)	**133.0**	177.3
Dividend revenue (refer Note 2)	**–**	156.3
Interest revenue (refer Note 2)	**0.1**	1.3
Borrowing costs paid/payable (refer Note 3)	**84.1**	72.9
Current receivables (refer Note 8)	**90.0**	157.5
Non-current receivables (refer Note 8)	**703.8**	1,699.0
Current payables (refer Note 14)	**80.4**	167.3
Non-current interest-bearing liabilities (refer Note 15)	**137.3**	592.6

38. Non-Director related parties continued

ASSOCIATES AND JOINT VENTURES

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

Transactions between Qantas and associates and joint ventures include:

- Qantas provides ground handling services and performs maintenance and contract work for Air Pacific;
- Qantas provides ramp handling services to Australian air Express;
- Qantas leases all domestic freight capacity and sub-leases certain property to Australian air Express;
- Qantas codeshares on certain Air Pacific services for which it pays capacity hire costs;
- Australian air Express and the Star Track Express Group provide certain domestic freight and document delivery services for Qantas;
- Qantas receives interest from the Star Track Express Group on an investment loan;
- Qantas provides treasury services to Air Pacific and Jetstar Asia;
- Qantas has sub-leased aircraft to Jetstar Asia;
- Qantas has seconded employees and provided various support services to Jetstar Asia; and
- Qantas receives engine maintenance services from Jet Turbine Services.

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

	Qantas Group		Qantas	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Sales and operating revenue (refer Note 2)	**92.7**	90.1	**88.9**	87.6
Dividend revenue (refer Note 2)	**–**	–	**12.6**	2.9
Interest revenue (refer Note 2)	**10.3**	5.1	**10.3**	5.1
Expenditure	**1.6**	2.1	**1.6**	2.1
Current receivables (refer Note 8)	**13.6**	11.8	**13.6**	11.7
Non-current receivables (refer Note 8)	**128.2**	128.2	**128.2**	128.2
Current payables (refer Note 14)	**0.2**	25.6	**0.2**	25.6
Current interest-bearing liabilities (refer Note 15)	**13.6**	14.2	**13.6**	14.2

OTHER RELATED PARTIES

BRITISH AIRWAYS PLC

In March 1993, British Airways Plc (British Airways) acquired 25 per cent of the shares in Qantas from the Australian Government. On 9 September 2004, British Airways disposed of its then entire 18.25 per cent shareholding in Qantas and accordingly, British Airways is no longer a related party of Qantas.

Qantas and British Airways continued to operate the Joint Services Agreement. They also continued their membership of the **one**world alliance during the financial year.

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

	$M	$M	**$M**	$M
Sales and operating revenue (refer Note 2)	**2.8**	25.3	**2.8**	16.8
Expenditure*	**33.1**	97.2	**33.1**	91.8
Current receivables (refer Note 8)	**–**	58.2	**–**	58.2
Current payables (refer Note 14)	**–**	99.5	**–**	99.5

* Includes settlement receipts/payments under the JSA.

39. Impact of adopting Australian equivalents to International Financial Reporting Standards

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

MANAGING THE TRANSITION TO A-IFRS

The Board has established a Project Group, reporting to the Chief Financial Officer, to assess the impact of the transition to A-IFRS and to achieve compliance with A-IFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the Qantas Group is expected to be in a position to fully comply with the requirements of A-IFRS for the 31 December 2005 half-year.

ASSESSMENT PHASE

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

DESIGN PHASE

The Design Phase formulated the changes required to existing accounting policies, procedures, systems and processes in order to transition to A-IFRS.

The Design Phase incorporated the:

- formulation of revised accounting policies and procedures for compliance with A-IFRS requirements;
- quantification of significant A-IFRS adjustments;
- development of revised A-IFRS disclosures; and
- formulation of accounting and business processes to support A-IFRS reporting obligations.

The Design Phase is substantially complete.

IMPLEMENTATION PHASE

The Implementation Phase includes implementation of identified changes to accounting and business procedures, processes, systems and operational training. This Phase is substantially complete as at 29 August 2005.

MATERIAL ACCOUNTING POLICY CHANGES REQUIRED ON ADOPTION OF A-IFRS

The impact of the transition to A-IFRS is based on A-IFRS standards that management expect to be in place for the 2006 financial year. While this note outlines the transitional adjustments and the selection and application of A-IFRS accounting policies, only a complete set of financial statements and notes can provide a true and fair presentation of the comparative financial position in accordance with A-IFRS. This note provides only a summary. Further disclosure and explanations will be provided with the first complete A-IFRS financial report in 2006.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian Generally Accepted Accounting Principles (A-GAAP) to A-IFRS. Consequently, the final reconciliations presented in the first financial report prepared in accordance with A-IFRS may vary from the reconciliations provided in this Note.

The rules for first time adoption of A-IFRS are set out in AASB 1 – First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, A-IFRS accounting policies must be applied retrospectively to determine the opening A-IFRS Statement of Financial Position as at the transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under A-IFRS.

39. Impact of adopting Australian equivalents to International Financial Reporting Standards continued

The following tables set out the expected adjustments to the Qantas Group as at 1 July 2004 and for the A-IFRS comparative period to 30 June 2005.

Qantas Group Retained Profits	Reference	1 July 2004 $M	A-IFRS adjustments impacting 30 June 2005: Profit before tax $M	Tax expense $M	Net profit $M	Dividends & other $M	30 June 2005 $M
Retained Profits Reported Under A-GAAP		**1,776.3**	**1,027.2**	**(262.8)**	**764.4**	**(347.6)**	**2,193.1**
Add/(Less): A-IFRS Adjustments							
AASB 118 – Revenue	(a)	**(669.0)**	**(142.3)**	**42.7**	**(99.6)**	**–**	**(768.6)**
AASB 119 – Employee Benefits	(b)	**(53.5)**	**57.2**	**(17.2)**	**40.0**	**–**	**(13.5)**
AASB 117 – Leases	(c)	**(51.6)**	**(16.8)**	**5.0**	**(11.8)**	**–**	**(63.4)**
AASB 116 – Property, Plant & Equipment	(d)	**14.9**	**(0.4)**	**0.1**	**(0.3)**	**–**	**14.6**
AASB 112 – Income Taxes	(e)	**(46.7)**	**–**	**1.9**	**1.9**	**–**	**(44.8)**
Net Other Transition Adjustments	(f)	**(0.7)**	**33.3**	**1.1**	**34.4**	**–**	**33.7**
		(806.6)	**(69.0)**	**33.6**	**(35.4)**	**–**	**(842.0)**
Retained Profits Reported Under A-IFRS		**969.7**	**958.2**	**(229.2)**	**729.0**	**(347.6)**	**1,351.1**

Qantas Group Statement of Financial Position	Reference	1 July 2004 A-GAAP $M	Transition $M	A-IFRS $M	30 June 2005 A-GAAP $M	Transition $M	A-IFRS $M
Current Assets	(f)	3,322.0	(5.2)	3,316.8	**3,709.9**	**(5.6)**	**3,704.3**
Non-current Assets	(c),(d),(f)	14,252.2	624.7	14,876.9	**14,424.5**	**645.9**	**15,070.4**
Total Assets		17,574.2	619.5	18,193.7	**18,134.4**	**640.3**	**18,774.7**
Current Liabilities	(a),(f)	5,190.2	230.3	5,420.5	**4,635.0**	**246.2**	**4,881.2**
Non-current Liabilities	(a),(b),(c),(d),(e)	6,543.7	1,214.7	7,758.4	**7,072.5**	**1,259.4**	**8,331.9**
Total Liabilities		11,733.9	1,445.0	13,178.9	**11,707.5**	**1,505.6**	**13,213.1**
Net Assets		5,840.3	(825.5)	5,014.8	**6,426.9**	**(865.3)**	**5,561.6**
Contributed Capital & Reserves	(d),(f)	4,064.0	(18.9)	4,045.1	**4,233.8**	**(23.3)**	**4,210.5**
Retained Profits		1,776.3	(806.6)	969.7	**2,193.1**	**(842.0)**	**1,351.1**
Net Equity		5,840.3	(825.5)	5,014.8	**6,426.9**	**(865.3)**	**5,561.6**

An explanation of each adjustment follows. The impact of adoption for Qantas is the same as for the Qantas Group unless otherwise indicated.

(a) FREQUENT FLYER ACCOUNTING

The Qantas Group receives revenue from the sale to third parties of rights to have Qantas award points allocated to members of the Qantas Frequent Flyer program. Under A-GAAP, this revenue is recognised when received. Under A-IFRS, this revenue will be deferred and recognised when the points are redeemed.

Members of the Qantas Frequent Flyer program also accumulate points by travelling on qualifying Qantas and partner airline services. The obligation to provide travel rewards to members arising from these points is accrued as points are accumulated. The accrual is based on the incremental cost (being the cost of meals, fuel and passenger expenses) of providing the travel rewards. The accrual will be reduced as members redeem awards.

At the date of transition an amount of $955.7 million has been recognised as a liability with a consequential decrease in retained earnings of $669.0 million after a tax benefit of $286.7 million.

Applying A-IFRS to the Frequent Flyer program for the year ended 30 June 2005 results in a $142.3 million decrease in profit before tax.

39. Impact of adopting Australian equivalents to International Financial Reporting Standards continued

(b) DEFINED BENEFIT SUPERANNUATION PLANS

Under A-GAAP, defined benefit plans are accounted for on a cash basis, with no defined benefit liability or asset recognised on the Statement of Financial Position. Under A-IFRS, the Qantas Group's net obligation in respect of defined benefit superannuation plans will be calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods. The benefit will be discounted to determine its present value and the fair value of any plan assets will be deducted.

Actuarial gains and losses that arise subsequent to transition date will be recognised to the Statement of Financial Performance according to the "corridor" method as provided by AASB 119 – Employee Benefits. The "corridor" method recognises movements in the funding position to the extent they exceed 10 per cent of the greater of the plan's assets or liabilities.

At the date of transition, an amount of $76.4 million has been recognised as a liability with a consequential decrease in retained earnings of $53.5 million after a tax benefit of $22.9 million.

The calculation of the funding position under AASB 119 differs from the method applied by the Actuary, conducted in accordance with the terms of the Trust Deed, to determine Qantas' contribution to the Plans. The most recent actuarial valuations confirmed that the value of the Plans' assets were sufficient to meet all anticipated liabilities. No material change in Qantas' contribution to the Plans is therefore anticipated.

Applying A-IFRS to superannuation for the financial year ended 30 June 2005 results in a $57.2 million increase in profit before tax.

(c) LEASED ASSETS

Aircraft

Under both existing A-GAAP and A-IFRS, Qantas is required to consider the economic substance of the leasing arrangement when determining the appropriate accounting treatment. In both cases, it is the transfer (or lack thereof) of substantially all the risks and benefits associated with the leased asset that determines the accounting treatment for both the lessor and lessee.

Where substantially all of the risks and benefits incidental to ownership of the leased asset effectively remain with the lessor, the lease is an operating lease. Where substantially all of these risks and benefits effectively pass to the lessee, the lease is a finance lease.

Both existing A-GAAP and A-IFRS requires a lease to be classified as either an operating lease or a finance lease at the inception of the lease. Once determined, the lease classification cannot change without a change in the actual terms of the lease.

The existing A-GAAP standard, AASB 1008 – Leases, provides the following criteria to assist lessees in determining when there has been an effective passing of substantially all of the risks and benefits incident to ownership. Such risk transfer is presumed where both of the following criteria are satisfied:

(a) the lease is a non-cancellable lease; and

(b) where either of the following tests are satisfied:

- the lease term is for 75 per cent or more of the remaining economic life of the leased asset; or
- the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 per cent of the fair value of the leased asset at the inception of the lease.

Whilst AASB 117, the A-IFRS equivalent to AASB 1008 – Leases, was stated to be conforming to AASB 1008, this quantitative guidance to facilitate lease classification is not incorporated within AASB 117.

A review of all aircraft operating leases, applying AASB 117 lease classification criteria, has been completed. As a result of this review, six aircraft previously classified as operating leases under A-GAAP will require reclassification as finance leases under A-IFRS.

At the date of transition an increase in property, plant and equipment of $337.8 million and an increase in lease liability of $404.8 million is recognised. The consequential decrease in retained earnings $46.9 million is recognised after a tax benefit of $20.1 million.

Applying A-IFRS to aircraft leases for the financial year ended 30 June 2005 results in a $4.2 million decrease in profit before tax. This is comprised of a decrease in the operating lease expense of $79.8 million offset by an increase in depreciation of $43.3 million and interest expense of $40.7 million.

Other Leases

A-IFRS requires the lease expense to be recognised on a straight-line basis. An A-IFRS transition adjustment is therefore required to leases with a predetermined rent escalation.

At the date of transition an increase in lease liability of $6.6 million and consequential decrease in retained earnings $4.6 million is recognised after a tax benefit of $2.0 million.

Applying A-IFRS to other leases for the financial year ended 30 June 2005 results in a $12.6 million increase in profit before tax.

39. Impact of adopting Australian equivalents to International Financial Reporting Standards continued

(d) PROPERTY, PLANT AND EQUIPMENT

Under both A-GAAP and A-IFRS, 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.

Transition Exemption

As permitted by AASB 1 – First-Time Adoption of A-IFRS, Qantas has elected to deem the cost of land and buildings under A-IFRS to be the carrying value at the date of transition. At the date of transition, a decrease in the asset revaluation reserve of $55.5 million (Qantas: $82.9 million) is recognised with a consequential increase in retained earnings of $55.5 million (Qantas: $82.9 million).

Major Inspections

Under A-GAAP all aircraft maintenance and inspection costs are expensed as incurred. Under A-IFRS, the cost of major inspections of airframes and engines is capitalised and depreciated over the scheduled usage period to the next major inspection event. All other aircraft maintenance costs are expensed as incurred.

At the date of transition, a decrease in property, plant and equipment of $58.0 million with a consequential decrease in retained earnings of $40.6 million is recognised after a tax benefit of $17.4 million.

Applying A-IFRS to aircraft inspection costs for the financial year ended 30 June 2005 results in a $0.4 million increase in aircraft depreciation and operating costs.

Software Development Costs

Under A-IFRS software development costs that meet the criteria to be recognised as internally generated intangible assets are capitalised.

At the date of transition, a decrease in property, plant and equipment of $141.8 million (Qantas: $141.8 million) and an increase in intangible assets of $141.8 million (Qantas: $141.8 million) is recognised increasing to $159.9 million (Qantas: $159.6 million) at 30 June 2005. There is no effect on retained earnings.

(e) INCOME TAXES

On transition to A-IFRS the balance sheet method of tax effect accounting will be adopted, rather than the 'profit and loss' method applied currently under A-GAAP. Under the balance sheet approach, income tax on the profit and loss for the year comprises both current and deferred taxes.

Broadly, temporary differences are differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount attributed to those assets and liabilities for taxation purposes. Temporary differences may give rise to deferred tax assets or deferred tax liabilities.

A deferred tax liability is required to be recognised, subject to some exceptions. A deferred tax asset shall be recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differrence can be utilised, subject to some exceptions.

At the date of transition, excluding the tax effect of adjustments generated by the adoption of other A-IFRS standards, applying A-IFRS results in an increase in deferred tax liability of $6.1 million and an increase in contributed capital of $40.6 million. These are recognised after a decrease in retained earnings of $46.7 million.

39. Impact of adopting Australian equivalents to International Financial Reporting Standards continued

(f) OTHER

AASB 2 – Share Based Payments: as permitted by AASB 1 Qantas will not apply AASB 2 retrospectively to share based payments made prior to 7 November 2002. It will therefore not apply to Entitlements issued under the Qantas Long-Term Executive Incentive Program (QLTEIP).

AASB 3 – Business Combinations: as permitted by AASB 1 Qantas will apply this standard prospectively. Amortisation of goodwill on acquisition ceases on 1 July 2004. For the financial year ended 30 June 2005 goodwill amortised under A-GAAP was $28.5 million (Qantas: $nil) inclusive of $13.4 million goodwill amortisation in Associate and Joint Venture investments.

AASB 121 – Foreign Exchange: as permitted by AASB 1, Qantas will reset the Foreign Currency Translation Reserve to zero on adoption of this standard.

AASB 123 – Borrowing Costs: as permitted by AASB 123, Qantas will continue to capitalise borrowing costs associated with the acquisition of qualifying assets such as aircraft and terminals.

AASB 127 – Consolidations: to comply with the intent of Interpretation 112, Qantas will consolidate the Qantas Deferred Share Plan Trust (QDSPT). The QDSPT holds shares in Qantas on behalf of participants (which are Qantas employees), which will be classified as Treasury Shares on consolidation.

AASB 136 – Impairment of Assets: under A-GAAP, Qantas used discounted cash flows to assess the value in-use of non-current assets. Qantas tested all non-current assets for impairment on the transition to A-IFRS regardless of the existence of indicators of impairment. No change in the carrying value of non-current assets was required on the adoption of AASB 136.

AASB 138 – Intangible Assets: intangible assets with an indefinite life, such as purchased airport landing slots, are not amortised but they are tested for impairment each reporting period.

FINANCIAL INSTRUMENTS

The transition to AASB 139 – Financial Instruments: Recognition and Measurement and AASB 132 – Financial Instruments: Disclosure and Presentation applies to Qantas effective from 1 July 2005. The Group has chosen not to restate comparative information with respect to AASB 132 and AASB 139.

Qantas risk management practices will continue to be determined on an economic basis under A-IFRS. It is expected that this approach will result in some transactions failing the AASB 139 hedge effectiveness criteria from time to time. If hedging transactions are deemed ineffective under AASB 139, changes in the fair value of these transactions are to be recognised in the Statement of Financial Performance as they occur, potentially causing earnings volatility.

Two areas of Qantas' risk management practice that are likely to be significantly impacted by the requirements of AASB 139 are options and fuel hedging.

OPTIONS

AASB 139 requires that the option value be separated into its intrinsic and non-intrinsic components and only the intrinsic value is designated as a hedging instrument. The intrinsic value of the option must therefore be separated and designated as the hedge instrument, with all other components of the option value (being primarily time value and volatility) being fair valued to the Statement of Financial Performance over the life of the option.

Options form a significant part of Qantas' hedging strategy for foreign exchange revenue, capital expenditure, fuel and interest rate exposures. The changes in fair value of the non-intrinsic component of an option may cause periods of volatility in the Statement of Financial Performance for Qantas.

AVIATION FUEL

AASB 139 permits hedge accounting for all financial exposures on a component basis. Non-financial assets or liabilities such as aviation fuel, however, are treated differently under the Standard. Components of risk embedded in a commodity exposure are specifically excluded from hedge accounting if hedged separately. Components of aviation fuel expense (for example crude oil) may not be hedged independently and achieve hedge accounting under AASB 139. The total exposure (ie jet fuel) must be hedged in its entirety.

Qantas expects to achieve hedge accounting for aviation fuel risk management transactions in the majority of instances. However, given the high volatility of fuel markets, the AASB 139 effectiveness test may not be met from time to time and on these occasions changes in the fair value of hedging instruments may cause volatility in the Statement of Financial Performance.

~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 65 to 118 and the Director and Executive Remuneration Disclosures set out on pages 54 to 63 of the Directors' Report are in accordance with the Corporations Act, including:
     - (i) complying with the Accounting Standards in Australia and the Corporations Regulations; and
     - (ii) giving a true and fair view of the financial position and performance of the Company and consolidated entity; 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 controlled entities identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities entered pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations required by section 295A of the Corporations Act from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2005.

Signed in accordance with a Resolution of the Directors:

Margaret Jackson
Chairman

Geoff Dixon
Chief Executive Officer

Sydney, 29 August 2005

KPMG

~Independent Audit Report~
to the members of Qantas Airways Limited

SCOPE

THE FINANCIAL REPORT AND DIRECTORS' RESPONSIBILITY

The Financial Report comprises the Statements of Financial Position, Statements of Financial Performance, Statements of Cash Flows, accompanying notes 1 to 39 to the Financial Statements, the disclosures made by Qantas in accordance with the Corporations Regulations 2001 as required by AASB 1046 – Director and Executive Disclosures by Disclosing Entities included on pages 54 to 63 in the "Remuneration Report" in the Directors' Report ("remuneration disclosures") and the Directors' Declaration for both Qantas Airways Limited (Qantas) and Qantas Airways Limited and its controlled entities (the Qantas Group), for the year ended 30 June 2005. The Qantas Group comprises both Qantas and the entities it controlled during that year.

The Remuneration Report also contains information not required by Accounting Standard AASB 1046 – Director and Executive Disclosures by Disclosing Entities, which is not subject to our audit.

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

AUDIT APPROACH

We conducted an independent audit in order to express an opinion to the members of Qantas. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the Financial Report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all misstatements have been detected.

We performed procedures to assess whether in all material respects the Financial Report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of Qantas' and Qantas Group's financial position and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

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

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

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

AUDIT OPINION

In our opinion, the Financial Report including the remuneration disclosures that are contained on pages 54 to 63 in the Remuneration Report in the Directors' Report of Qantas Airways Limited are in accordance with:

(a) the Corporations Act, including:

  i. giving a true and fair view of Qantas' and Qantas Group's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

  ii. complying with Accounting Standards in Australia, including AASB 1046 – Director and Executive Disclosures by Disclosing Entities, and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

M Epper

Mark Epper
Partner

Sydney, 29 August 2005

~Shareholder Information~

The shareholder information set out below was applicable as at 24 August 2005.

DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shareholders by size of shareholding:

Number of Shares	Ordinary Shares Held	Number of Shareholders	% of Issued Shares
1 – 1,000*	20,759,469	44,084	1.09
1,001 – 5,000	235,898,362	98,083	12.43
5,001 – 10,000	91,724,409	13,088	4.83
10,001 – 100,000	126,666,031	6,262	6.67
100,001 and over	1,422,600,477	249	74.98
Total	1,897,648,748	161,766	100.00

* 6,682 shareholders hold less than a marketable parcel of shares in Qantas Airways Limited.

ON-MARKET BUY-BACKS

There is no current on-market buy-back.

TWENTY LARGEST SHAREHOLDERS

Shareholders	Ordinary Shares Held	% of Issued Shares
JP Morgan Nominees Australia Ltd	454,580,587	23.95
Westpac Custodian Nominees Ltd	261,059,707	13.76
National Nominees Limited	182,513,546	9.62
Citicorp Nominees Pty Limited	115,099,286	6.07
ANZ Nominees Limited	103,202,898	5.44
RBC Global Services Australia	48,882,275	2.58
Cogent Nominees Pty Limited	34,101,344	1.80
Woodross Nominees Pty Ltd	17,923,546	0.94
MLEQ Nominees Pty Ltd	17,453,786	0.92
Queensland Investment Corporation	14,378,507	0.76
AMP Life Limited	13,752,290	0.72
HSBC Custody Nominees (Australia) Limited	12,263,873	0.65
UBS Nominees Pty Ltd	11,654,683	0.61
PSS Board	7,890,699	0.42
Health Super Pty Ltd	7,250,691	0.38
Merrill Lynch (Australia) Nominees Pty Ltd	6,177,509	0.33
CSS Board	5,709,080	0.30
Government Superannuation Office	5,557,460	0.29
Suncorp General Insurance Ltd	5,358,000	0.28
Milton Corporation Ltd	5,200,000	0.27
	1,330,009,767	70.09

SUBSTANTIAL SHAREHOLDERS

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

Shareholders	Ordinary Shares Held	% of Issued Shares
The Capital Group of Companies Inc[1]	246,195,999	12.97%
Franklin Resources Inc.[2]	153,376,637	8.08%
UBS Nominees Pty Ltd[3]	145,397,621	7.66%

1 As advised to Qantas on 7 July 2005

2 As advised to Qantas on 2 August 2005

3 As advised to Qantas on 21 April 2005

~Qantas Group Five-Year Summary~
for the years ended 30 June

	Unit	2005[1,2]	2004[1,2]	2003[1,2]	2002[1,2]	2001
STATEMENT OF FINANCIAL PERFORMANCE						
Sales and operating revenue[3]	$M	**12,648.8**	11,353.7	11,374.9	10,968.8	10,188.2
Expenditure	$M	**(11,527.1)**	(10,255.5)	(10,807.9)	(10,289.5)	(9,492.4)
Earnings before interest and tax	$M	**1,121.7**	1,098.2	567.0	679.3	695.8
Net borrowing costs	$M	**(94.5)**	(133.6)	(64.7)	(48.3)	(98.7)
Profit from ordinary activities before tax	$M	**1,027.2**	964.6	502.3	631.0	597.1
Income tax expense	$M	**(262.8)**	(315.8)	(155.7)	(201.7)	(177.4)
Net profit	$M	**764.4**	648.8	346.6	429.3	419.7
Outside equity interests in net (profit)	$M	**(0.8)**	(0.4)	(3.1)	(1.3)	(4.3)
Net profit attributable to members of Qantas for the year	$M	**763.6**	648.4	343.5	428.0	415.4
Net profit attributable to members of Qantas for the six months to 31 December	$M	**458.4**	357.8	352.5	153.5	262.9
Net profit/(loss) attributable to members of Qantas for the six months to 30 June	$M	**305.2**	290.6	(9.0)	274.5	152.5
SHARE INFORMATION						
Earnings per share	cents	**40.8**	35.7	20.0	29.1	33.0
Dividends per share	cents	**20.0**	17.0	17.0	17.0	20.0
Dividend payout ratio	%	**49.0**	47.6	85.0	58.4	60.6
Share price – high	$	**3.73**	3.81	4.88	4.92	4.25
Share price – low	$	**3.13**	3.08	2.85	2.60	2.36
Share price – closing	$	**3.37**	3.52	3.27	4.60	3.50
Weighted average number of ordinary shares	M	**1,869.2**	1,815.4	1,721.2	1,469.4	1,258.5
Net tangible asset backing per share	$	**3.31**	3.07	2.89	2.61	2.51
EARNINGS BEFORE INTEREST AND TAX						
Qantas	$M	**965.1**	863.5	387.3	501.0	586.1
Australian Airlines	$M	**(11.6)**	1.1	(14.7)	–	–
QantasLink	$M	**42.9**	97.0	57.3	42.5	6.4
Jetstar	$M	**44.1**	(23.4)	–	–	–
Total flying businesses	$M	**1,040.5**	938.2	429.9	543.5	592.5
Subsidiary businesses	$M	**81.2**	160.0	137.1	135.8	103.3
	$M	**1,121.7**	1,098.2	567.0	679.3	695.8
PERFORMANCE INDICATORS						
Interest cover	times	**11.9**	8.2	8.8	14.1	7.0
Return on equity	%	**11.9**	11.1	6.5	10.1	12.6
Return on equity including the notional capitalisation of non-cancellable operating leases on a hedged basis	%	**13.2**	11.0	8.9	12.0	10.6
STATEMENT OF CASH FLOWS						
Net cash provided by operating activities	$M	**1,950.0**	1,999.4	1,290.8	1,143.3	1,100.7
Net cash used in investing activities	$M	**(1,396.2)**	(2,232.6)	(2,995.7)	(2,306.1)	(871.3)
Net cash provided by/(used in) financing activities	$M	**(15.3)**	(417.4)	2,935.6	1,688.8	(659.0)
Net increase/(decrease) in cash held	$M	**538.5**	(650.6)	1,230.7	526.0	(429.6)
Capital expenditure	$M	**1,682.9**	2,007.0	3,137.2	2,463.4	995.5
STATEMENT OF FINANCIAL POSITION						
Total assets	$M	**18,134.4**	17,574.2	16,973.8	14,801.5	12,513.6
Total liabilities	$M	**11,707.5**	11,733.9	11,711.7	10,548.0	9,197.7
Net assets	$M	**6,426.9**	5,840.3	5,262.1	4,253.5	3,315.9
Contributed equity	$M	**4,173.4**	3,994.9	3,757.9	2,946.6	2,173.0
Reserves	$M	**56.2**	54.4	54.0	56.3	54.3
Retained profits	$M	**2,193.1**	1,776.3	1,435.9	1,239.1	1,078.0
Outside equity interests in controlled entities	$M	**4.2**	14.7	14.3	11.5	10.6
Total equity	$M	**6,426.9**	5,840.3	5,262.1	4,253.5	3,315.9

1 Passenger and freight revenue is disclosed net of both sales discount and interline/IATA commission.
2 Passenger recoveries are disclosed as part of net passenger revenue.
3 Excludes proceeds on sale of non-current assets and interest revenue which is included in net borrowing costs.

~Qantas Group Five-Year Summary~

for the years ended 30 June

	Unit	2005	2004	2003	2002	2001
STATEMENT OF FINANCIAL POSITION STATISTICS						
Net debt on balance sheet	$M	**2,844.1**	3,506.0	3,075.9	1,904.6	1,316.4
Net debt including off balance sheet debt	$M	**5,038.6**	5,574.2	5,181.5	4,110.0	3,793.9
Net debt including off balance sheet debt and revenue hedge receivables	$M	**5,267.0**	5,555.0	5,299.2	3,903.8	3,464.3
Net debt to net debt plus equity	ratio	**31:69**	38:62	37:63	31:69	28:72
Net debt to net debt plus equity including off balance sheet debt	ratio	**44:56**	49:51	50:50	50:50	55:45
Net debt to net debt plus equity including off balance sheet debt and revenue hedge receivables	ratio	**45:55**	49:51	51:49	49:51	53:47
OPERATIONAL STATISTICS						
Qantas						
Passengers carried	000	**24,734**	26,106	25,085	23,487	18,981
Revenue passenger kilometres (RPKs)	M	**77,198**	75,621	73,355	72,777	68,472
Available seat kilometres (ASKs)	M	**100,265**	96,020	93,674	92,610	89,942
Revenue seat factor	%	**77.0**	78.8	78.3	78.6	76.1
Revenue freight tonne kilometres (RFTKs)	M	**2,329**	1,601	1,598	1,598	1,859
Australian Airlines						
Passengers carried	000	**812**	705	272	–	–
Revenue passenger kilometres (RPKs)	M	**3,906**	3,485	1,538	–	–
Available seat kilometres (ASKs)	M	**5,646**	5,148	2,602	–	–
Revenue seat factor	%	**69.2**	67.7	59.1	–	–
QantasLink						
Passengers carried	000	**3,058**	2,996	3,389	3,641	3,166
Revenue passenger kilometres (RPKs)	M	**1,879**	1,931	2,294	2,357	2,068
Available seat kilometres (ASKs)	M	**2,595**	2,687	3,169	3,334	3,001
Revenue seat factor	%	**72.4**	71.9	72.4	70.7	68.9
Jetstar						
Passengers carried	000	**4,384**	315	–	–	–
Revenue passenger kilometres (RPKs)	M	**4,346**	277	–	–	–
Available seat kilometres (ASKs)	M	**6,004**	383	–	–	–
Revenue seat factor	%	**72.4**	72.3	–	–	–
Qantas Group						
Passengers carried	000	**32,658**	30,076	28,746	27,128	22,147
Revenue passenger kilometres (RPKs)	M	**86,986**	81,276	77,187	75,134	70,540
Available seat kilometres (ASKs)	M	**114,003**	104,200	99,445	95,944	92,943
Revenue seat factor	%	**76.3**	78.0	77.6	78.3	75.9
Aircraft in service at balance date	#	**200**	190	196	193	178
Passenger yield (per RPK)	cents	**10.64**	10.46	11.15	11.34	11.26
Average full-time equivalent employees	#	**35,520**	33,862	34,872	33,044	31,632
RPK per employee	000	**2,449**	2,400	2,213	2,274	2,230
ASK per employee	000	**3,210**	3,077	2,852	2,904	2,938

~Financial Calendar~

2005			2006		
17	February	Half year result announcement	16	February	Half year result announcement
9	March	Record date for interim dividend	8	March	Record date for interim dividend
6	April	Interim dividend payable	5	April	Interim dividend payable
30	June	Year end	30	June	Year end
18	August	Preliminary final result announcement	17	August	Preliminary final result announcement
31	August	Record date for final dividend	6	September	Record date for final dividend
28	September	Final dividend payable	4	October	Final dividend payable
13	October	Annual General Meeting, Canberra	19	October	Annual General Meeting, Sydney

NOTICE OF MEETING

The Annual General Meeting of Qantas Airways Limited will be held at 2pm on Thursday, 13 October 2005 in the Ballroom of the Hyatt Hotel, Canberra.

The 2006 Qantas Annual General Meeting will be held on Thursday, 19 October 2006 in Sydney. The details will be available on the Qantas website, www.qantas.com.au/info/about/investors/agms.

GLOSSARY

Available freight tonne kilometres (AFTKs)
Total freight tonnage capacity available, multiplied by the number of kilometres flown.

Available seat kilometres (ASKs)
Total number of seats available for passengers, multiplied by the number of kilometres flown.

Available tonne kilometres (ATKs)
Total number of tonnes of capacity available for carriage of passengers, freight and mail, multiplied by the number of kilometres flown.

International Air Transport Association (IATA)

Passenger yield
Passenger revenue, excluding passenger recoveries, divided by RPKs.

Revenue freight tonne kilometres (RFTKs)
Total number of tonnes of paying freight carried, multiplied by the number of kilometres flown.

Revenue passenger kilometres (RPKs)
Total number of paying passengers carried, multiplied by the number of kilometres flown.

Revenue seat factor
Percentage of total passenger capacity actually utilised by paying passengers.

Sustainable Future Program (SFP)

~Corporate Directory~

REGISTERED OFFICE

Qantas Airways Limited
ABN 16 009 661 901

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Level 9, Building A
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Mascot NSW 2020
Australia

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Facsimile	61 2 9691 3339
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Email	registry@qantas.com
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STOCK EXCHANGE

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DEPOSITARY FOR AMERICAN DEPOSITARY RECEIPTS

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GENERAL COUNSEL & COMPANY SECRETARY

Brett Johnson

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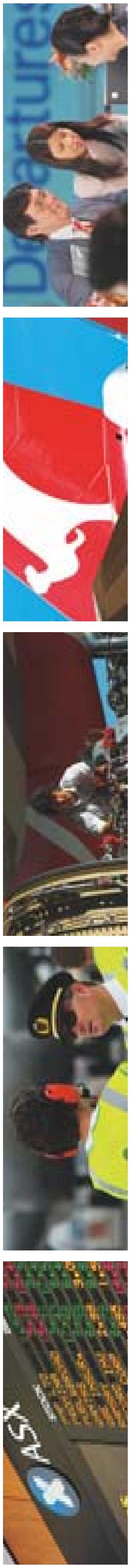

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